

SELLING UP?



It may seem odd to begin an article on selling your business by looking back to when it began, but it is worth considering the effort it took to build up your business from nothing and make it into the successful organisation it is today. No doubt a lot of blood sweat and tears were expended during those first months or years; only through hard work, time and thought did those humble beginnings bear fruit. It makes sense therefore to do some research and homework well before the time comes to hand over to someone else.

Even if you are years away from retirement it is never too soon to start planning how your business will continue without you at the helm. During your working life you will have made pension arrange-

ments and put money into savings so why not consider your business as another source of retirement income? It could be a significant asset if you take advice, make the right decisions along the way and reap the rewards that it has to offer.

A straightforward sale is not the only option; other courses of action might suit you better. Here are the main ones:

- Sale to a Third Party

This allows a complete break from your business and ends your involvement. You could sell to a senior employee, via a management buyout or be the subject of a takeover from another company.

- Family Succession

Succession is common within family owned and run businesses. It can allow you to either opt out of the company entirely or continue in a different role, but beware – a change in title may not mean a change in responsibilities. Ask yourself how involved you need or want to be after your successor takes their place in the boardroom; are you capable of taking a 'hands off' stance; does your successor have the qualities to fulfil the role; how might you react to a lesser degree of autonomy?

- Engage New Management

Recruiting a new manager will give you the option of taking a back seat, retaining some control if that's what you want, yet still benefiting from the profitability of the business taking dividends. But as with family takeovers, you need to be sure that you are prepared to 'let go' of

your day to day management responsibilities. Few newly placed managers would welcome the constant intrusion of someone who now occupies a less senior role.

- Remain as a Consultant

You may decide to retain some interest in the business by taking up the role of consultant. This can work well for some types of business, particularly those based around professional services, but sometimes the consultancy isn't required after the first two to three months as the new business owners have their own ideas on management. Be realistic about the likely scope of your role before deciding whether consultancy is right for you.

- Close Down

Obviously, closing the business will release limited funds unless there are property assets, capital equipment or intellectual property rights that can be sold off. If your business is commercially viable and trading in profit this is unlikely to be the best course of action.

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Having made up your mind that the time is right to sell, you will need to value your business and find a suitable buyer.

Setting the Price

- Putting a value on your business is tricky: some owners imagine that no one else could possibly run their business and therefore decide either that it is not saleable or could only be sold at a very low value. In reality this is seldom the case, but if you find yourself in this position take advice from someone who deals with these matters regularly because they will be able to give you an objective view of what you are likely to achieve. For any business, its worth is in direct correlation to its profitability. Being aware of this fact early on in the business allows you to introduce efficient systems and processes that remove duplication or unnecessary expense. This will not only save you money but will also allow a buyer to see clearly where the profit comes from. Expert advice will help value your business at a price that reflects your hard work and entrepreneurial skills.

Finding a Buyer

- There are a number of routes to finding a buyer for your business. You may have already had an approach by a competitor, supplier, customer, or perhaps a business that has some degree of synergy with your own. Business sale agents can help but ensure you engage someone who has been recommended to you and get your accountant involved as he or she will liaise with the agent on your behalf. Put together an information pack for the buyer to give them an initial overview and more in-depth information to help with the due diligence exercise.

Dealing with the Legal and Tax Issues

- Your solicitor and accountant will play pivotal roles in the business sale or transfer. Make sure both have skills in these specialist areas and if they don't, seek out someone who has! All

Governments claim to help enterprise and introduce incentives to create wealth; for many years these have included relief from Capital Gains Tax on sales of businesses, particularly on retirement. The previously generous scheme ceased in April 2008 with new reliefs now available (see next article). The legal and taxation aspects of the business sale and your subsequent retirement income are complex, so take advice before you take action.

Thinking Ahead

Selling a business is often a long and drawn out procedure. Start planning early in the life of your business to make the most of the possibilities ahead. Put in place systems and structures that allow the business to carry on in your absence; not only will this enable it to be sold as a going concern but it will also allow you time to step back and plan strategically or simply to take a well earned break. Make the most of your accountant's knowledge to help you understand and explore the options. A robust but flexible plan means you can work towards your goals yet change course should circumstances dictate.

Some people find the thought of selling up almost unbearable; others take a more relaxed stance, wanting to enjoy more free time as they get older. The golden rule is not to allow yourself to get so bogged down in the day to day management that you lose sight of your overall objective. Whether you're aiming to make a nice retirement income or take over the world, remember that you need expert advice, early planning and continual review.

For more advice on any aspect of selling your business, retirement, taxation, or planning for the future, call Vincent Jones or one of the partners at Baker Chapman & Bussey on 01206 715000.



All Change for Capital Gains Tax

The Chancellor took everyone by surprise in the Pre-Budget Report in November by announcing major changes to the capital gains tax regime, in an attempt at simplification.

It was announced that taper relief and indexation relief were to be scrapped and a new single rate of tax charge of 18% introduced with effect from 6th April 2008. The rate will apply to individuals, trustees and personal representatives, but NOT limited companies.

The winners from the new regime will be those holders of non-business assets such as investment properties where the tax rate will fall from a maximum of 40% to a flat rate of 18%.

In the initial announcement the losers from the new regime were holders of business assets where the rate of tax on disposals of these assets was due to increase from 10% to 18% - a tax hike of 80%.

In response to significant lobbying from all the major representative bodies of small business, the Chancellor announced in January 2008, a new Entrepreneurs Relief, which took effect from 6th April 2008 alongside the major reform program announced in the pre-Budget report.

The rules state that the first £1m of gains of business assets will be charged to capital gains tax at 10%, with gains in excess of £1m charged at 18%. Each individual will be able to make claims for relief on more than one occasion, up to a lifetime total of £1m of gains qualifying for relief.

Other conditions for the relief are that the entrepreneur must have run the business for more than 12 months, and if trading via a limited company, the taxpayer must have been an officer of the company and owned at least 5% of the share capital.

Taxing the family

Some older pieces of legislation, however, remain in tact. An unmarried couple worth £1m will have tax to pay of £275,200 on the first death, probably forcing the survivor to sell assets to meet the bill and tax of £165,120 on the second death.

Those who are married or in civil partnerships can leave their estates to each other without a tax charge on the first death. Furthermore from April 2008 any unused inheritance tax allowances from the first death can be transferred to the surviving spouse, therefore a couple with a £1m estate without any inheritance tax planning will have tax to pay of £150,400. This transfer applies regardless of when the first spouse died, if an individual survives more than one spouse they can chose which spouses surpluses are to be transferred

A spouse or civil partner can transfer any asset to the other without incurring capital gains tax but cohabittees do not enjoy this

privilege unless the asset is a trading asset. For example, a married person who owns a buy-to-let property that has risen in value by £100,000 since purchase, can transfer the asset in order to utilise their spouse's personal tax allowance against rental income and will not incur any tax on the gain. The gains will still be assessable on cohabittees even if they change to equal ownership. Should the marriage or civil partnership break down, assets can be divided up tax free, whereas cohabittees are likely to incur substantial tax liabilities.

The government scrapped the married couples' tax allowance with effect from 5th April 2000, but the allowance is still available to married couples or civil partners where at least one of them was born before 6th April 1935.

In summary, cohabittees who are reasonably wealthy are risking huge tax liabilities on their capital assets; in extreme cases this could cause financial hardship should one partner die or the couple separate.

Thought marriage was dead?
Think again!

For more information on any aspect of tax planning contact [Andy Hewes](#) or one of the partners on 01206 715000.



With an increasing number of people living together, and a decreasing number of people getting married or entering into civil partnerships, it is interesting to note that the tax system has a number of anomalies that favour those who formalise their partnerships.

This appears to contradict the Government's approach, which in 1991 introduced independent taxation whereby each spouse or civil partner would be assessed on their own income and capital gains, thus mirroring the tax treatment of cohabittees. Recent legislation sets no distinction either, for example tax credits are set by household income irrespective of relationship status.



Correct Postage ?

Over the last few months we have noticed an increase in the amount of mail not being delivered as insufficient postage had been paid.

With the new postage rates, a standard A4

envelope enclosing a tax return needs more than a first class stamp. For every item with insufficient postage we have to pay the balance of the postage plus a £1 administration charge. However, the main consequence is that it takes longer for the mail to reach us.

Can clients please ensure the correct postage is paid, especially when nearing filing deadlines.

Thank you!

DID YOU KNOW? Recent changes to tax and business law

VAT Invoices

From 1 October 2007 VAT sales invoices must be uniquely and sequentially referenced. The sequence can be numeric or alpha numeric. You can also operate more than one sequence at a time, for example if you operate 2 activities in one business. If an invoice is spoiled or cancelled it should remain on file to ensure that the sequence remains complete. There are further rules if you operate the second hand margin scheme or the tour operators margin scheme. HMRC are allowing businesses 12 months in order to change their systems, but penalties will be levied after 1st October 2008 for failure to comply.

Holiday Entitlement and National Minimum Wage

From 1 October 2007 the minimum statutory holiday entitlement rose from 20 days to 24 days per annum, inclusive of bank holidays. There will be a further increase to 28 days from 1st April 2009. At the same time the national minimum wage increases to £5.73 for 22 year olds and above, £4.77 for 18 to 21 year olds and £3.40 for 16 to 17 year olds.

Capital Allowances

From 1 April 2008 (for companies) and 6 April 2008 (for unincorporated businesses) the first £50,000 per annum spent on equipment (excluding cars) will be able to be set against profits. Any excess will be written off at 20% per annum (10% per annum for equipment fixed in a building used in business). This replaces the previous system of first year allowances (50% for small businesses) followed by 25% writing down allowance.

Company Law Update Reminder

The Companies Act 2006 is being phased in from January 2007 to October 2008 but 3 relevant changes are from April 2008:

- Private companies no longer have to appoint a company secretary.
- For companies with accounting periods starting after 6th April 2008 accounts will need to be prepared under the Companies Act 2006 and the filing deadline reduced from 10 months to 9 months for private companies, 7 to 6 months for PLC's.
- Medium sized groups will have to file consolidated accounts.

Filing of Personal Tax Returns

For the tax year ended 5 April 2008 manual tax returns will need to be filed with the Revenue by 31 October 2008, online returns have until 31 January 2009. Returns can be filed online using the Revenue's website or by using a tax software package. If you are planning to file online without using an agent you will need to allow time to enrol and activate the service. The due date for the 2007/08 balance of tax is still 31 January 2009.

Income Shifting

Following the Revenue's defeat in the House of Lords of the Arctic Systems case, it was expected that the budget would bring in changes to enable them to review businesses whereby income is shifted from a higher rate taxpayer to a lower rate tax payer. Typically where one spouse generates the income for a business but then transfers part of the income so that it is taxed in the hands of the other spouse.

The Revenue delayed bringing in rules to combat this scenario as the consultation process had not been completed, however it is only a matter of time. Any changes could be wide reaching and if you think you may be affected by this professional advice should be sought.

Increase in Revenue Powers for Compliance Checks

The government is looking to align the powers of the bodies under the HMRC umbrella (VAT, PAYE, corporation and personal tax). In some areas this is an apparent increase in powers, for example, proposals to visit business premises to undertake inspections, when previously the tax payer could have offered alternative venues (e.g. accountants office, tax office).

The detail and timing is not yet known, but should an inspection arise it is important that the tax payer knows his rights.

Further information on these items and more can be found on our website at www.bakerchapman.co.uk by following the links to 'Latest News for Business'

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We are always pleased to receive your comments or questions about 'Balancing Business' or any of the items mentioned in its editorial. If your mailing details are incorrect, if you have received duplicate copies, or you would like your name added to or removed from our mailing list, please contact Jackie Frost on 01206 715000 or by email: jackie@bakerchapman.co.uk

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