Baby boomer business boss blues

The golden years beckon for many business owners but retirement is a complicated process

Ben Harvey

Anyone who has ever owned a small business knows how gruelling it is. Even if you take out the stress of managing staff (if you are lucky enough to have any) and keeping on top of endless red tape, that feeling that the wolf is always at the door is draining.

Which is why *Your Money* salutes the quiet engine room of the WA economy. There were 218,798 businesses registered in WA last year, according to the Australian Bureau of Statistics. Of these, 211,658, or 97 per cent, were considered small businesses.

The resources companies grab the headlines but small business is truly the lifeblood of WA's economy.

The baby boomers who built these businesses over the past few decades are starting to feel the need to plan their retirements.

For salaried employees, retirement is complicated enough. But, as MLC's John Owen says, the red tape that haunted small business owners through their working lives will likely also make retirement difficult.

Selling your business and investing the proceeds in your nest egg is complicated.

"The earlier you plan for the sale of your business, the more value you are likely to gain," Mr Owen said. "Selling a business can take up a lot of your time but so can addressing the day-to-day demands of running your business. Trying to do too much of both at the same time can mean you don't manage either properly."

Tax is the primary issue which needs consideration.

"When you sell your business, you may be eligible to claim certain capital gains tax (CGT) concessions," Mr Owen said.

"For example, you may be able to disregard 100 per cent of a capital gain made on the sale of your business if you have owned the assets for a continuous period of 15 years or more, are at least 55 years of age, and are disposing of the asset for retirement purposes or are permanently incapacitated."

If you don't meet those conditions, there are other concessions that you may be eligible to use to reduce any taxable capital gain on the sale of your business.

Maximising your superannuation contributions is the next issue to be addressed.

"If you are like many small business owners, you have probably used most of the profits from your business to service debt and/or fund the next growth stage, which means you may not have been able to make further contributions to your super," Mr Owen said.

"Fortunately following from the sale of your business, there are strategies that you may be able to use to get some or all of the sale proceeds into super and generate a tax-effective income to meet your living expenses in retirement.

"Depending on your circumstances, you may be able to contribute up to $1.395 million from the sale of your business into super in 2015-16. What's more, the money won't count towards the concessional or non-concessional contribution caps that would ordinarily apply when contributing to super."

Mr Owen urged small business owners to consider:

- Unwinding or reassigning business insurance policies, such as those for funding a buy-sell agreement.
- Paying off business loans and releasing guarantees.
- Dealing with business property that may (or may not) have been held in a self-managed super fund.
- Reviewing personal insurance needs to ensure cover is suitable.
- Making any changes that may be needed to update your estate planning.

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WHEN FAMILY MATTERS

WA Small Business Commissioner David Eaton has urged the many small businesses that are family owned to consider succession planning.

"It's estimated that around 70 per cent of all businesses in Australia are family businesses, with the wealth of the sector estimated at $4.3 trillion," he told *Your Money*.

According to a 2013 survey, two-thirds of family chief executives were aged 50 or over, of whom nearly 20 per cent were 65-plus.

Mr Eaton said 81 per cent of owners intended to retire in the next 10 years but only a third considered themselves exit or succession-ready.

"In the past, sons or daughters would enter the family business but today it's estimated only around 40 per cent will," he said. "Selling the business, or simply closing the door are now often the only alternatives.

"If the succession plan is for family members to take over the business, there may be issues of training and experience to consider.

"Will the younger generation coming into the business need managerial or other skills training before they take over? Inducting a son or daughter into the business should include time spent working at various tasks within the business as well as a trial at the helm while the business owner is on holiday or away from the business."

Mr Eaton said that for any type of business, succession or exit planning should start very early in the life of the business, with first considerations being:

- Choosing the most appropriate business structure.
- Choosing an appropriate business name that can be sold with the business (consider the repercussions of using your personal name as the business name).
- Ensuring the business is professionally run and does not rely on just one, or only a few, key people.

If the business is owned by more than one person, agreements should be put in place, setting out the process and valuation method in the event that one owner wants to sell, when the other does not, Mr Eaton said.

It may also be important to consider insurance to fund a buy-out by one of the owners in the case of death or incapacity of the other.

"The timing of selling is also very important," he said. "The implications of any capital gains tax, and what to do with the proceeds, for example making additional superannuation contributions, are considerations to be made prior to the decision to sell."

David Eaton

David Andrew's 10 tips for selling a small business

1. Get the right people

Your first port of call should be your accountant and you have probably been working with someone for an extended period of time. In some cases the accountant may not be in a position to advise you because it is not their area of expertise. It is very important to find an adviser who has this experience and who is up to date with capital gains tax matters. Next, you need an experienced commercial lawyer who will be able to work with your accountant to make sure any property and legal issues are dealt with properly. The right sale agreement will ensure you get all the tax breaks you are entitled to. The next person you should consult is your financial planner to make sure all of your assumptions are right about how much money you will end up with for retirement after the sale. It is best to ensure that your savings are adequate for the plans you have before the sale process begins. The best outcome happens when all three work together.

2. Getting your business sale-ready

You may need to do some work to ensure your business is sale-ready. Ensure tax returns are up to date, employee entitlements are funded and your legal structures are sound. Between you and your accountant you will probably make up a checklist of the things that need to be done before presenting the business for sale. This may include practical things like cleaning out yards, storerooms and archives so that your premises and records are presented in the best way possible. You will need to prepare financial forecasts to give a realistic and sensible outlook for the business.

3. Valuing your business

Your accountant will be able to help you here and will probably begin by giving you a back-of-the-envelope guide to what your business is worth. By getting an independent business valuation you will establish a range of expectations of what you might receive for the business. The valuation may also point to areas where you can improve the sale price by making the right changes. If you own the property your business operates from you will need a valuation on the land and buildings too. Often a buyer is interested in the business but not the land and buildings, so this becomes an opportunity to negotiate with the buyer to lease the property from you in the long term.

4. Get the right tax advice in advance

Under Australian tax law the capital gain on the sale of an asset is subject to capital gains tax. Most people are aware that if the asset has been held for 12 months, a 50 per cent discount applies. Selling a small business can be even better. To access the small business CGT concessions you need to be selling an asset that is "active" (used in operating the business) and the owners of the business have less than $6 million in net assets. If you meet the Australian Taxation Office guidelines you may be entitled to:

- **15-year exemption:** If the business has owned an active asset continuously for over 15 years and you are retiring, you may not have an assessable gain.
- **50 per cent active-asset reduction:** You may be able to reduce the gain on an active asset by half in addition to the 50 per cent reduction for owning the asset for over 12 months.
- **Retirement exemption:** If you are over 55 years the capital gain from the sale of an active business asset may be exempt up to a lifetime limit of $500,000. This amount may need to be paid into a complying super fund depending on your circumstances.
- **Rollover:** If you sell an active business asset, you may be able to defer CGT for two years or longer if you buy a replacement asset within a defined time frame.

5. Appointing a selling agent

When it comes to selling our home, most people use an agent. Selling a business is similar. Business brokers work on the same basis as real estate agents and there are several reputable business brokers. Ideally you will interview several and ask each to present a proposal. A starting point may be the Australian Institute of Business Brokers or the Family Business Association. For larger family businesses, the big accounting firms may be an option. While you may be put off initially by the perceived cost there can be a real upside. "Larger family businesses can be very attractive to interstate and sometimes international buyers so it is important to ensure the business is marketed very carefully to the right potential buyers and markets," KPMG partner Greg Evans said. Where a WA business in the same industry becomes available, it can be an opportunity to create a national network so they will pay a premium, Mr Evans said.

6. Negotiating the sale

Thankfully this is where your business broker or business adviser does most of the work. They enable you to be one step removed from the negotiation and their objectivity should make it easier to bring the buyer and seller together so that a sale can happen. The best outcome for the seller is for the broker to create a bidding contest between several interested parties.

7. Legal contracts

Once an agreement is reached you may need a lawyer to draw up the sale contract. It will be important that the lawyer works with your accountant to structure your sale agreements to gain maximum tax benefit. For smaller businesses the sale is often done by offer and acceptance, much like selling a home. Your business broker or adviser will help with this but take care of your tax position. Trying to cut costs in this area may be an expensive mistake.

8. Due diligence

Due diligence refers to the period of time the buyer has to look closely at the business, review the accounts and ensure the business is just as you have represented it during the sale process. This is where any 'padding' of the figures or issues will be uncovered so always deal with the buyer in a transparent way. This can be an unsettling period for your employees as the new people will be in and around the business, asking questions and forming their own view of the business. It is important to speak with your employees to ensure they are aware of what is going on.

9. Handover

Handover is an important time. It is when the new owners come in and take the reins while you are there to show them the ropes, introduce them to suppliers and customers and your former employees. This can be frustrating but done well it sets the business up for continued success under the new owners.

10. Creating your ideal life

Life after running a busy business may be quite an adjustment if the business you have just sold represented countless hours of work and was a source of personal pride. While the money sits in the bank you may experience feelings of regret or just be at a loose end. You've got the time and you've got the money so what's next? This is where you need a plan for the next stage of your life and a values-based financial planning firm will be able to help you identify your real goals and priorities and build a roadmap for the next stage of your life. This may include plans to help your family, plans for health, travel and any other aspect that matters to you. When all is said and done, transition out of your business and into retirement is a major step. It is the crowning achievement for a business owner to see their business continue on under the careful guidance of the new owners. By getting it right everyone wins: the new owners, your employees, customers and suppliers. What could be better?

David Andrew is managing director of Capital Partners