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SPOTLIGHT ON:

Preparing for a business exit

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HOW TO ENSURE FINANCIAL SUCCESS

Selling or passing on your business is one of the biggest financial events you will ever face. The decision to step away from a company you have built carries significant cash, tax and lifestyle consequences. With the right groundwork, you can structure the deal to meet your goals, move funds into vehicles that match your risk appetite and leave enough liquidity for life after work.

Early preparation also gives you time to resolve any compliance issues, strengthen your accounts and present a track record that attracts the highest possible price. By modelling different deal options now, you can see how each one affects your net proceeds, pension limits and inheritance-tax position. Planning ahead lets you use reliefs that are still available – such as business asset disposal relief and the frozen income tax thresholds – before any future Budget changes them. It also allows your family to understand the financial shape of the transaction and to update wills, trusts and insurance where needed.

This guide explains the practical steps to follow, from setting objectives to investing the proceeds, and highlights the tax rates, allowances and valuation trends that apply in the 2025/26 UK tax year. We hope it gives you a clear starting point and prompts the conversations that will lead to a smooth, profitable exit.

SET CLEAR OBJECTIVES LONG BEFORE YOU MARKET THE COMPANY

Most owners think first about headline price, but three other factors deserve equal weight.

1. **Deal structure**: Will you accept staged payments, an earn-out or a loan-note element? Earn-outs featured in more than 60% of UK small or medium-sized enterprise (SME) transactions reported by BDO during 2024, mainly to bridge price expectations in a volatile market. Staged payments shift risk: you may pay less tax up front, but you rely on the buyer's future performance.
2. **Post-sale income**: Draw up a personal cashflow forecast that covers at least 20 years. Include inflation and remember that the full new state pension is £230.25 a week in 2025/26.
3. **Legacy**: Decide whether you want the business to remain independent, merge with a larger group or become employee-owned. More than 2,250 UK companies are now employee-owned, up from fewer than 150 in 2014, showing the model's growing appeal.

Putting these goals on paper early gives your advisers a clear brief and avoids late-stage disagreements among shareholders.

UNDERSTAND HOW BUYERS WILL VALUE YOU

Private-company acquirers usually apply an earnings multiple – most often applied to EBITDA (earnings before interest, taxes, depreciation and amortisation) – adjusted for non-recurring items. The median EBITDA multiple for UK SMEs rose to 5.4 × in 2024, up from 5.0 × the year before, reflecting stronger buyer confidence. A robust valuation exercise should:

- normalise earnings (for example, remove one-off Covid grants or founder salaries above market rate)
- highlight growth drivers, such as recurring revenue or protected intellectual property
- benchmark the resulting profit against sector peers so that buyers focus on performance, not perception.

In certain instances where EBITDA is not deemed the most appropriate metric, turnover or discounted future cashflows may instead be used.

PUT YOUR RECORDS IN ORDER AND PRE-EMPT DUE DILIGENCE QUESTIONS

Buyers usually ask for five years of data. Common stumbling blocks include deferred VAT, undocumented research and development (R&D) claims and missing employment contracts. Tackling these in advance avoids price chips later and signals professionalism.

Area	Typical buyer question	Pre-sale action we recommend
Revenue recognition	Are sales booked when performance obligations are met?	Align policies with IFRS 15 or FRS 102 and document cut-off procedures.
Tax compliance	Are all HMRC returns filed and liabilities paid?	Download the latest statements for corporation tax, VAT and PAYE from HMRC's online services at least six months before marketing. Having PDFs that show nil or fully reconciled balances reassures buyers that all filings and payments are up to date.
Share options	Do unexercised options dilute value?	Verify that all EMI options remain qualifying and fully compliant: check that the original grant was notified to HMRC on time, that the annual ERS returns up to the most recent 6 July have been filed, and confirm no disqualifying events have arisen. Where a past notification was missed, use HMRC's late-registration procedure or consider granting fresh qualifying options.

A written "data-room index" that lists every file, folder and version helps keep the sales process on track and reduces professional-fee overruns.

KNOW YOUR PERSONAL TAX BANDS AND ALLOWANCES FOR 2025/26

Allowance or band	2025/26 figure
Personal allowance	£12,570
Basic-rate band (20%)	£12,571-£50,270
Higher-rate band (40%)	£50,271-£125,140
Additional-rate band (45%)	over £125,140
Dividend allowance	£500
CGT annual exempt amount	£3,000

Note: Different figures apply for Scotland.

All thresholds are frozen until at least April 2026, which means fiscal drag is pushing more income into the 40% and 45% bands each year. If you expect part of the sale consideration to be paid across two tax years, you may be able to use two sets of allowances.

CAPITAL GAINS TAX ON A SHARE SALE

From 6 April 2025 the CGT rates on most assets are 18% within the basic-rate band and 24% above it. Residential property sales attract the same rates.

Business asset disposal relief (BADR)

- **Lifetime limit**: £1m
- **Rate**: 14% for disposals on or after 6 April 2025
- **Qualifying period**: two years of 5% shareholding and voting rights.

If you expect to make several qualifying disposals, consider whether accelerating one or more completions before 6 April 2026 could save tax. Gains that complete up to 5 April 2026 are taxed at 14%; from 6 April 2026 the Business Asset Disposal Relief rate on qualifying gains within your £1 million lifetime allowance is scheduled to rise from 14% to 18%. Gains that exceed the £1 million limit will instead be taxed at the standard CGT rates (currently 18%/24%). If you expect to realise more than £1 million of qualifying gains, consider whether accelerating part of the sale before 6 April 2026 could reduce the tax on the first £1 million.

CORPORATION TAX STEPS BEFORE YOU ADVERTISE THE SALE

The main corporation tax rate is 25% for profits above £250,000. Companies with profits of £50,000 or less still pay 19%, with marginal relief in between. Practical ways to reduce the effective rate include the following.

- **Full expensing**: A £500,000 qualifying plant purchase made now saves £125,000 in tax at 25%. The cash benefit shows up in headline EBITDA and, by extension, in the deal multiple.
- **Pension contributions**: Company payments cut profits and are exempt from employer national insurance contributions (NICs). A £60,000 contribution costs the company £45,000 net after tax, but credits your pension with the full amount.

Watch associated-company rules if you have more than one trading or property subsidiary; grouped profits can push you into the 25% bracket earlier than expected.

OPTIMISE REMUNERATION AND PENSIONS IN THE PAST TWO TRADING YEARS

- **Annual allowance**: The allowance is £60,000. A taper starts at adjusted income of £260,000 and can reduce the allowance to £10,000.
- **Lump-sum allowance**: You can normally take up to £268,275 tax free after the lifetime allowance was abolished in April 2024.

Bonus or dividend?

The more tax-efficient route depends on your exact circumstances:

- **Corporation tax rate**: A bonus reduces taxable profits, saving corporation tax at up to 25% – but it also incurs employer National Insurance at 15%.
- **Personal tax band**: Above the £50,270 upper-earnings limit, employee NIC falls to 2%; below it, the 8% rate often tips the balance in favour of dividends.
- **Dividend allowance**: The first £500 of dividends in 2025/26 is tax-free, slightly improving the dividend outcome.
- **Cashflow needs and pension strategy**: Salary can be sacrificed into pensions NIC-free; dividends cannot.

CONSIDER A HOLDING COMPANY OR A FAMILY INVESTMENT COMPANY

A UK holding company can receive the sale proceeds free of CGT under the substantial shareholding exemption if it has held at least 10% of the trading subsidiary for one year. You then control the pace at which cash comes out – either as dividends over several years or as a capital reduction subject to CGT at your marginal rate. The structure is also helpful if you want to reinvest part of the proceeds in a new venture without paying tax twice.

A family investment company (FIC) lets you:

- gift non-voting shares to adult children while keeping control of voting shares
- ring-fence growth outside your estate for inheritance tax (IHT)
- pool family wealth in a single, professionally managed portfolio.

IHT AFTER THE SALE

IHT allowanc	2025/26 figure	Frozen until
Nil-rate band	£325,000	April 2030
Residence nil-rate band	£175,000	April 2030

Business property relief (BPR) at 100% applies to shares in an unquoted trading company held for two years, but it falls away once you hold cash. To reinstate protection you can:

- buy AIM shares that qualify for BPR (higher risk)
- invest in enterprise investment scheme (EIS) shares or a venture capital trust (VCT)
- settle cash into a discretionary trust and survive seven years.

The Autumn Budget 2024 confirmed that from 6 April 2026 the 100% rate of BPR will be limited to the first £1m of combined business and agricultural property. Anything above that limit will qualify for relief at 50%. If your estate includes trading shares or other qualifying assets worth more than £1m, consider completing transfers or restructuring before 5 April 2026 while full relief is still available.

MANAGE THE PROCEEDS SAFELY AND EFFICIENTLY

1. **Bank security**: The Financial Services Compensation Scheme covers £85,000 per person per banking licence. Split large balances across several institutions and consider National Savings & Investments for further protection.
2. **Quick diversification**: Move surplus cash into short-dated gilt funds or Treasury bills while you design a long-term portfolio. Gains on gilts are CGT-free for individuals.
3. **Tax shelters**: Fund ISAs (£20,000 each per tax year) and top up pensions if you still have annual allowance space.

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KEEP AN EYE ON MARKET ACTIVITY

- The Office for National Statistics recorded 316,000 business births and 309,000 deaths in 2023, the slowest net creation since 2010.
- Buy-side appetite remains strong for established, profitable firms, reflected in the 5.4 × median EBITDA multiple noted earlier.

Fewer startups and the higher cost of new debt mean strategic buyers often prefer to acquire rather than build, which supports pricing for well-run companies.

EXIT TIMETABLE: SUGGESTED MILESTONES

Months before exit	Action and detail
36+	Agree objectives; benchmark valuation; check share options; identify potential successors inside or outside the business.
24	Launch tax health-check; ensure you meet the two-year BADR and BPR holding periods; tidy working-capital policies.
18	Optimise remuneration; settle director's loan accounts; consider pre-sale capital allowances claims.
12	Build electronic data room (contracts, property titles, IP registers); prepare detailed five-year forecasts.
6	Negotiate heads of terms; request HMRC clearance for share-for-share exchanges or de-mergers if relevant.
Completion	Finalise sale and purchase agreement; confirm proceeds routing into pension/FIC/holding company.
Post-sale	Implement investment strategy; update wills, lasting powers of attorney and shareholder agreements.

NEXT STEPS

An exit is not just a transaction; it is the point at which years of effort turn into capital that must support the next stage of your life. By starting the process two to three years out, you give yourself time to optimise tax reliefs, improve valuation metrics and build a post-sale investment plan that matches your goals. If you are even thinking about a sale within that horizon, please contact us for an exit-readiness review. We will map out key dates and make sure every pound of value ends up where you want it – working for you and the people who matter to you.

Contact us for help securing a straightforward sale and a strong financial future.

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