

Succession Planning: Facing the future

What you need to do?

Draft your exit plan in your own words, explain and discuss it with those affected and instruct suitably qualified and experienced professional advisers to help implement your plan in a tax efficient way to retain family wealth.

It's a question that all park owners have to face: how are we going to pass on the caravan park when it is time to move on?

Succession planning is fundamental to the success of a business, almost as critical as anticipating cash flow needs or turnover. If this is poorly managed, the value built-up in a business over years can be lost, along with the family's wealth.

The benefits of getting it right

Knowing exactly how, when and to whom ownership will be transferred is the best way to maximise your returns and ensure the ongoing success of the business.

Transferring ownership can be highly emotional and complicated, which is often why it is ignored until it becomes a pressing issue, such as when an owner becomes ill or too old to continue running the business.

Good succession planning involves owners considering the three options: selling up, family buy-out or passing it on.

Selling-up

Choosing to sell the caravan park can be the most difficult decision for owners who've invested so much to build their business. That decision is made more difficult in the current market where there are fewer buyers and lower prices. Nevertheless, good prices can still be achieved for parks with a record of strong sustainable income – which will hopefully be enough to satisfy the aim of having sufficient retirement income and wealth to pass to the next generation. And, when there are no children who want to take over the business, a sale may be the best exit.

When selling a business, the immediate concern is capital gains tax. The current rate of 18 per cent may seem low relative to income and inheritance taxes, but it can give rise to a substantial bill that may have been reduced by planning ahead. Planning allows you to consider what tax reliefs are available, a point that is likely to become more important as some believe that the rate is set to increase. Greater care and planning maybe required if the park is corporately held.

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Family buy-out

A family that has owned a company for two or three generations has a legacy that they are typically enthusiastic to continue. One way to realise the value of your caravan park while keeping the business in the family is through a family buy-out.

While the acquisition market is stalling, a family member with a substantial equity stake and a track record of delivering sustainable revenue is more likely to raise finance.

A stumbling block to this exit route can be that family members fail to agree a price. To ensure a smooth succession, an independent valuation and an acknowledgement that, in the current market, this might be the best price available, is important. When the family owns more than one park, the solution can be to split the business. Here again planning for both buyers and sellers can maximize the after-tax wealth retained by the family.

Passing on the business

There is a strong desire among park operators to pass the business down to the next generation. If this is the aim then the first step is for the current owners to set out how they want to devolve their wealth including the business. An essential ingredient of the plan must be a desire by the successors to carry on the business. It is important to explain the plan to the beneficiaries, as this can reduce tensions and keep them motivated.

Good tax planning is also important. You will need to assess whether your business is likely to be eligible for business property relief from Inheritance Tax, put in place appropriate wills and consider the use of Lifetime giving to reduce the impact of Inheritance Tax. Professional advice is required to ensure that the total tax bill is minimised.

This is a brief overview of succession planning. Please ensure that you obtain specific professional advice from a professional accountant before you take any action or refrain from action.