Tax-efficient exit options for any Company

When creating a company, it's important to consider all potential exit options for several reasons:

- Ensuring other shareholder's aims are maintained
- Maintaining the value of the company
- Maximising tax efficiency

There are many exit options available but the most regular are:

1. **Selling the company shares**

By selling the shares you are ensuring continuity of your business which supports the incumbent employees and any supply chain that already depend upon it. The money from the shares goes directly to the selling shareholder/s. On selling these shares you need to pay Capital Gains Tax which is:

- 10% or 20% (when your taxable earnings are above £50k) with £12,300 Tax-free (Capital gains Annual Exemption)
- You may also qualify for the entrepreneurs' relief meaning you pay 10% tax on all qualifying gains (subject to your conditions being eligible for this relief)

You may also decide to defer consideration meaning that the sale of the shares is agreed on day 1 if agreed targets are achieved e.g. £100k on day one and after £10k each year for 10 years:

- You can pay full tax on day 1 and claim entrepreneurs' relief and if the change in the sale of share occurs you can claim tax back
- You can pay tax on the £100k on day 1 (you can't claim entrepreneurs' relief) and pay the remaining in the tax year received (maximizing usage of the tax-free sum)

Option 1 - £20k, Option 2 - £30k (assuming higher tax and full usage of tax-free sum pre this)

1. **Selling the company trade**

This is quite a common option. The company may be purchased by another to obtain an asset, e.g. their intellectual property. As an owner you may still be involved in the business by undertaking reduced role. However, this may have a negative impact on the company culture and employees who may be distressed with the move. Moreover, if the sale does not get finalised it means the competition will know the company's financial information.
CGT tax (entrepreneurs' relief not available).

2. Liquidation

A highly popular option when the company is highly dependent on the owner. The entrepreneur's relief is available here. However, the owner needs to incur the cost in connection with the company liquidation.

3. Company may purchase their shares

This method may work when the shareholders want to leave at a different time. However, this requires a big amount of cash available by the company to pay off the shareholders' shares – that is why planning the exit plans is vital. HMRC acceptance of this is required in advance. Proceeds are dividends. If criteria are met, you may receive the entrepreneur's relief.

4. Senior management team buyout

Shares are purchased from personal funds raised by the senior management team. If they are unable to raise the funds this can be done via a holding company.
The holding company is set up by the senior management team who agrees to purchase the target company for a specific amount of money. The target company borrows money from the bank (based on their assets and debtor book) for the amount for which the holding company agreed to purchase it (less cash). On the day of the transactions, the holding company pays the shareholders dividend.
This method may be beneficial for the company as the company itself will not change the name, company culture, people. However, it might be difficult to find the appropriate people who will purchase the company. Moreover, raising the funds might be a long process.

5. Enterprise Management Incentive Options (EMI scheme)

This scheme is focused on giving away the shares to the employees at a pre-agreed value. This method incentivises individuals to stay in the company and create value. The company may also be able to keep key employees without giving the shares straight away (however, this method is not available for every business).
As this scheme is approved by HMRC the tax consequences may be reduced.

6. Employee Ownership Trust

This model was created by the government in 2014. It is done by selling the company to the trust which is after repaid by the company employees. Meaning that the company is not owned by anyone. This model is the best known by the case of John Lewis.
The trust purchases shares from the shareholders with a loan borrowed by the company (charge on assets and company guarantees), which after is being paid by the Trust. Once the loan is repaid the funds may be reinvested in the business and employees as there are no shareholder to pay the dividends to.

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Due to the numerous available exit options, the owner of the company needs to think about the exit plan in advance. This will allow appropriate preparation of the option best suited for the person's situation, also giving time for possible changes and adjustments.

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