

Business Succession

Succession strategies and how to maximise value

Tuesday 10th May 2011



not your average *Bean* counters

Overview

Succession strategies.

Basics of Valuations.

Improving Value.

Minimising tax.

Q & A.

Types of Succession

Retirement

Family transition

Management Buy-Out

Trade Sale

Management Succession

Shareholder Transition

not your average *Bean* counters

Value

What is value?

Fair Market Value

Fair Market Value

- **the price that would be negotiated between**
 - knowledgeable & willing but not anxious buyer &
 - knowledgeable & willing but not anxious seller
- **in an open and unrestricted market**
- **acting at arms length**
- **within a reasonable time frame**

Value

What is value?

Fair Market Value

Value v Price

Business v Entity

Valuation Methodologies

Capitalisation of Future Maintainable Earnings

Cashflow based

Discounted Cash flows

Business Value = FME / cap rate

FME

(Future Maintainable Earnings)

Past only an indicator of future

Normalise

Related Party Transactions

Commercial Remuneration

Unencumbered Basis

Cap Rate

Inverse of Cap Multiple

Start with Risk Free Rate

Required Rate of Return

Risks / Threats

Opportunities / Strengths

What ROI would you require?

Business Value

FME / cap rate

Goodwill is excess of Business Value over the net assets required to run the business

Rule of Thumb Valuations

Entity Value

Identifiable Intangible Assets
Working capital requirements
Funding / Liabilities
Surplus Assets

**What are the key drivers
of value in your
business?**

**How then can we improve
the value of your
business?**

Improving Value

Increase FME

**Increase Cap Multiple
(Reduce Cap Rate)**

Proof

Business Value = FME / Cap Rate

\$150,000 = \$75,000 / 50% (2x multiple)

\$400,000 = \$100,000 / 25% (4x multiple)

Strategies to Improve FME

not your average **Beer** counters

Increase sales (incentivise)

Reduce stock holding

**Reduce unnecessary expenditure
(forgo the tax deduction)**

Don't deal with loss making customers

Maximise staff productivity

Review depreciation rates

Isolate directors benefits

Strategies to Improve Cap Rate

Reduce Risks – Prepare a Risk Review.

Reduce Reliance on Key people – especially the owners.

Systems and Procedures – document.

Reduce Reliance on key customers & suppliers.

Protect your IP – register.

Strategic Plan – blue sky does sell.

Lock in key staff.

Corporate Governance

**Correlation between good governance
& a valuable business.**

Board Meetings.

Advisory Board.

**Separation of private wishes from the
corporate good.**

**Now we have maximised
the value of your
business -**

**how do we minimise tax
and maximise after-tax
value?**

Minimise Tax

Income Tax

Retained profits

Capital gains tax (CGT)

Small Business CGT Concessions

Stamp Duty

Super Strategies

Advantages of Super

Self-managed super?

Small Business CGT Concessions

Accessing Super

Retirement or new venture?

Investment strategies

Sale of Business

Capital or Revenue Account?

50%, 25%, 0% or 100% Tax

Sale of business or sale of shares?

Restructuring for Sale (just before sale?)

Contract terms – apportionments

Sale to Family – no cash paid!

Sale of Business

**Vendor finance or delayed payments
(Earnouts or Clawbacks)**

**Accessing sale proceeds
(when does tax stop?)**

Company v Unit Trust v

Discretionary Trust v Individual

Concessions!

50% CGT discount

50% Active Asset discount

Small business rollover – 2 years +

Retirement exemption – Super

15 year exemption

Superannuation – SMSF

Concessions!

Tax deferral (how far can it go)

30% v 46.5%

Personal low rate thresholds

Stamp duty savings – take a cut

GST impact – funding or not claimable

Tax savings – cash in hand?

not your average **Beer** counters

	Revenue \$	Capital \$	Concession \$
Net sale proceeds	1,000,000	1,000,000	1,000,000
less:			
50% General CGT Discount > 12 months	-	500,000	500,000
	1,000,000	500,000	500,000
less:			
50% Active Asset discount	-	-	250,000
	1,000,000	500,000	250,000
less			
Retirement exemption	-	-	250,000
	1,000,000	500,000	-
"Taxable Income"	1,000,000	500,000	-
Tax Paid @ 46.5%	465,000	232,500	-
Cash in hand	535,000	767,500	1,000,000

What else should you be thinking about?

Legal Structure

Wills & Estate Planning

Retirement Plan

Investment Strategy

Questions?

Business Improvement Services

Accounting & Tax Services

Superannuation

Complex Tax

Audit & Assurance

Estate Planning

Valuations

Litigation Support

Probity Services

Real Estate Industry Services

Indigenous Business Services



Thank you

Please join us for drinks and nibbles!

**Slides will be available at
www.uhyhnbrisbane.com.au.**

Please complete feedback form.

**Upcoming Seminars:
Year End Strategies for Super**



not your average *Bean* counters