Top 5 Tips For Planning Your Business Exit

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With 61% of employing small business owners in Australia approaching retirement age, we can expect a considerable shift in small business ownership in the coming years.

A recent report[1] released by the Australian Small Business and Family Enterprise Ombudsman shows the highest proportion of small business owners are aged between 45 and 59 years. As these business owners start thinking about retiring and exiting from their business, there are a number of considerations they need to take into account.

Whether it's transitioning the business to a family member, a current manager, or selling externally to the market, creating a smooth transition to a new owner needs to be planned and should be considered at least 3 - 5 years out depending on the size and complexity of the business.

Here are our top 5 considerations for successful succession planning:

1. Succession Goals

The first step is to determine what you want to achieve when exiting your business. You've likely spent many years growing and developing the business so it's important that it goes to the right person and/or the right value is realised.

- Are you happy to be involved part-time with the business going forward or are you looking to exit completely and begin your retirement?
- Is the person taking over the business able to run it without you there or is a transition period required?
- What do you think the business is worth and what are you wanting to realise from its sale?

These are important discussions to have early on and we can assist in developing a documented Succession Plan for you.

2. Key Internal People

It's important to identify early the key people in your business and whether or not you wish to pass the business on to one of them. Key people may be:

- Family members (e.g. children) involved already who have the desire to take over the family business.
- A manager/employee who has expressed an interest in purchasing the business and continuing its operation with your guidance.

Quite often selling/transferring to a related party can be the optimal course of action for all parties as the buyer/transferee already knows and understands the business. This simplifies negotiations and handover resulting in a smooth transition out of the business.

1 Small Business Counts report released by the Australian Small Business and Family Enterprise Ombudsman, Kate Carnell. 29 August 2019.

3. External Business Sale

If there is no appropriate internal option to take over the business, or you believe you can realise a higher value for your business elsewhere, you may choose to go to the market. Selling to an external party means you're selling to someone who doesn't know your business as well as you, so they will require more information as part of conducting their due diligence. We can assist with the following:

- Preparation of a formal Business Valuation.
- Abridged Profit & Loss reports to show the underlying earnings of the business.
- Collating and providing all required information to prospective buyers.

Our focus is to present your business in a way that will maximise its perceived value.

4. Taxation Considerations

Assuming you've run your business for a number of years and created additional value within it, there will likely be capital gains tax consequences. Of particular relevance is the suite of small business CGT concessions which can potentially be applied to reduce and/or defer taxable capital gains from the business sale. In addition to CGT, some other important considerations include:

- Transfer (stamp) duty and GST implications on the sale
- Income tax on plant and equipment and trading stock
- Are you selling the shares in the business or the business assets themselves?
- Are there rollovers available for the business exit if selling to family?
- Timing of the sale (date of contract)

The above are just a few of the many issues we would work through prior to the sale being finalised to ensure that the tax is minimised as much as possible.

5. Financial Planning

Once the sale has been finalised and any tax implications addressed, there may be a significant inflow of cash from the sale proceeds. What you do with these funds is the final important consideration. If you are retiring and not rolling the funds into another business venture, you may be looking to pay down debt, contribute to superannuation, and/or put the money to work through various investments. We'll review your current financial position and guide you through your options to best utilise the funds you've extracted from the business.

If you have any questions or would like more information, please contact our office:

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