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Successful Succession Planning Preparing your Exit Strategy

There is no doubt that the current downturn in the economy is proving to be difficult for many small to medium sized enterprises (SMEs). The challenges over the next year to two years will demand greater focus on succession planning.

There are good opportunities now, particularly for family-owned businesses. If you are thinking about a future sale or handing down to the next generation, now is the time to do it. In terms of personal succession planning, if people want to transfer assets into their child's name, the gift component is likely to be reduced because values are depressed. This means that the son or daughters liability for capital acquisitions tax (CAT) will be less.

With commercial property values reduced and lower stamp duty rates, family businesses will also benefit from transferring property held in the company name to their own name. Therefore companies that transfer assets in the current market will have a lower capital gains tax liability (CGT).

The capital gains tax rate increased by 2% to 22% on 14th October this year. The rate was 40% ten years ago. In the current environment it is not implausible that those levels could return. If one takes that view then now may be the time to act.

Planning your succession strategy

Business succession planning is the process of preparing to hand over control of the business to others in a way that is the least disruptive to the businesses operations and value.

It is often said that choosing your exit strategy is the most important business decision you will ever have to make.

There are four key elements to any successful business exit strategy:

1. Identify the "successor".

This can be a family member, an employee or co-director/partner or a third party such as a competitor, supplier or customer.

2. Predict the optimum time to exit.

This is often determined by the age of the owner. If the plan is put in place early enough it is usually possible to forecast the point in the life cycle of the business when it is most suitable for exit.

3. Decide on the target exit price.

Over the last few years it has been common practice for the successor to be a child of the business owner. In such cases the exit was often zero as the business was effectively gifted to the child. Where this is the plan then it is important that the parent has sufficient personal wealth outside the business before their exit. It is important the parent has income for their retirement.

4. Get the tax structure right.

Transferring ownership of a business is a financial transaction and therefore has tax implications. There are a large number of potential reliefs. It is important to ensure that these reliefs are being availed of. The Principal tax reliefs are Pensions, Retirement Relief and Business Assets Relief.

Proper succession plans will ensure that the value of the business is not reduced by your withdrawal from it.

Ideally you should begin succession planning three to five years before the event. However, depending on your circumstances, a plan could be put together in a matter of months. It's never too late to plan your exit strategy!

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