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Passing on the business gene

When you run a family business, planning your legacy will be a recurring theme along the entrepreneurial journey. Andrew Dixon, Head of Wealth Planning, at SG Kleinwort Hambros outlines how to prepare the next generation, when ceding control of the family business and the tax implications of transferring your assets.

A well-crafted succession plan can provide many benefits, principally ensuring a smooth transition of wealth to future generations. It should also help the next generation to make informed choices about the business and their possible place in it and should allow you to guide them forward in a spirit of stewardship.

But planning a successful business succession can take years, so it's never too soon to start thinking about the process.

Preparing the next generation

If you're a business founder or owner, at some point you will pass the control of your business to the next generation, possibly to your children. If so, the earlier you can start planning for that transition, the better.

A common approach is to have children work in different areas of the business to gain invaluable insights into its history and operations. Start when they're young, taking them to work and introducing them to the people who help run your company.

As they get older, children can play a more active role, first coming to events or helping you with minor management. Later, they can take on more responsibilities – for example, being included in leadership meetings. Once they develop an interest in a particular role or department, a formal internship can teach them about the business. Moving children through the different levels of the organisation gives them a chance to learn about the different areas of the business.

Tax implications

Succession planning can also address any legal and potential tax concerns before they become problematic.

Start with some key questions. Are you planning to give your business away, in whole or in part? Or will your children be buying it? If they are acquiring some or all of the shares of the business, will they need to secure financing?

If you're looking to pass on your business to your children, one way is to transfer share ownership to them. However, any such transfer may have Capital Gains Tax (CGT) or Inheritance Tax (IHT) consequences unless certain reliefs apply. Additionally, some business owners or entrepreneurs prefer a less direct method of gifting.

One way of managing this kind of transfer – as long as you and your business qualify for hold-over relief – is to consider putting the company shares into a Trust and hold over any capital gains at the point of transfer so they are not immediately payable. The Trust would have to pay tax on the gains when any eventual sale completes, but the original owner might not have to pay anything at all. Of course, nature of the business and timing are crucial as is the availability of business asset disposal relief (Entrepreneurs Relief), so it's important to get advice before taking any action.

However, please note that SG Kleinwort Hambros does not provide tax advice. The level of taxation depends on individual circumstances and the levels and bases of taxation can change. You should seek professional tax advice to understand any applicable tax consequences.

If you are passing on your business to your children, you can protect your spouse's financial position by making suitable investment, pension and life insurance arrangements.

In conclusion, roles and relationships within private businesses can be complex. Yet almost every founder will be passionately focused on the legacy they have created and being a steward for future generations. A good succession plan can help secure that legacy.

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