



Business Value and Sale

MAXIMISING THE VALUE OF YOUR MOST VALUABLE ASSET

Millstone or Jewel?

To kick off 2002, Topical Tips focuses on the thing that provides your livelihood, generates your money and should be your most valuable asset. Yes, we are talking about your business! What can you do to ensure that it is not a millstone around your neck, but a "jewel" that, if you so wished, you could sell for a healthy sum? And if you were to decide to sell, how could you maximise your after-tax proceeds? The Topical Tips shown here will be expanded upon in future issues.



Barnes Roffe Topical Tips

- Just because a business is especially saleable, it does not mean that it has to be sold, at least in the short or medium term. The owner of a profitable business will often be more than happy to extract profits as income whilst preserving or enhancing the underlying capital value of the business. The owner has the option whether or not to sell. However, the owner of an inherently unsaleable business (because it is badly run and unprofitable) has no such option. Thus, an obvious golden rule is that a business must be run for maximum profit if its capital value is to be maximised. Ways of maximising profits and associated accounting matters will be examined in Topical Tips 15.
- A prospective purchaser of a business will usually be interested in acquiring a business that has an established management structure and which is not totally dependent on the efforts of the owner. The message is therefore clear - having a well-trained, motivated and incentivised workforce will maximise the value of a business (and make the owner's life more enjoyable).
- If a business has been run as the owner's personal piggy bank (i.e. where the owner draws only a loose distinction between personal expenditure and business expenditure) most prospective purchasers will be scared off. By paying scant regard to statutory obligations such as PAYE and VAT returns and Companies House filing requirements, the owner is planting time-bombs. Poor attention to these compliance matters could result in future demands for back tax, interest and penalties. Even if the existence of such problem areas did not deter purchasers they are likely to demand onerous warranty and indemnity clauses in the sale agreement.
- As regards tax, the most important thing for business owners to do in view of the current capital gains tax regime is to ensure that they qualify for maximum business asset taper relief. This can fully exempt from tax 75% of any gain made on sale. Previous issues have covered the pitfalls that must be avoided to ensure that this valuable relief is not lost and we shall reiterate these subsequently. It is also worth remembering that if full taper relief entitlement has not yet been secured, it should be possible to structure the disposal in a manner that enables the gain to be deferred whilst entitlement to business asset taper relief continues to accrue.
- Finally, it is worth noting that companies do not qualify for taper relief and it can therefore be unattractive for holding companies to sell subsidiary companies. In view of this, consideration might be given to restructuring groups of companies so as to create a number of stand alone companies owned directly by the shareholders.

Consult your Barnes Roffe contact partner for detailed guidance in this important area.