



Wealth
Management

Selling your business



| Forward-looking
for generations

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Cover image

Friedrich Oelenhainz, detail from "Portrait of the future Prince Alois I von Liechtenstein (1759–1805)," 1776.
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Introduction

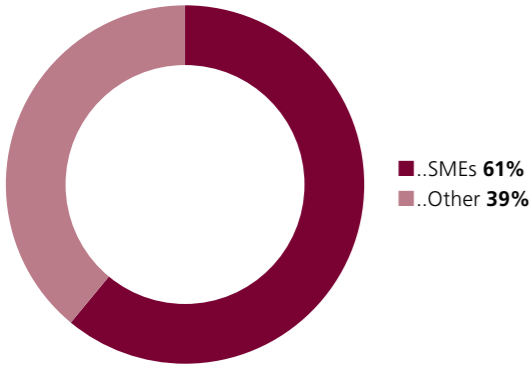
Entrepreneurs tend to be very resilient people, often establishing a business by taking on a significant financial risk in the early years and investing a great deal of physical and emotional energy into making it a success.

In the currently challenging economic environment, which is seeing increasing tax rises for businesses and, increasing concerns about the state of geopolitics, entrepreneurs more so than ever need to be able to evolve and adapt their business models quickly to continue to sustain and grow their businesses in an ever-changing landscape.

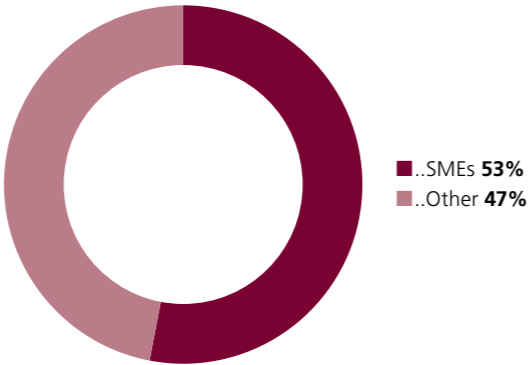
Heartbeat of the economy SMEs account for three-fifths of employment and around half of turnover in the UK private sector.

Entrepreneurs of multi-generational family businesses are the custodians of a business that may be transitioned to future generations of the family. This

Employment as percentage of the population



Turnover within the UK private sector



presents its own unique set of challenges when implementing a family governance framework and effective succession planning.

For other entrepreneur-run businesses however, there comes a point when the owner(s) decides to exit the business and hand the reins over to someone else. This period of change can bring with it a great deal of stress. In addition to running the business, time is needed to get the business into position for the imminent sale transaction. This can often be at the expense of the personal wealth planning needs for the entrepreneur, with the primary focus being on the sale until the transaction is completed. However, planning pre-exit is critical for ensuring that the sale of a business is structured to meet the entrepreneurs' long-term personal and wealth planning objectives. Business owners may decide to sell their businesses for a variety of reasons including the following:

- Extracting value out of the business may have been an objective for some time or, even at the very start when the business was set up. For example, a se-

rial entrepreneur may have started with a new project with a view to reaching a liquidity event at some point.

- A business owner who was not intentionally looking to sell may receive an unsolicited offer which represents a fair valuation of the company. In addition, a sale, perhaps to a much larger competitor, could provide the business with further opportunities for expansion.
- It is the right time to step away from the business and dedicate their time to doing other things: spend more time with family, travelling, retirement, on a hobby, philanthropy or, to focus on other business ventures.

In the UK, there were over 3,000 transactions involving the sale of private businesses in both the 2022 and 2023 calendar years respectively. The buyers and nature of the transactions vary from business to business depending on the sector, economic conditions, preferences of the business owners and the professional advice that they have received.

Type of business exit:

- Management Buyout (MBO): where existing management purchases the assets and operations of the business.
- Buy-in MBO: a buy-in management buyout occurs when an outside management team joins a company while also buying out the existing management team.
- Employee ownership trust: typically used in facilitating employees to own a stake in the business.
- Trade sale: sale to an independent third party such as a larger company in the same sector.
- Private equity: similar to a trade sale but to a private equity group. This often provides opportunities for existing management to benefit from some deferred consideration that may result in future liquidity events.
- Initial public offering: taking the company to the stock market for the first time. Tax benefits that exist for individual shareholders of unlisted trading companies, such as business relief and, business asset disposal relief may no longer apply afterwards.

Pre-exit planning

Regardless of how the transaction is structured, investing time in personal wealth planning ahead of the business exit can prove invaluable in helping achieve the entrepreneurs long-term objectives in the years following.

What are the personal wealth management steps that an entrepreneur should consider when selling their business?

Pre-exit planning steps



Step 1

Start with a holistic approach

It can often be tempting to focus too prematurely on what to do with the capital proceeds from the business sale post-exit, particularly if this is the first significant liquidity event. Adopting this approach risks not carrying out a comprehensive and in-depth assessment of the wealth balance sheet built up to date, to determine how best to achieve various objectives.

Whilst it is not uncommon for entrepreneurs to put everything on the line financially in order to build their business, if they are now at the point where the business is attracting potential suitors, then it is likely that the business has been successful. That success

could have resulted in value being extracted over a number of years: salaries, dividend payments, partial sale of shares to release some capital and via pension contributions.

There will come a time when the focus of discussion needs to be on what to do with the proceeds from the sale of the business. However, a discussion about the overall wealth balance sheet, of which the capital value of the business is a major component, is needed to ensure wealth structuring decisions are made with the 'big picture' in mind. It is beneficial to have these conversations when the business owner is in the initial stages of negotiations about selling their business.



Step II

Ensure wealth plan accounts for deal structure

The simplest route to a disposal for many entrepreneurs who wish for a clean exit would be a sale for a cash lump sum. This has the benefit of being subject to one charge of capital gains tax (CGT) and no further complexity going forwards.

When a clean exit occurs, it makes planning for life after the business exit potentially more straightforward. However, moving from a situation where the business has taken up the majority of the entrepreneurs time, to a new unknown phase of life, requires a degree of flexibility in decision making pre-business exit and in the months following the transaction.

In reality, there are many ways in which the actual transaction could be structured depending on the sector in which the business is based, the profile of the buyer, the importance of the entrepreneur to the continued success of the business after the sale and the strength of the existing management team.

If the buyer requires the existing management team to remain in situ for a period of time after the transaction is completed, this can result in the deal being structured with deferred consideration such as:

- earn-out arrangements
- loan notes with an attractive coupon
- shares in the purchasing company being included as part of the total compensation

An understanding of the immediate payment to be received and what may be paid later (subject to achieving certain business targets) is essential in planning for optimum outcomes and maintaining flexibility in the wealth plan. With regard to any deferred payments, is the sum ascertainable at the outset? Or subject to targets yet to be determined?

This could potentially impact overall tax liabilities applicable to the entrepreneur on exit but it is also critical in putting together a comprehensive wealth plan.

If an element of the transaction is deferred, it is important that tax advice is obtained to determine whether any CGT liability is immediately due on the entirety of the transaction. Alternatively, tax could be deferred altogether until a future disposal, for example where shares are exchanged on disposal for shares in the purchasing company. The personal tax implications of the deal structure is often complex and entrepreneurs will be best served obtaining professional tax advice to fully understand their overall tax liability before the transaction is finalised.

Key global events that result in increased government spending, for example the increasing focus on defense spending by European countries in 2025, are likely to result in a rise in taxes in the medium term. Therefore, entrepreneurs who sell their businesses with a deferred compensation structure may choose to pay the CGT liability upfront to avoid increased levels of tax in the future. Paying the CGT upfront causes a reduced cash flow at the outset, and the impact of this needs to be considered when putting in place a wealth structure.

In addition, implementing irrevocable wealth planning solutions which are dependent on earn-outs, loan notes or future cash payments subject to certain business financial targets, may turn out to be inappropriate if those targets are not achieved. Even where the targets appear very achievable at the outset, flexibility should be the absolute priority when the compensation package incorporates deferred payments.

Step III

Analyse and incorporate tax reliefs in decision making

Understanding the various reliefs and exemptions that are available is key to the entrepreneur's pre-exit planning decisions. In most instances, obtaining advice at least two years before the planned business sale would be critical to getting the business structured appropriately to qualify for various reliefs.

Some of the more attractive reliefs and exemptions are as follows:

- Business Relief (BR): (also known as 'business property relief' or 'relief for business property') is an important relief which reduces the value of business assets for Inheritance Tax (IHT) purposes. The relief applies if the shares have been held for a minimum period of two years. Following the 30 October 2024 budget, a cap of GBP 1 million per estate is set to be introduced to the relief from April 2026 onwards. Where an individual holds BR qualifying assets in excess of the GBP 1 million then a reduced inheritance tax rate of 20% would then apply. This makes it all the more important for business owners to consider their exit strategy or succession plans prior to April 2026 when 100% IHT relief still applies.
 - Subject to certain conditions, BR can reduce the IHT payable on transfers of business assets to zero (prior to April 2026), making it a valuable tax and succession planning tool. Where an entrepreneur has shares which qualify for BR, then the capital value of the shares may be exempt from their estate for IHT purposes.
 - Once a binding contract is in place to sell the business, the capital value of the shares becomes part of their estate for IHT purposes. If IHT and succession planning in general is a key wealth planning objective, then there could be

scope to transition some of the capital value of the shares into a succession planning vehicle, such as a family trust, prior to a binding agreement to sell the business.

Business Asset Disposal Relief (BADR): is a disposal of the whole or part of a business by a sole trader, partner, or shareholder in a business. Where the relief applies, a CGT rate of 14% would be payable on the first GBP 1 million on all gains on qualifying assets in the 2025/26 tax year, rising to 18% in the 2026/27 tax year and beyond.

- To qualify for BADR:
 - The shares need to have been held for at least 2 years before disposal and the business must be the entrepreneur's personal company.
 - They need to have at least 5% of both (i) the ordinary share valuation of the company and (ii) voting rights.
 - The entrepreneur must also be entitled to at least 5% of either (iii) profits that are available for distribution and assets on winding up the company (iv) disposal proceeds if the company is sold.
- Substantial Shareholder Exemption (SSE): SSE exempts entrepreneurs from the tax liability due when disposing of shares in a subsidiary company.

There are two conditions which must be satisfied for SSE exemption to apply:

- i. The substantial shareholding requirement.
- ii. The trading requirement for the company whose shares are being disposed of the subsidiary company.



Substantial means that the holding company held at least 10% of its ordinary share capital, profits available for distribution and assets available for distribution on the event of a winding up. The holding company does not necessarily need to be disposing of a 10% shareholding to qualify for SSE on the disposal, it just needs to ensure that it has held 10% of the shares.

In summary, the desire to minimise tax on business exit is not often the primary consideration, as this could adversely impact on the commercial objective of selling the business to the right buyer in the right manner. However, the objective for the entrepreneur would typically be to maximise the net proceeds from the sale of their company. As a result, an understanding of their tax position, reliefs and exemptions available and how these could be utilised to meet their wealth planning objectives should not be ignored when planning the business sale.

Planning consideration

Spouses are treated separately for BADR purposes. Each spouse has their own GBP 1 million lifetime gains limit under BADR. Where spouses are directors or officers of the company, then there is scope for GBP 2 million of crystallised capital gains to be taxed at the 14% rate (18% from April 2026).

Similarly, where one spouse qualifies for BADR by owning 5% or more of the shares in the company and, the other spouse owns less than 5%, then the spouse with less than 5% could consider transferring their shares to the spouse with more than 5% prior to disposal of the business. Subject to obtaining appropriate tax advice, on the basis that the total share valuation is still within the GBP 1 million BADR lifetime allowance, the total share valuation could benefit from the 14% rate on disposal in the 2025/26 tax year (rising to 18% in the 2026/27 tax year).

Step IV

Model potential outcomes to formulate wealth structure

To ensure that the right decisions are made in regards to the wealth structure, the following factors need to be considered: needs, objectives, family dynamics, planned country of residence, health status and current stage of life.

For some entrepreneurs, it can be a challenge to fully understand exactly how the various wealth planning structures and strategies presented to them can help achieve their specific goals. This is where a comprehensive and detailed financial modelling exercise can be incredibly valuable.

Examples of the more common structures that entrepreneurs can utilise to achieve their objectives post-business exit:

- Offshore bond
- Family Investment Company
- General Investment Account
- Trust arrangements
- ISAs
- Pension
- Private opened-ended investment company

A comprehensive in-depth conversation with a wealth planner is required to discuss the options that would be best suited.

It is important to incorporate the following into the financial modeling to help project forward the financial position at different points in the future:

- The existing balance sheet.
- The various 'what if' scenarios that include the possible sums that would be received from the business sale.
- The clients specific objectives for their wealth and family.

Financial modelling can help ascertain the following:

1. Provide a strategic 'roadmap' to achieving aims and objectives.
2. Demonstrate the likelihood of achieving financial objectives and changes that may be required to achieve a different outcome.
3. How certain events or situations might impact the wealth structure.
4. Aid in determining which contingencies may be required at different stages of life to ensure the entrepreneur remains on track for achieving objectives.
5. It allows for the impact and effectiveness of the strategy in relation to all relevant individual taxes, including income tax, capital gains tax and inheritance tax.

Where executed properly, the outcome of the financial modelling should be to provide the entrepreneur with greater clarity in regard to any steps they need to take prior to the business sale. It will also provide an understanding of how their hard-earned wealth could be used in meeting long-term needs once the business is sold.

Step V

Write or review your existing will

Having a valid will in place ensures that your estate can be distributed in accordance with your wishes. As the value of the estate becomes more sizeable and family dynamics become more complex, it is crucial to have an effective will in place.

For entrepreneurs who already have a will in place that accounts for their shareholding in the business, the possible transition of wealth from a business relief qualifying asset (i.e. shares in a unlisted trading business that may be exempt from IHT) to cash needs to be considered in their existing will.

In addition, if the sums of money involved in the transaction are significant, discussions about how they would wish their estate to be distributed on death needs to be considered, hand in hand with any wealth structuring arrangements being put in place.

There is little doubt that exiting a business can be an incredibly stressful period for entrepreneurs. Dedicating time to ensure that their wealth structure pre-exit has been well thought-out could help in ensuring that they can achieve their and their family's long-term objectives on completion of the business sale.



Case study

James and Lucy are the founders of Startup Global. They are both aged 45, married with two children under age 18.

From its humble beginnings, Startup Global expanded from the UK into Europe and North America. In 2020, the management team commenced discussions with various private equity houses about selling the business. James and Lucy were very keen to com-

mence discussions regarding their own long term personal and wealth planning objectives. They were particularly keen to set aside a sum of money for their children's future but wished to retain control over the assets whilst they were young.



Pre-exit planning

Working alongside the clients' accountant and corporate advisers, we established that their shareholdings in the business would benefit from BR. It was also established that they would each benefit from BADR on the sale, as they each owned more than a 5% share in the business.

We carried out a comprehensive and detailed lifetime cash flow modelling exercise which took into account overall asset balance sheet to establish the following structure:



Cash

assets to be retained in cash postbusiness exist as readily accessible and, for foreseeable capital expenditure such as the tax liability and new property purchase.



Lifetime capital

based on required expenditure and lifestyle, the modeling was used to quantify assets that needed to be invested based on an established risk mandate to meet long term expenditure needs, this accounts for relevant economic and financial factors such as inflation and tax.



Surplus Wealth

using the cash flow modelling, we were also able to ascertain an appropriate shareholding value that James and Lucy could settle into a family trust prior to the business exit. As the shares qualified for business relief, working alongside their tax adviser, they were able to settle a sum well in excess of their combined inheritance tax nil rate band into the trust earmarked for the long term financial security of their children.



Working alongside the clients' solicitor, existing wills were reviewed to ensure they remain up to date and, powers of attorney arrangements were put in place.

On completion of the sale:

- James and Lucy had clarity on a potential structure that could be considered post sale to meet short, medium and long term objectives. They were clear on how much they wished to retain in cash as readily accessible funds, to meet their respective tax liabilities and, in funding a new family home.
- Investments were made into general investment accounts, offshore investment bonds with a smaller component of investments in Enterprise Investment Schemes and Private Equity.
- A family investment company was also established to diversify structures and commence a gradual and controlled transition of further wealth to the next generation over the medium to long term.

“
Planning pre-exit from the
the business is critical for
ensuring that the sale is
structured to meet your
long-term personal and
wealth planning objectives.”

Ola Adeosun, Regional Head of Wealth Planning & Family Governance

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