

# Ensuring the Tax-Efficient Sale of a Business

## Scenario

Clients who are business owners could appreciate support around the sale of a firm. Peter is a serial entrepreneur looking to make a tax-efficient exit from a business. Nearing retirement and a provider to his family, financial planning is key. He's aiming for a successful exit, to preserve wealth and protect his estate. As a result, he's focused on the following:

- Mitigating Inheritance Tax (IHT): His shares qualify for Business Relief (BR), which can deliver IHT exemption after two years and if held at death. He wishes to uphold this.
- Reducing Capital Gains Tax (CGT): Exiting will create a CGT liability on net sales proceeds. Peter would like to use Business Asset Disposal Relief (BADR), to reduce tax payable by 10%.
- Managing Surplus Cash: £1.3m of surplus cash held in the business could lead to HMRC restricting the availability of BADR on exit or sale of shares, increasing CGT. HMRC could also deem it an 'excepted asset', leading to losing the BR qualification.

## Solution

Peter's adviser introduces him to the Thrive Corporate Management Service. A tax-efficient business solution, it deploys surplus cash into BR-qualifying trades through lending to small and medium-sized firms. Loans focus on asset-backed and property development lending.

All trading is pre-agreed, with Blackfinch appointed under a management agreement, and robust processes at every stage from sign up to establishment to trading. Each loan's underlying assets also provide strong security to underpin the company's capital.

The service targets a competitive return of 4%–6% per year (net of all fees) with no upper limit. Peter has the assurance that he can stay in control in the run up to exit, as the surplus cash remains within the business.

### **Steps**

- **Manage surplus cash:** Peter uses the £1.3m to participate in the service. With surplus cash deployed, he can continue with exit plans.
- **Mitigate IHT:** As the surplus cash is deployed into BR-qualifying trades in the form of loans, Peter can look to continue mitigating IHT through BR
- **Reduce CGT:** As a BR-qualifying shareholder, Peter should be able to use BADR and potentially reduce his CGT bill on the sale and liquidation of the business
- **Target a return:** Peter also stands to make 4-6% on the potential return on the capital deployed, depending on the return he selected
- **Continue IHT mitigation using Replacement Relief (RR):** Following exit, Peter can reinvest the sale proceeds in another BR-qualifying investment and regain IHT relief immediately. This is rather than having to hold assets for another two years.

## **A bespoke tax-efficient solution for businesses.**

If you would like to find out more about our CMS solutions and how we can support your work with clients, please call us on **01452 717070**, email **enquiries@blackfinch.com** or visit **www.blackfinch.com**.

### **IMPORTANT INFORMATION**

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