

Limited companies – Exit Strategies

Introduction

This is the last in my series of articles on incorporation. In my previous articles I covered some of the vital aspects of incorporation. In my first article, I introduced you to the concept of incorporation, its advantages and disadvantages. In the second article, tax efficient methods of transferring assets of your dental practice to the new limited company were discussed. In my third article, routine administrative tasks as a director were highlighted together with tax efficient profit extraction strategies.

In this article, I will discuss exit strategies that are available for you. It is important to know your exit strategies well in advance – ideally when you first start your business. This will enable you to determine the course of your business and the most tax efficient exit strategy.

Right time to quit and why you should quit?

Many of you will think why “I should quit from a business that I have worked so hard to build?” But as you know every good thing should come to an end, and this does not exclude your business. However, if you plan it well, and quit at the right time, then you can really look forward to a comfortable retirement!

For many, the most common reason to quit business is reaching natural retirement age. However, in my opinion this shouldn't be the case.

Ideally you should quit when your business is in one of the peaks of many business cycles that you'll encounter during your tenure. Obviously the value for a potential buyer is very high when your business is performing really well.

Exit Strategies

Here I will discuss a few exit strategies. Of course each will depend on exact circumstances of the owners and the business. The following are some of the exit strategies available for you.

A) Transfers of ownership by way of a share transfer

Your ownership of the “limited dental company” is represented by shares. If you are the only shareholder, then you have a 100% stake in the company. If there are many shareholders obviously your stake will be less than 100% and will be determined by the amount contributed. Usually a share has two values, the book value of the share and the real market value. Market value is hugely influenced by current performance of the business and its future potential.

When it comes to a transfer of ownership, you will sell your stake, represented by shares in the company, to a potential buyer. Therefore, if you sell your stake at the right time as mentioned above your return can also be high.

However, if the value of your shares has grown over the years you'll have to pay capital gains tax on the profit that you made. This again will be determined by the approach taken in transferring business assets. If you can remember, had you transferred your assets by way of a gift or at under value, the book value of the share that you own can be nominal and hence on disposal, at market value, will attract more capital gains tax.

You also have the option of partial transfer, where you will dispose only a part of the shares that you own. This approach can reduce your capital gains tax since you can make you use annual tax free allowances etc.

Under this option, the company will continue into the future under new management.

B) Liquidation

Most of the dental companies will be classified as small companies since revenue can possibly be less than £300,000. Small companies can voluntarily wind up by applying to the Registrar of companies. To do this, the majority of directors should apply in the prescribed form to the Registrar. This will allow the Registrar companies to strike off the company from the register having satisfied the required procedure.

Before making the application, company directors should make sure that all debts and assets are realised and loans and creditors are repaid. Any excess money can be distributed amongst the directors in proportion to their shareholdings. The monies received by directors will be treated as income in their self assessment tax return.

The above is basically voluntary liquidation. However, in certain circumstances a company will be forced to liquidation due to non ability to pay debts.

The above two are the most common exit routes available. One of the advantages of forming a limited company is that the transfer of ownership is relatively straight forward and easier.

Another aspect worth mentioning here is if you chose not to extract the full amount of profit made by the company on a yearly basis, by way of a dividend or salary, the company's profits would have got taxed only at 19% (assuming it's a small company). Now if you wish to wind up the company, by way of a voluntary liquidation, then any such accumulated profits can now be extracted only after a further tax charge of 10%, effectively reducing taxes paid, over a long period of time, especially if you were in a higher income tax bracket as sole trader or partnership dentist.

Conclusion

The above highlights the importance of planning your exit strategy in advance. Depending on the strategy that you wish to adopt, the tax planning opportunities can vary. Of course it is not wise for me to suggest that you should determine your exit strategy from inception of your limited dental company and strictly follow that! Needless to say, business circumstances change over time and accordingly you'll be forced to realign your exit strategy.

However, if you are aware of the options available then you can always make informed decisions.

With this my series of articles on incorporation comes to an end. Though very concise I hope they have given you some insight into incorporation. Should you need any further clarifications or need specific advice we will be more than happy to help you.