PKF Francis Clark

Succession and exit planning for business owners

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Introduction

If you are the owner of a family business or other private enterprise, there will inevitably come a time when your thoughts turn to succession or exit. Who is going to take on the business after you and what does the long-term future hold? It may be that you want a clean break, retiring completely. Or you may want to step back from the day-to-day running of the company and free up more leisure time. Perhaps you're looking to de-risk by gradually reducing your involvement while retaining value. Or maybe you want to completely cash out value from the business and pursue other ventures.

Whatever your situation, there are a number of options to consider. This can be complex and nuanced, dependent on the specifics of your position.

In this guide, we will walk through the main options available to business owners with a focus on how they work, the pros and cons of each one and some practical tips for success. We will also consider the all-important question of wealth preservation attached to succession or exit – including the liabilities that arise and ways of structuring your affairs tax-efficiently.

There are five options that we will take you through in detail:

- **Succession:** Handing over the family business to another family member (or members), which is often likely to be someone in the next generation, such as your children or other close relatives
- **Employee ownership:** Giving employees in the business a significant and meaningful stake in the company. This is often in the form of an employee ownership trust (EOT) which gives them collective ownership without requiring individual investment
- **Management buy-out (MBO):** Passing control of the company to the existing management team, who buy all or part of the business. It's an internal transaction and transition that allows the current owner to exit or step back
- **Trade sale:** Selling the business to another company, typically one operating in the same or a complementary industry. This could be a full or partial acquisition
- **Members' voluntary liquidation:** Winding up the business and selling off its assets may be the most appropriate course of action when there's no viable succession or sale option, or when the business has simply reached its natural conclusion

In our discussion of wealth preservation, we will consider how early planning can enable you to structure ownership for optimal tax outcomes, establish protective legal and financial frameworks and align your personal and business goals.

Whether you exit completely or partially, and whoever you hand the business on to, doing so is a huge milestone that usually represents the culmination of years of hard work and commitment. Planning an exit carefully means that you are more likely to be able to mould the business into the ideal shape for your chosen exit option. We recognise that it is a step that involves not only major financial considerations but a significant emotional dimension too, due to the immense personal investment you and others will have made in the business. Ensuring that the business is handed on in such a way that it can continue to flourish and grow – and continue to provide a livelihood for the staff who have helped make it possible – is usually a central priority.

We hope that the insights we share will help you develop your thinking and planning in order to achieve a succession or exit that truly benefits you and all parties concerned.

Family succession

When is it suitable?

Succession applies to family-owned businesses where the current leader wants to pass the business on to other family members, often the next generation.

If you are the owner/leader of a family business and are beginning to think about when and how you can pass the baton on, succession planning may be the right option for you.

How does it work?

Succession is usually a long-term process which requires careful planning. Beginning the process early will prepare the business and the family for a successful transition. Planning ahead also means that you as owner are more likely to be able to exit at the time of your choosing.

Core elements of a succession plan include:

- Holding a family meeting(s)
- Considering the options for transferring ownership
- Tax planning
- Setting up your family governance structure

Part of the succession plan may be the sale of the business from you/the owner to another family member, often in the form of a family management buy-out (FAMBO). It could therefore be beneficial to have the business valued.

You can then consider how you transfer the business, such as at a full or discounted sale price, gifting of the shares, or perhaps only handing over the reins of managing the business.

Given the complexity of succession planning, working with experienced advisers that you know and trust – including accountants, lawyers and family business consultants – is essential. They can provide objective guidance, facilitate what can be difficult or sensitive conversations and help tailor a plan that reflects the unique needs of your business and family. You will also need to have the financial transaction/transfer of shares drawn up in a formal, legally compliant contract.

Key considerations

Surprisingly, succession planning is often overlooked in the running of family businesses. In the UK, **over five million businesses** are family-owned – and yet only around four in 10 have a clear succession plan in place.

Perhaps as a result of this, figures from the Family Firm Institute show that **70%** of businesses don't survive going into a second generation and **90%** don't make it to a third. Larger family firms are more likely to be multi-generational – over a quarter of medium-sized family businesses are into their second generation and **9%** are in their third.

Many family businesses are vulnerable due to a lack of formal succession strategies. Research from Legal & General found that nearly half of family firms view the death or critical illness of the owner as the greatest risk to their future – yet many still operate without a plan.

In creating the plan, and agreeing the financial arrangements, it is important to assess the situation holistically from everyone's different perspectives. Questions include:

For the owner:

- Do you want to retire completely or retain some involvement? If the latter, would that be on a paid or unpaid basis?
- When do you want to retire?
- Are you in a financially stable position and do you have enough income to retire?
- Will you need to continue to rely on drawing from the business?
- Instead of selling your shares, are there better ways to pass wealth down to the next generation, such as trusts and annual gift giving?

For other family members/next generation:

- Does the next generation want to work in the family business?
- Do they have the right skills and attributes?
- Who would be the next leader of the business?
- What are the next generation members' aims and aspirations for the business?
- What would the key roles and responsibilities be – and is any training or other support needed?
- Are there potential conflicts between family members, especially those involved in the business and those who aren't?

For all parties:

- Is the business in a healthy financial position?
- Is the next generation ready to take on ownership of the business?
- Would a period of gradual handover – with the current owner retaining their shares but reducing their day-to-day involvement – be more suitable?
- Will staff respect the skills and capabilities of the new leadership and get behind them in the running of the business?

Pros and cons

There are many upsides to planning a succession:

- Keeps the business in the family
- Passes on wealth to the next generation
- Gives the owner a controlled exit
- Preserves the culture and legacy of the business
- Tax efficient vehicles are available

However, there are also some potential downsides:

- There may not be a natural successor in the family
- Other exit strategies may bring a greater return (e.g. trade sale)
- Inheritance tax increases may eat into what gets passed on

Tips for success

Agreeing a succession plan can be complex, emotionally difficult and take time. Some of the key ingredients for success include:

Have open and honest conversations:

Family meetings are an ideal way of discussing what each individual is looking for and their aspirations for the future. Understand that each individual is unique. Don't assume that all children or relatives are equally suited to leadership – it's important to evaluate strengths, weaknesses and aspirations individually. You as current owner must also be fully transparent about your situation and plans – and, sometimes, be prepared to let go.

Develop a long-term plan:

Observe potential successors in action, involving them in decision-making and gradually increasing their responsibilities. Make sure they have exposure to different parts of the business and include them in financial and strategic planning. This allows for a smoother transition and better preparation.

Formalise the process:

Create written job descriptions, responsibilities and performance expectations. This increases transparency and clarity and also means that progression and leadership is based on merit. Family ties should not override qualifications, aptitude and ability. Where you or others identify gaps in skillsets or knowledge, encourage younger family members to gain relevant education, training or experience.

Create a governance structure:

Clear governance creates the cornerstone for successful succession. Draw up a family constitution that sets out the family's vision, values, roles and responsibilities. Create a family council or board that can act as a forum for discussing business matters, resolving disagreements and making strategic decisions. Also draw up clear policies on remuneration and hiring, including such issues as how and when to employ non-family members, especially in senior positions.

Explore the tax implications fully:

The impact of inheritance tax is increasing, making it harder to preserve value on succession. Detailed planning, with advice from a tax expert, is essential. We will cover this in more detail in the wealth preservation section of this guide.

Employee ownership

When is it suitable?

Transferring ownership of all or part of the business to employees can be an attractive exit option as it aligns the interests of employees with the long-term success of the business. Employee ownership (EO) might come under consideration in a number of different scenarios.

For family-owned businesses, it might be considered if succession within the family is not possible or feasible. In private enterprises, it may appeal to a founder who wants to exit and preserve the company's values and legacy, and to companies generally who have strong cultures and want to deepen employee engagement even further. In both family-owned and private businesses, it may also be attractive as a way of rewarding people who helped build the company into what it has become today.

Another key attraction of EO is that when a controlling stake is sold to an employee ownership trust (EOT) and all legislative requirements are met, no capital gains tax (CGT) is payable on half of the gain – representing a potentially significant saving to the seller.

How does it work?

There are different forms of EO, with the most common model being to create an employee ownership trust (EOT). This is where a trust holds shares on the employees' behalf, giving them collective ownership without the need for individual investment. Other models include direct ownership – where employees own shares personally – and hybrid arrangements which combine direct and trust-based ownership.

To give you an indication of the process, here is a simplified overview of how an EOT is set up:

Establish the EOT: A UK-resident trust is created to hold shares on behalf of employees.

Sell shares to the EOT: The current owners sell a majority stake to the trust, often funded by company profits over time.

Repay the sellers: The business makes contributions to the EOT, which uses these funds to repay the sellers.

This structure allows for a smooth transition, with minimal disruption to operations and no financial burden on employees.

Key considerations

There are a number of important factors regarding EO to bear in mind.

For the owner:

Employee ownership may be a good option if you are focused on safeguarding the future of the business for the benefit of your employees.

It helps preserve the company's original culture and values whilst also giving you a means to sell the business. It provides a structured and gradual exit strategy, often funded by the company's own profits.

You will also typically receive a fair value for the stake you sell, i.e. market value for your shares, with payment spread over time.

For employees:

Being given the opportunity to own a stake in the business – without having to put in any of their own money to do so – can be a fantastic motivator and energiser for staff. Collectively, they already know the business inside-out and understand its culture, processes, customer base and key value drivers.

Employees are usually given a role in governance and decision-making by chosen representatives becoming members of company councils or trustee boards.

Just as there is a strong tax incentive for the owner, so there are strong financial advantages for employees – in an EOT, they can receive up to £3,600 a year annually in income tax-free bonuses.

For the business:

EO can improve business performance – studies have shown that EO businesses often outperform their peers in terms of productivity and profitability.

EO businesses also tend to be resilient, showing stability during economic downturns due to greater internal cohesion and management unity – benefiting from a sense of collective purpose.

It can also help with talent attraction and retention. EO can be a powerful differentiator and have a strong appeal to purpose-driven professionals, attracting them to the business and making them more likely to stay.

Pros and cons

There are many upsides to EO:

- Preserves the legacy and culture of the business
- Less disruptive than other exits as it is an internal transfer
- Owner often has more control and influence over the process
- It can be completed without disclosing confidential information to competitors
- A low effective rate of capital gains tax of 12% is payable on selling a majority stake to an EOT, while there are also tax breaks for employees

However, there are also some potential downsides:

- The value may not be as high as a trade sale
- The cash may be received over a period of time rather than all at completion (holding loan notes that are paid over time)
- The process requires significant commitment and planning on all sides

Tips for success

Employee ownership is attracting increasing interest. Key ingredients to make it work include:

Consider your employee base:

EO will only work if the employees in the business are interested in taking an ownership stake. In particular, you will need a handful of employees to become actively involved by being trustees in the EOT and sitting on a trustee board. This gives employees a voice in governance and decision-making.

Think about governance:

Structures like trustee boards will help ensure transparency and accountability. Make sure the governance structure and processes for the EOT have been clearly defined.

Communication is key:

Setting up an EOT can be complex and raises a number of questions, so make sure you devote sufficient time to planning your communication. Hold meetings with staff, set out the key proposition and let them ask any questions they have. Make sure written communications are both clear and motivational, covering everything that individuals need to know. Employees need to understand what their role will be as owners and be excited about how they can contribute.

Make sure you can afford to wait for full value:

As noted above, you are unlikely to receive full cash at completion. A significant proportion is likely to be paid to you over time. As part of considering all exit options, make sure you have carefully calculated and projected your cash needs at sale and beyond. Get sound financial, tax and legal advice from advisers you can trust.

Management buy-out

When is it suitable?

Exiting or partially exiting via a management buy-out (MBO) is in many ways similar to employee ownership. It is an internal transaction and transition – but this time, ownership passes to the management team rather than the whole employee base.

An MBO can be an attractive option in a number of scenarios. For a family-owned business, as with EO, it may enter your thinking if there are no obvious or interested successors within the family to pass the business to. For privately held companies, it provides continuity if you as owner want to exit or step back and there is a motivated and capable management team with a vested interest in the future of the company who could take up the reins.

An MBO may also be a relevant option in the scenario of a larger private company that wants to divest of one division or holding – passing that part of the business to a management team.

How does it work?

With the support of advisers, the owner and the management team will discuss the size and scope of the deal, i.e. whether the owner will sell an entire stake or make only a partial exit. Once this is agreed, a value is set on the stake to be sold. A valuation may be needed for this.

The acquisition is then financed through a mixture of personal investment (money put in by the management team), bank loans, private equity and sometimes vendor financing (where the seller agrees to deferred payments, only receiving a partial amount on completion).

As with employee ownership, this process should allow for a smooth transition with no disruption to operations and the day-to-day activities of the business.

Key considerations

There are a number of important factors regarding MBOs to bear in mind.

For the owner:

It is obviously key to the success of the whole initiative that the management team is sufficiently capable, experienced and motivated to take responsibility for the running and performance of the business. If external funding is involved from a bank or private equity house, there will be additional pressure on the management team to meet repayment schedules and hit performance targets. How strongly do you as owner believe in the capabilities of your management team?

A common sensitive area in negotiations is over the value of the business. As owner, you may have strong expectations of the sale price, while managers may take a more conservative view. Consider carefully what price you are aiming for and what you would be prepared to accept.

As with EO, you will be very unlikely to receive full value at completion. Run a thorough assessment of your financial position to establish what your cash flow needs will be at exit and beyond.

For the management team:

Raising the capital for an MBO can be challenging. Management teams will most likely lack the personal funds to buy the business outright, requiring external financing. This debt burden places pressure on individuals – so they must be absolutely sure they are prepared to take it on. There will also be a dilution of control of the business if private equity funding is involved.

Team dynamics are another key question. Not all managers may want to participate in the buy-out – increasing the amount that the remaining members must put in. There may be disagreements over roles, responsibilities or equity splits, creating frictions. A cohesive and united leadership team is key to making an MBO work.

It is also important to look beyond the deal itself and create a business strategy for the years ahead, and even perhaps an exit strategy. Without this, the management team may struggle to deliver.

For all parties:

Legal structuring is essential to protect both sides. This includes shareholder agreements, warranties, indemnities and mechanisms for resolving disputes. Tax planning is also critical to avoid unexpected liabilities.

Pros and cons

There are many upsides to an MBO:

- Preserves the legacy and culture of the business
- Less disruptive than other exits as it is an internal transfer
- Owner often has more control and influence over the process
- Highly motivating for the management team
- It can be completed discreetly without unsettling staff or customers
- Various financing options are available

However, there are also some potential downsides:

- The value may not be as high as a trade sale
- There may be disagreements over price, which can be difficult with colleagues
- The cash may be received over a period of time rather than all at completion (holding loan notes that are paid over time)
- The process requires significant commitment and planning on all sides

Tips for success

MBOs are a well-established route to exit that have been successful for all parties many times over in the past. Key ingredients to make them work include:

Start early

If you think an MBO is feasible, begin planning well in advance. Time will be needed to identify and prepare the right team, structure the deal and secure funding.

Be open

You and your management team will know each other very well. In many cases, you may be friends as well as colleagues. Be open and honest in discussions, as this will make it easier for you to negotiate some of the more sensitive topics needing to be agreed.

Communicate clearly

Transparency between you as seller and the management team as buyer will maintain trust and reduce misunderstandings. Clear communication with staff and customers is also important once the deal is complete.

Be flexible on structure

There is no one-size-fits-all with an MBO. Be open to creative deal structures that balance risk and reward for all parties.

Plan for the long term

The management team needs to look beyond the transaction itself to how they will run and grow the business in the future. A robust business plan is needed, including investment in people, systems and innovation to drive sustainable growth.

Trade sale

When is it suitable?

For many business owners, a trade sale may be the natural culmination of years of work and enterprise. It is often the most attractive and financially rewarding exit option: the value received is likely to be higher than with other options, and full consideration will usually be received on completion.

For family businesses, it may not be top of the wish list because a sale will mean the company moving into outside hands. But if there are no suitable family members to hand the business on to, of if you feel that the business as a family operation has run its course, a trade sale may be a logical option.

For the owners/founders of private enterprises, a trade sale will bring a clean break, the opportunity to unlock the equity value you have built, and the possibility of moving onto other ventures or retirement.

There may also be clear potential buyers already operating in your sector for whom an acquisition would make a strong strategic fit. Buying your business could enable them to significantly increase their market share, access new customers, take advantage of intellectual property in your business, and harness the talent and capabilities of your staff and management team. They may be prepared to pay a premium for the synergies and competitive benefits an acquisition will bring.

How does it work?

Be aware that a trade sale could take some time to complete – and also that there is no guarantee of it happening at all.

Commonly, the process will take at least six months from start to finish, although it could be considerably longer.

There is also a significant amount of preparation to be done first – how much is partly up to you, but the more thorough it is, the higher the likelihood of a successful outcome.

In broad terms, the phases of a trade sale are as follows:

Preparation:

There are several layers to this. At a top level, it means ensuring that the formal information a potential buyer will want to see – audited financial statements covering the last several years, tax returns, details of key contracts and customers, details of key fixed outgoings and expenses, details of any bank loans, credit or other debt, any key intellectual property rights, patents and trademarks – are assembled and complete. But it also means thinking more broadly about making your business attractive to a buyer. For example, are your IT systems modern and efficient? Do you have clear operating processes and quality controls? Is there a clear governance framework and company policies covering key areas? Is there training and investment in staff? Does the business have a commitment to ESG and sustainability and what can you show around this?

These are all factors that will take some time to address if there is anything that needs fixing or improving – which is why starting the planning early is essential if a trade sale is your aspiration.

Assembling your advisory team:

You will need various advisers to support you in the process: corporate finance advisers, lawyers to draw up key documents and contracts, tax advisers to structure the deal. Some of these advisers may already have been supporting you in the preparation phase too. This is also the time to discuss with them your value expectations, personal objectives, the type of buyer sought and any red lines for a deal.

Identifying and marketing your business to potential buyers:

Your advisers will prepare a confidential information memorandum (CIM) about the company in consultation with you, draw up a shortlist of potential buyers, and then begin to discreetly approach them. Depending on your appetite, they could also market the business more openly and widely.

Receiving and evaluating offers:

Interested buyers will submit non-binding offers which you can evaluate based on price, structure, cultural fit and strategic alignment.

Due diligence:

If an offer from a third party is of interest, you can give them preferred buyer status. Usually making full information available to them through a secure portal, they will then conduct due diligence, reviewing financials, legal documents, contracts and obligations. This process can be intense, so preparation is key.

Negotiating the sale agreement:

Your legal team will negotiate the sale and purchase agreement (SPA) covering the purchase price and payment terms, warranties and indemnities, non-compete clauses and transition arrangements.

Completion and transition:

Once contracts are signed and funds transferred, the deal is complete. Depending on the agreement, you may stay on for a handover period or exit immediately.

Key considerations

There are a number of important factors regarding a trade sale to bear in mind.

For the owner:

Is your business ready to be put up for sale and in a strong position to attract buyers? You need clean financial records, robust systems, documented processes and a stable customer base. A well-prepared business is more attractive and commands a higher price. There may be things you need to address well in advance of putting the business up for sale – plan ahead.

Valuation expectations are also key. Understanding what your business is worth – and what drives that valuation – is essential. Unrealistic expectations can derail negotiations. Work with advisers to assess valuation based on earnings, assets, growth potential and market conditions.

Buyer fit is another key consideration. Not all buyers are equal! Consider their strategic intent, cultural compatibility and plans for your employees and customers. A good fit can lead to a smoother transition and better long-term outcomes.

Deal structure is another important dimension. Will the sale be all-cash, or will it involve deferred payments, earn-outs (payments dependent on certain future milestones/performance thresholds) or equity in the acquiring company? Each structure has implications for risk, tax and control.

There are multiple tax and legal considerations too. You will need good advisers to help you find the right structuring that protects value and also includes appropriate warranties, indemnities and protections.

Emotional readiness can be another important factor for some. Letting go of your business can be emotionally taxing.

For employees:

How many people will you bring into the circle about the possible deal – and what will you do if news gets out to staff? Careful control of the process is needed.

At the same time, ensure that you prepare a thorough communications plan with contingencies for news leaking. It can be an unsettling time for staff who will have numerous questions, so anticipate what those will be and plan ahead.

For the acquiring company:

Think about the sale from the acquirer's point of view. They will want all key information to be available, and to receive quick responses to any follow-up questions they have. They will want to feel that the seller is being cooperative and open. If this is the case, and a mutually satisfactory price and deal structure can be agreed, the transaction is much more likely to be successful.

Pros and cons

There are many upsides to a trade sale:

- It will potentially give you the highest return of any exit option
- It offers the chance to make a clean exit
- It could open up an exciting future for the business if the acquiring company is a strong player with growth ambitions
- This can be motivational and positive for staff (and customers)

However, there are also some potential downsides:

- There is higher uncertainty with a trade sale and you will have less control of the process than with other exit options
- You need to be prepared for extensive due diligence by the buyer and probing questions
- It is a more public process (potentially) than other exit options
- Staff and customers may be unsettled or worried about the deal
- The process may take a long time, especially if unexpected things happen (including a market downturn or other macro factors)

Tips for success

A successful trade sale can be a fitting reward for all your years of hard work – and seal a strong future for the business you have built. Key ingredients to make them work include:

Start early:

Begin planning 12-24 months in advance to optimise the business, address any gaps and maximise valuation potential.

Know your value drivers:

Be very clear about what makes your business special and attractive. Is it the strength/quality of your products? The depth of your customer base? A lean and efficient operating model? Innovations, IP and use of technology? You need a compelling story to put forward to the market.

Stay focused on performance:

Don't let the sale process distract you from continuing to run the business efficiently. Performance needs to be maintained. This reassures buyers and supports the valuation.

Show that the business can operate without you:

If the buyer can see that the business is not over-reliant on you, and that there is a capable management team in place, this increases the attractiveness.

Stay flexible and resilient:

There will almost certainly be bumps in the road and perhaps even moments when it seems like the whole deal is off. Be prepared for the ups and the downs – and draw support and counsel from your adviser team.

Wealth preservation

Your exit from the business will hopefully secure you financially for all your future needs. But the financial windfall from an exit can erode quickly without careful planning. Preserving that wealth requires a strategic approach that balances tax efficiency, family dynamics and long-term legacy goals.

To do this holistically – taking a full view of your own and your family's circumstances and future plans – there are a number of steps to take:

- **Identify what wealth you currently have** across areas including cash savings, your business, your property, share portfolio, pension and any other significant assets or investments
- **Decide what level of wealth is needed** taking into account your business, family and lifestyle factors
- **Determine if there is a gap** between your current wealth and your required level

In identifying your current wealth, the result may be a wealth summary that captures the full position across your business and personal circumstances. This is a service that PKF Francis Clark provides to many clients.

The wealth summary is a useful tool that prompts discussion across key areas including:

- What are your plans post-exit?
- What level of income do you think you will need when you retire?
- Are you planning on moving and/or downsizing?
- What about your children or dependents – to what extent are you planning to provide for them/leave them an inheritance?
- Are you generally in good health?
- Do you have any big events planned for the future?
- Do you have any current investment advisers?

You may find it helpful to think about this in terms of building your financial pyramid, with each layer bringing you closer to the pinnacle where you can leave a lasting legacy behind.

The importance of early planning

The fact is that wealth preservation is often challenging. This is why careful planning is essential.

Start thinking in detail about this long before you decide to exit your business or you reach retirement age. Begin with the end in mind – where do you want to get to? Completing a wealth summary and comparing it to what your actual needs will be are the starting points for this. You can then begin, with a trusted adviser, to map out key actions to enable you to:

- Structure ownership for optimal tax outcomes
- Prepare heirs or successors for future responsibilities
- Establish protective legal and financial frameworks
- Align your personal and business goals

Navigating the tax landscape

Tax is one of the biggest issues when thinking about wealth preservation. Inheritance tax, capital gains tax and income tax can all take a substantial bite out of your proceeds if not managed carefully.

Inheritance tax in particular is proving an increasing area of concern for family-owned businesses, with changes to tax relief on business and agricultural property in some cases threatening the viability of family succession. Rates of capital gains tax were also increased at the 2024 Autumn Budget.

This makes it even more important to review your estate and future plans, considering strategies such as:

- Lifetime giving to reduce the taxable estate
- Using tax-efficient investment vehicles
- Reviewing pension strategies in the light of changing rules

Trusts and family investment companies

Two of the most effective structures for preserving wealth are trusts and family investment companies (FICs).

Trusts allow you to pass on assets whilst retaining control over how and when they are used. They can protect against divorce, bankruptcy and poor financial decisions by beneficiaries. Trusts also offer flexibility in managing distributions and adapting to future changes in family circumstances.

FICs are increasingly popular for managing wealth post-exit. They enable you to transfer value to the next generation through non-voting shares while retaining control through voting rights and directorships. This structure is especially useful for managing proceeds from a business sale and investing them in a diversified portfolio.

Protecting against risks and the unexpected

Another critical dimension is to take measures to protect your wealth against things that could go wrong in the future. Divorce, remarriage and disputes among heirs, for example, can all threaten your wealth transfer strategy.

This is where mechanisms such as pre- and post-nuptial agreements can be important, as well as documenting all gifts and ownership arrangements. Back this up through open and honest conversations with family members about expectations and responsibilities.

Other key protection mechanisms include:

- Life insurance to cover potential tax liabilities
- Contingency plans for early death or incapacity (including Powers of Attorney)
- Governance structures that allow for future changes

Regularly review your plans with legal, tax and financial advisers to ensure they remain aligned with your goals and responsive to changes in legislation or family circumstances.

Gifting and philanthropy

You can also pass wealth to other family members through gifting – with a tax-free annual exemption covering gifts of up to £3,000.

In addition, philanthropic giving not only makes a meaningful impact for good causes but can be an effective tax planning tool. Gifts to registered charities are exempt from inheritance tax, and leaving a portion of your estate to charity can reduce the overall tax rate on the remainder.

Options you may want to consider include:

- Direct donations to charities
- Establishing a family foundation
- Donor-advised funds for flexible giving

Some business owners and entrepreneurs find that philanthropy becomes part of their overall wealth preservation strategy – helping instil shared values in the next generation and providing a unifying purpose for family wealth.

Energising and empowering the next generation

Planning for the future involves the whole family – and including the next generation in the discussions can be a powerful tool for inspiring them about the path ahead. It helps them think about the future too and what their own hopes and aspirations are. Making good decisions from the start can help ensure that they are ready to manage and grow the wealth you have created.

Involve the young generation in your family meetings and discussions. Look for ways of gradually getting them more involved in the business and/or the wider planning of family affairs, with an incremental increase in responsibilities and ownership.

These measures build confidence and continuity, reducing the risk of mismanagement or disengagement.

Members' voluntary liquidation

When is it suitable?

If your company is solvent and not experiencing financial distress but there is no natural successor or buyer for the business, putting it into members' voluntary liquidation may simply be the most practical and expedient option.

For example, your business may be too dependent on your particular skills to create a realistic sale opportunity. Family members may be uninterested in taking the business on. Your business may have fulfilled its purpose or no longer be needed (a project-based entity). Or ill health or other factors may force you to retire before you've had the chance to develop the business sufficiently to make an alternative exit viable.

There might also be a significant value of assets (including cash) that can only be realised tax effectively through liquidation, which provides a clean and compliant exit strategy.

How does it work?

A members' voluntary liquidation (MVL) is a formal process for winding up a solvent company. The steps involved are structured and relatively straightforward:

- Board resolutions: The directors resolve to put the company into liquidation

- Declaration of solvency: Directors swear a declaration in prescribed form confirming that the company can pay all debts within 12 months of liquidation
- Shareholder resolutions: Shareholders vote to wind up the company and appoint a liquidator
- Public notification: Notice of the liquidation is filed at Companies House and advertised in the London Gazette
- Liquidator's role: The liquidator takes control of assets, settles liabilities, finalises HMRC matters, and distributes surplus capital to shareholders (cash, property, etc)
- Final report and dissolution: Once complete, the company is formally dissolved

Key considerations

There are a number of important aspects surrounding an MVL to keep in mind:

- MVL is ideal for extracting retained profits tax-efficiently
- Business asset disposal relief (BADR) may be available, reducing capital gains tax to 14% (from April 2025) and 18% (from April 2026)
- Be aware that anti-avoidance rules apply: if shareholders resume similar business activities within two years, HMRC may treat distributions as income
- Contingent liabilities, such as warranties, should be addressed before liquidation to avoid complications
- The process can be tailored to shareholder needs, including timing and asset types
- MVL provides a structured and compliant closure, reducing risk and uncertainty
- It allows for capital distributions, which are taxed more favourably than income

Pros and cons

There are a number of upsides to MVL:

- All of the necessary documents would be prepared for you
- Tax-efficient capital extraction for shareholders
- Clean and compliant closure
- Flexibility in asset distribution including distributions in specie (without converting assets into cash)
- Comfort from statutory process and professional oversight

However, there are also some potential downsides or barriers:

- Upfront costs for tax advice to ensure that an MVL will achieve the required aim
- Despite being a solvent liquidation, the process requires the involvement of an insolvency practitioner, with associated costs
- Requires thorough pre-liquidation planning (e.g. settling HMRC matters)
- Requires 75% of shareholders by value to vote in favour of liquidation so may not to suitable if there is a shareholder dispute
- Anti-avoidance scrutiny from HMRC (an application for transactions in securities clearance may be recommended)
- Liquidators will require indemnities from shareholders if a distribution is required before the end of the process

Tips for success

An MVL is a viable exit option for solvent businesses. Key steps include:

- Weigh up all the options - Think very carefully about your situation and consider all of the alternative exit routes that we have discussed in this guide
- Talk to a trusted adviser - If MVL is an option you're interested in pursuing, make sure you find an adviser who is experienced in dealing with the process and can help you work towards the best possible outcome for yourself and other shareholders, as well as any staff who may be affected. At PKF Francis Clark, we have helped countless clients with the process to achieve a tax efficient wind down

PKF Francis Clark

Here to talk

Whether you're preparing for succession or thinking about an exit, our succession and exit planning guide brings together the insights and resources to help you plan ahead.

If you'd like to talk through your options, get in touch with us, **we're here to help.**

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