



# dalypark

& company Ltd

Chartered Accountants & Registered Auditors

## Succession planning for a family business

A guide to transferring a business to a family member.



There are more than 3 million family businesses in the UK, which between them employ more than 9 million people and contribute 15% to GDP.

Despite these successes, family businesses often experience difficulties when it comes to passing their businesses to younger generations.

Research has found that only a third of family businesses are successfully transferred to the second generation of a family.

While the reasons behind this are unclear, the Department of Business, Innovation and Skills has identified that only a third of family businesses have a formal succession plan in place.

It seems that failing to plan adequately could be stopping family business from successfully passing their business from one generation to the next.

### Planning for succession

The aim of succession planning is to pass on a business to new owners in the smoothest way possible. The broad principles are the same for all businesses, however the process might be a little more emotional or complicated for family businesses.

There are 4 main options for people who want to leave their family business:

- transfer it to someone else (often a family member)
- merge with another company
- sell
- wind up the business' operations.

This article focuses on transferring a business to a family member. Contact us to discuss which option is best for you.

If you are keen to keep the business in the family there are 2 areas to think about:

- management transition
- ownership transition.

Although there is often overlap between the people involved in each aspect, the new manager does not necessarily have to become the new owner.

### Management transition

#### Identifying a successor

**Is there already someone within the business who can take over when you leave?**

There might be a natural successor ready to take on a bigger role. However, choosing a successor can be a difficult decision, particularly for businesses that employ several family members or a mix of family and non-family.

If this is the case, you could consider restructuring responsibilities and allowing several people to take over. If there's not a suitable family member, you could look at other staff or hire someone new. Changing the status quo might be the opportunity your business needs to thrive.

**Do they want to take over?**

Discuss your plans with your chosen successor and get an understanding of their ambitions.

This can be an informal chat or perhaps in a more structured situation such as an annual appraisal.



# Succession planning

## Is the timing right?

Your ideal successor might not work for your business yet - for example a daughter who is still at school or working in a different industry. Are you prepared to wait until they are ready to join the business or do you want to leave sooner?

## Are they capable of making the business a success?

This is an emotive question as well as a practical one. Keeping the business in the family may be your dream but if your successor is not truly committed or lacks key qualities, it may be wiser to look at other options. This includes a management buy-out, selling, merging and winding up the business.

We can advise on different options available when leaving your business.

## Preparation

### Training

Once you've agreed who will take over, you can start preparing for the day they will step into your shoes.

Put together a training plan that includes deadlines to achieve key milestones.

It's not just the day-to-day tasks that you'll need to pass on but also the skills in how to run a business. Your successor may need to get professional qualifications and you may need to pay for any training you can't provide in-house.

Unsurprisingly, this stage can take years to complete. Starting the process with plenty of time will give your successor a better chance of being successful and allows you to make new plans if things don't work out as expected.

### Confirm your role

You may want to leave altogether, but you might still want to contribute to the business.

Whatever you decide it is important to be clear about what your future role will be.

Although it might be tempting to stay actively involved given your experience, this can potentially undermine the authority of the new manager and cause confusion if you still behave like the boss.

### Communication

Change can be unsettling for any business so it is important to be honest and consistent in what you tell people. You might want to inform senior members of staff and any shareholders before involving the rest of the team.

You will also need to plan how you communicate these changes with customers and suppliers, particularly if your business relies heavily on your skills or reputation.

## Implementation

To help the transition process you could consider a phased departure where you cut down your hours or handover responsibilities for certain tasks gradually.

Provided you have gone through the previous 2 stages thoroughly, your departure should be straightforward.

## Ownership transition

Your options for changing ownership and the resulting tax implications will depend on:

- how your business is structured
- what you decide to do with it
- how much money you want the business to provide you with personally.

Good succession planning will take all of these elements into account and also give you enough time to make any changes.

The implications of any decision need to be carefully considered. Contact us to discuss your situation.

## Tax reliefs

A key step in the succession planning process is minimising the capital gains tax (CGT) bill when you sell or 'dispose' of your business or business assets.

### Entrepreneurs' relief

The relief allows you to pay CGT at a rate of 10% rather than the usual 10% or 20% (2016/17) on gains on qualifying assets.

You will qualify if you dispose of any of the following:

- all or part of your business as a sole trader or business partner
- shares in a company where you have at least 5% of shares and voting rights
- assets you lent to your business or personal company.

There are further qualifying criteria for each type of disposal, so check that you meet all of the relevant criteria before proceeding.

### Gift holdover relief

You could be eligible for gift holdover relief if you give your business to a family member. Instead of paying CGT when you pass on the assets, the person you give them to pays CGT on any gains when they sell or 'dispose' of them.

However, it is worth remembering that CGT isn't usually payable on gifts to your husband, wife, civil partner or a charity.

You won't be eligible if you are paid the full value of the business asset.

There are also specific eligibility criteria for this relief, so get in touch and we can advise on your specific circumstances.

### Business relief for inheritance tax

Business relief reduces the value of a business or its assets for inheritance tax. The rate available is either 50% or 100% depending on the type of asset.

There are other conditions to meet in order to be eligible for this relief.

## Get advice

Succession planning is a complicated area of business and tax planning. Starting these conversations early can make sure you and your family are in the best possible position.

Get in touch to discuss succession planning.