CAMPBELL & McCONNACHIE

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Succession planning for family businesses

Ensuring a smooth transition when you leave your business.

When it's time to leave the family business you've built up from the ground, whether it's a sudden departure or a well-planned one, you need to have a suitable successor ready to pick up the reins.

Ensuring this person has the right level of experience, knowledge and expertise can be a real challenge if you haven't started planning your exit strategy well in advance.

As some recruiters will testify, there's fierce competition to secure talented business leaders from the outside so planning from within has a better chance of paying off in the long run.

This transition can be smooth if you have a good succession plan in place, whether that's nurturing the perfect successor internally or seeking a suitable external candidate.

Starting your exit plan

According to research from the Federation of Small Businesses in Q4 2017, 15% of business owners are considering selling or handing over their business in 2018 – but where do you start?

The first thing to consider is when you want to leave. You could have a certain date or retirement income target in mind, or a change in health may force your hand.

Having a vague idea of when you want to step aside will help guide decisions throughout the course of your working life.

The earlier you start thinking about what you want to do and how you intend to leave your business, the smoother the process will be.

If you leave this until the last minute, you run the risk of disruption, arguments and not getting the post-work life you envisaged.

Identifying your successor

A succession plan should be an incremental passing on of ownership and leadership from one generation to the next, within a single business structure.

Whether that's mentoring someone internally to the point they become the obvious choice or choosing who you sell your business to, it's important to thoroughly plan before the day arrives.

In some cases, this planning can begin from the moment your first child is born. For instance, you take on your two children after they've left school to help with your stair lift installation business.

They learn the tricks of the trade over the course of 20 years and are natural successors when the time comes for you to walk away from the business.

However, keeping the business in the family can be far from straightforward because of the personal relationships and the potential emotions involved.

In other cases, succession planning can start from the moment you take on a new employee.

Promoting long-serving executives to senior positions gives them more experience of running the business while you get the choice to pick your heir-apparent.

Assuming they display loyalty, ambition and enterprise over their time with you, there's no reason they can't progress from within the business to take the top seat in time.

If there is no obvious successor to take on the family business, you could consider either selling your business or merging with another company.

Whatever conclusion you come to and however you come to it, take the appropriate time to weigh up all your options and seek professional assistance when necessary.

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Disposal of assets

When the time comes to walk away, you may need to dispose of certain assets.

There are reliefs available to minimise your capital gains tax (CGT) bill when you sell your business or its assets.

Entrepreneurs' relief is available for directors with at least a 5% stake of a business and provides relief for disposals made by smaller business owners.

It charges a reduced tax rate of 10% on disposals up to the lifetime limit of £10 million, giving a potential tax saving of up to £1 million.

This compares to paying either 10% or 18% CGT, depending on which income tax band you are in, without entrepreneurs' relief.

Alternatively, you could be eligible for **gift holdover relief** if you're passing your business assets on for less than they are worth.

Instead of paying CGT when you pass on the assets, your successor agrees to pay CGT on any gain – if any tax is due – when they sell or dispose of them.

However, CGT isn't usually payable if your successor happens to be your spouse, civil partner or a charity.

Inheritance tax reliefs

If you want to pass on your business in a will, it may qualify for up to 100% relief from inheritance tax (IHT) under a system called **business relief**.

The same exemption applies if you have an interest in a business or shares in an unlisted company.

To qualify for business relief, your business must be an unlisted company and must have been trading for at least two years.

A similar relief for agricultural property and land, **agricultural relief** covers farmland and farming businesses, but it has to be a trading farm to qualify.

Broadly speaking, it is possible to pass on agricultural property free of IHT so long as the land or pasture is intensively used to grow crops or rear animals.

If you own a not-for-profit organisation or it deals with securities, stocks or shares, land or buildings, or is making or holding investments, it will not qualify for relief.

It will also be ineligible if your business is in the process of either being sold or wound up.

Things to consider checklist

- [ ] **Start your succession plan early**
- [ ] **Consider when you want to leave**
- [ ] **Provide a clear career pathway**
- [ ] **Actively train your successor**
- [ ] **Seek expert advice when necessary.**

Legal treatment

If you were to die unexpectedly, the business will be treated differently in the eyes of the law depending on what sort of entity you owned.

When a sole trader dies, usually their businesses dies with them, while a partnership may end if the partnership agreement does not state the business will continue if you or your partner dies.

A limited company will continue to trade after you die, but your shares in the company will be passed on to your beneficiaries – either through your will or intestacy rules.

We can help with succession planning.