A report from Goodbody and AIB Capital Markets

What's your plan?

Business **exit** planning and **succession** in Ireland | **2023**

Important information
The information in this publication is based on tax law as at 31 December 2022. It is for general guidance on matters of interest only, and does not constitute professional advice. Nothing in this document constitutes investment, legal, financial, accounting or tax advice and does not confirm that a strategy is suitable or appropriate to your individual circumstances or otherwise constitutes a personal recommendation to you. Recipients should always seek independent tax and legal advice. Goodbody and AIB Capital Markets do not guarantee the reliability of the information provided. Goodbody, its servants or agents accept no responsibility for any loss arising from any action taken or not taken by anyone using this material.

WHAT'S YOUR PLAN?

Five steps to a successful succession

The importance of planning rather than plans

Why owners can benefit from developing a formal exit strategy, long before the prospect of exiting presents itself, to maximise exit proceeds.

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Balancing the books

Irrespective of your exit plan, there are new material benefits in relation to pension structuring that owners should be taking advantage of.

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Getting your ducks in a row

Understanding the tax implications of different exit strategies can make all the difference to the outcome for you and your family.

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When the moment comes

If you are considering an exit from a business that you have spent much of your life building, getting the transaction right is key to ensuring you maximise the value on exit.

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Time for an afterparty?

Spending time on post-exit wealth planning is key to ensure that any exit proceeds can be protected and enhanced to support your next move.

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This report includes market research conducted on behalf of Goodbody and AIB by Behaviours and Attitudes (B&A).

An online quantitative survey among current and prospective Goodbody and AIB business-owner clients was conducted by B&A.

This research aims to provide original intelligence around business succession plans with a focus on the following aspects:

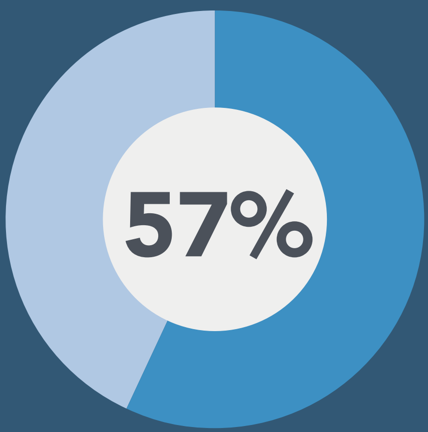
- Pre-exit planning: Perceived importance of planning, estimated timeline, reasons for lack of plan, actions taken;
- Exit path: Familiarity with options, obstacles;
- Life after exit: Incidence of determining income required, and personal financial plan;
- Advisers: Incidence and most trusted.

The fieldwork was conducted from Monday 9 January to Wednesday 22 February 2023. The sample size was N=195 with margin of error at 95 CL +/-7%.

Any case studies in this report are based on real-life stories. However, the names associated with them have been altered to protect the identities of the individuals and ensure confidentiality.

METHODOLOGY

KEY FINDINGS FROM OUR SURVEY



owners intend to **exit within 5 years**

Just **15%** have a **formal succession plan** in place

Top 3 reasons for not having a plan

1. No plan to exit
2. No obvious successor
3. Don't know where to start

Tax is the most important driver of exit decision making

Less than half have a leadership succession management plan

1 in 3 are planning to start another business after exit

Welcome.

AIB Goodbody

MARTIN TORMEY
CEO, Goodbody

JOHN DELAHUNTY
Co-Head of AIB Corporate Banking

GLENN SHANLEY
Co-Head of AIB Corporate Banking

PAT HORGAN
Head of AIB Business Banking

Most entrepreneurs have spent an enormous amount of energy growing their business. They may have sacrificed time with their families, faced financial hardship, struggled to navigate complex legal agreements, and had to manage diverse workforces. In short, almost all of them will have faced exceptional demands.

Business owners often focus on making the company a success and they rarely give any thought to succession until they're ready to move on, and some haven't taken steps in time to protect themselves or their families financially.

Exiting the business is one of the most important personal and professional decisions any entrepreneur can make, so it needs to be handled sensitively and seamlessly. Goodbody and AIB Capital Markets have a wealth of experience helping owners prepare for the exit and maximise value extraction, so we have put together this report using feedback on your own exit readiness. We believe in the importance of planning so we want to arm owners with information and practical tips to be aware of and to action where appropriate, whether your business exit is on the horizon or a little further into the future.

We have formed a Succession Advisory Team that includes M&A and tax specialists and wealth planners because it allows us to offer business owners a coordinated one-stop advisory service across all aspects of a potential business exit. We want to focus on optimising personal and corporate financial readiness for business owners considering a transition. Whether your exit is in the distant future or more pressing, please get in touch to see if we can help.

Our experts will be hosting a series of workshops in the coming months that will explore the themes outlined in this report. We hope to welcome you at these events.

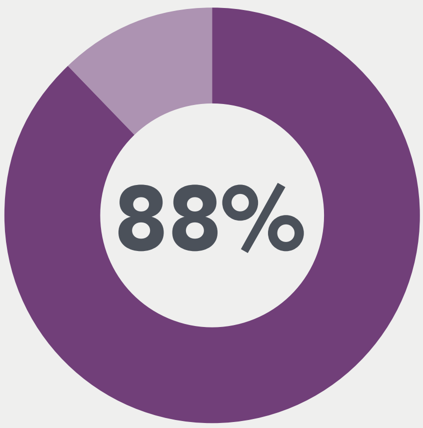
Five steps to a successful **succession**

The importance of planning rather than plans

KEY TAKEAWAYS

- Owners can maximise the value of their business by developing a formal exit strategy long before the prospect of exiting presents itself
- Owners should look at how their business is structured – the impact on value extraction can be significant
- Financial planning advice is paramount in any succession process, for your corporate balance sheet as well as your personal balance sheet

SURVEY FINDINGS



have considered their **personal financial needs** post exit

56%

cited **retirement** as their **#1 exiting goal**

15%

of owners have a **formal exit plan** in place

As advisers to business owners, we believe entrepreneurs should have a good idea of how they intend to exit the business from the early days of its life, but most owners don't think about their exit strategy until much later.

Business owners love their work and channel that passion into everything they do. They also value their autonomy and take pride in building a successful organisation. The work is often challenging but it can be extremely rewarding.

In our experience, business owners focus on these core drivers rather than exit planning, and our survey results support this hypothesis. However, thinking about your exit early can help with tax, value extraction, pension funding and enhancing value. Given that the sale of your business could create significant personal wealth, any oversights that reduce its value need to be addressed.

The time that companies spend planning varies hugely. Larger companies with strong governance structures tend to have a number of scenarios mapped out well in advance but that level of granular planning can be more challenging for small and medium-sized businesses. The aftermath of external events like Brexit and Covid in recent years has driven more owners to consider exit planning, and we have seen an uptick in those seeking advice on how to package their business for sale.

Succession and exits can, of course, take many forms but tax considerations come to the fore in any transaction because the 33% rate of capital gains tax (CGT) can apply to any gains that are not covered under whichever tax reliefs are applicable.

Exits usually don't happen in the way owners or their advisers expect. The trials of life – which are often distilled to death, disease or divorce – can complicate matters, while potential buyers can also create hurdles. Some owners suddenly find themselves in a position where they need a quick sale but the business isn't in the right place. How prepared are you to sell in the next five or 10 years?

How is your business structured?

The first step in an exit plan is to understand how the owner or owners can extricate themselves from the business when the time comes. Examining how the business is structured is vital when considering how to extract wealth as tax efficiently as possible. If the business is incorporated, do you have one trading company or a holding company of a trading group?

Having a group that qualifies for group relief can make sound financial sense but some owners do not take advantage of this option.

By setting up a holding company, grouping confers material tax advantages on the organisation, especially around the timing and flexibility of profit recognition and distribution. If certain conditions are met, holding companies might also benefit from a CGT exemption on the sale of shares in any trading subsidiary. It's important to note that some tax reliefs, such as entrepreneur relief, are not available when there is a dormant company in the group or one of the companies isn't a trading company. Reviewing your structure and assessing potential pitfalls is therefore essential.

In the early stages of exit planning, owners might consider a share sale or asset sale. In a share sale, the target company is unaffected as all assets and liabilities remain part of the company and the shares transfer to the buyer's balance sheet. In an asset sale, a buyer would acquire some or all of the assets, undertakings and liabilities onto their own balance sheet.

Share sales are generally more popular because employees, assets and liabilities pass automatically, and customer and supplier contracts usually remain with the company. In some cases, the sale of assets makes more sense because the seller wants to retain assets that they value, but this can attract CGT on the sale of an asset while shareholders can also pay tax if they extract funds from the company. Getting early advice is important because restructuring the business before exit can help both the business and the owner reduce these tax liabilities.

What is the business worth?

Even if you have no intention of selling in the immediate future, knowing the value of your business is an effective management tool. It provides a baseline for negotiation, gives you a perspective on price, and may even help you identify ways to increase its value before a potential sale. However, only a third (32%) of respondents to our survey have had their business valued in the last year.

The prospect of selling raises many other questions: what is the right price? Who is the right buyer? Is now the right time? How will I reward my employees? What about my family?

We specialise in helping owners make sound financial decisions while also advising them on the evolution of the business itself. This allows owners to form a clear picture of what they need in place for themselves and their families while developing and executing plans for the business. Transferring wealth from the corporate balance sheet to the personal balance sheet through tools such as pension structuring and tax planning can maximise the potential of exit proceeds and should not be overlooked.

Other stakeholders will also need to be considered when planning your exit. The quality of management and the overall workforce is vital to the success of a business and can easily affect its value. Whether you are looking at a trade sale, merger or private-equity transaction, the level of involvement and incentives in place for management are crucial to getting the transaction right. This is especially true in a private-equity-backed management buyout where the interests of the owner and management may not always align. Similarly, where succession planning revolves around family and the next generation, conflict can arise where there is a lack of a defined and well-communicated plan.

Credible succession planning can be a core consideration in funding decisions from both the perspective of the lender and borrower in M&A scenarios. Where businesses have a reliance on key individuals who are integral to the long-term performance of a borrower, for example, it is vital to see what contingency plans are in place should those key people leave. The prospect of selling raises many other questions: what is the right price? Who is the right buyer? Is now the right time? How will I reward my employees? What about my family? We occasionally speak to owners who knew from the start that they would sell when the business reached a certain size but, for most, exits are more opportunistic and offers often materialise unexpectedly.

When an entrepreneur has devoted enormous time, energy and passion to growing their business and generating revenue, letting go is never easy. As corporate advisers and wealth managers, Goodbody and AIB Capital Markets partner with many business owners over the long term, so we're very familiar with all the financial and emotional complexities of exiting a business.

We believe that owners should have their exit in mind from the beginning because it's better to have a plan and not need it than to need a plan and not have one. With proper planning, you can cater for most eventualities and you'll be in the best possible position when the time comes to leave the business.

> "Holding companies may benefit from a CGT exemption on the sale of shares in a trading subsidiary but some tax reliefs are not available when there is a dormant company in the group or one of the companies isn't a trading company."

Succession planning tips from our experts

While business exits rarely come as a complete surprise to their owners, not everybody is fully prepared when they come along! Here are some of the top tips from our advisers in AIB Capital Markets and Goodbody.

1

Preparation

A good sales process should anticipate buyers' potential concerns and due-diligence requirements, allowing momentum and competitive tension to build throughout the process.

2

Early engagement with lenders

The depth and volume of information required is generally commensurate with the size and complexity of the deal but early engagement will ensure you know what information will be required to progress a transaction.

3

Founder dependency

Over-dependence on a business owner looking to exit can raise issues in diligence – ensuring there is an experienced and broad management team can mitigate this significantly.

4

Shareholder objectives

Key shareholder objectives such as their level of involvement in the business post-transaction should be addressed early in discussions with buyers because this could influence the transaction structure or its terms.

5

Explaining the business model

The key to maximising value in a transaction is to articulate the value drivers of the business clearly. This will help you stand out to prospective buyers, so spending time on this is vital.

6

Building competitive tension

An efficient and tightly run process will increase competitive tension between bidders and maximise valuation. Presenting an efficient and tightly run process to a wide pool of potential buyers can drive competitive tension among bidders and maximise your valuation.

7

MBO success

Think objectively about the transition of ownership: what intangibles could the business lose in terms of relationships, skills or tacit knowledge? How does the new ownership compensate for this? By addressing these transition risks upfront, the new management team/controlling shareholders can show a lender or investor that they have identified and mitigated against these risks.

8

Relocating post-exit

Moving overseas is on the wish-list for many owners post-exit but you should consider the practicalities carefully. While the climate and lifestyle may be the immediate draws, often the reality of complying with the non-residency rules presents practical (and emotional!) challenges. We have seen countless relocating u-turns, so consider practicalities carefully.

Balancing the books

KEY TAKEAWAYS

- Pay yourself! Drawing a PAYE salary creates years of service for tax and can be important for pension purposes
- A pension is usually the best mechanism for transferring money from the business into your own name
- Irrespective of your exit plan, new rules in place since 1 January 2023 may have a material benefit for owners in relation to pension structuring

Top 4

steps taken by owners

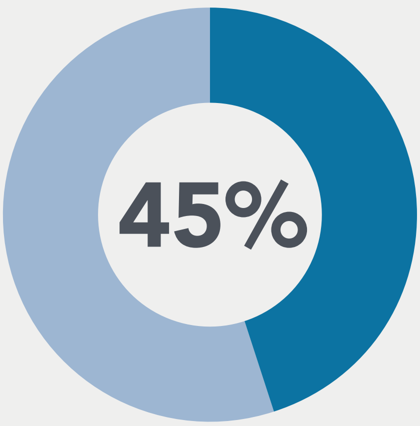
1. Discussed with family
2. Discussed with advisers
3. Considered the tax implications of exiting
4. Explored whether buyers exist

37%

have **never done** a personal financial plan

51%

have **not identified** a leadership successor



have an exit pathway in mind but have **nothing formalised**

Having spent years building their business, many entrepreneurs find they've devoted so much time to managing day-to-day operations that they haven't looked after themselves or their families financially along the way.

Of those owners we surveyed, more than a third (37%) had never drawn up a personal financial plan. They may have done everything right in terms of corporate structuring and the business is profitable, but the owner still often comes last in the pecking order. While this may be necessary in the start-up phase, business owners need to think about how they pay themselves, something that often gets overlooked because they believe they will be able to cash in when they sell up. By taking this approach, however, owners can miss out on tax and pension benefits.

These are the most common ways of taking money out of your company while you're still at the helm:

- Salary
- Bonus
- Benefit in kind
- Reimbursement of genuine business expenses
- Directors' fees
- Dividends
- Pension contributions
- Termination payments

We believe it is important to draw a salary. Owners often live off savings initially and many then draw takings from the business that are grossed up for tax purposes. Others take irregular dividends or director's fees when profits allow, but they choose not to draw a regular salary. This may help with short-term cashflow issues but it has long-term drawbacks if your financial planning extends beyond the end of the accounting year.

Drawing a salary as a PAYE worker – even if it's small – is important for tax and pension purposes. This is because companies can fund directors' pensions based on them having a Schedule E source of income. With effect from 1 January 2023, by taking a salary, business owners create the option for the company to fund for pensions that year or at any point in the future without restriction. Also, termination payments are based on years of remunerated service, so you can dramatically increase the tax-free element of an ex-gratia termination payment by ensuring consistency of annual remuneration. Paying family members a salary if they contribute to the business also preserves their rights to a pension and termination payments and helps them accumulate wealth as the business becomes more profitable. The new rules from 1 January 2023 permit more substantial funding via a Personal Retirement Savings Account (PRSA) for business owners and their family members who are remunerated for their service to the business.

Salary, bonuses and directors' fees are generally the best way to pay owners, but dividends aren't usually as attractive because they are subject to dividend withholding tax and can't be deducted against corporation tax. Salary and bonuses also apply to allowable pension contributions from the business and the business owner, so, from a business efficiency and personal flexibility point of view, distributing (i.e. before dividends) makes a lot of sense.

Many entrepreneurs still believe that the proceeds from selling the business will act as a pension to fund their retirement. However, this is only partly true because corporate wealth doesn't become personal wealth until it is extracted from the cashflows the business is generating. It's also a risky strategy because there's no safety net if the business hits trouble and loses its value, or if you become ill and have to take time out. We always advise having other measures in place, which usually involves investments outside the business, although this often isn't realistic for some owners as they build the business. If the bulk of the wealth is held by the company, however, you'll need to find a way to transfer it into your own name. This is where pensions come in.

From a tax point of view, income is taxed very heavily – up to 52%/55% for higher earners – so it's more efficient to withdraw money from the business into your personal investment pot via a pension. There is no other tax-based incentive in Ireland that allows a company to shelter up to €2,000,000 of corporate assets in a ringfenced investment account in the director's name, and certainly none that allows you to take €200,000 tax free at retirement, plus a further €300,000 at 20%. Only pensions do this, which is why we recommend our clients take advantage of these limits. Tax relief is only part of the attraction, however.

From a tax point of view, income is taxed very heavily – up to 52%/55% for higher earners – so it's more efficient to withdraw money from the business into your personal investment pot via a pension.

A pension is a sophisticated investment vehicle that allows you to grow your personal wealth, so it's not just a long-term savings product that will help you fund your retirement. This is particularly true for business owners. Pensions may come with the bonus of tax reliefs on accumulation but the real opportunity for business owners is that they can transfer profits to seed a personal investment pot that also enjoys tax-free growth.

Pension contributions can even be used to reduce or eliminate corporate taxes. Many business owners have the company make contributions to their pension. This can increase business expenses and reduce profit, which could also reduce the company's corporate tax liabilities. **Where directors take profits from the company as salary, there will be an immediate tax liability, but those who invest in a company pension plan can enjoy benefits such as:**

- Corporation tax relief on employer contributions in the year the contribution is made
- No benefit in kind on employer contributions
- Immediate income tax relief on employee contributions and AVCs deducted from salary
- Investment growth that is exempt from income tax and CGT

The tax advantages can be significant but how the money is managed is at the discretion of the business owner and this can make a big difference to their personal wealth. Even without a sale or alternative value extraction, there is scope to direct investment growth and create wealth, and it provides an opportunity to divert money away from the business and into other assets or income streams. Pre-retirement pensions (i.e. pensions that have not been accessed) can also transfer to a spouse tax-free, so they can be an effective inheritance-planning tool.

In the next chapter, we look at tax reliefs available to business owners in more detail, as qualifying for some of those reliefs (such as entrepreneur relief) is something that owners often seek to focus on rather than pension planning. Another common scenario we see is owners wanting to allocate available cash to corporate investments as an alternative to pension funding. This is where good financial-planning advice comes in: once we understand the business and the owner's needs, we can design plans that combine a number of strategies to ensure they maximise value extraction.

Termination payments

Ex-gratia lump-sum payments on a redundancy or at retirement can be made to employees and directors. These payments often qualify for special tax treatment and could be fully or partially exempt from income tax and the Universal Social Charge (USC). There is a €200,000 cap on the amount that can be paid tax-free from a company to a director, with the tax-free element being dictated by the person's salary and service history. This can help owners maximise the wealth they extract, so it provides another reason to draw a salary from the beginning.

> "Pensions allow you to shelter up to €2,000,000 of corporate assets in a ringfenced investment account in the director's name, and then allows you to take €200,000 tax free at retirement, plus a further €300,000 at 20%."

HOW FINANCE ACT 2022 CAN BENEFIT BUSINESS OWNERS

Before 2023

Before 1 January 2023 an employer contribution paid to a PRSA for an employee was a Benefit-in-kind (BIK) for income tax purposes and treated as if it was a personal PRSA contribution by the employee. As such, tax relief was limited by certain age-related factors and an earnings limit of €115,000 p.a. Prior to 1 January 2023, pension schemes rather than PRSAs were used for pension funding as outlined below.

In 2023: After Finance Act 2022

Effective from 1 January 2023, the Finance Act 2022 introduced some important changes to the treatment of employer pension contributions into a PRSA. Employer payments are now exempt from a BIK charge and are not treated as personal pension contributions. In addition, none of the funding limits outlined in the left hand column apply other than the €2,000,000 threshold.

2013

Johnny starts a business at age 45. He pays himself a salary of €40,000 p.a.

but there are no cash reserves in the company early on and hence no pension contributions are made for him by the company.

2023

By now, Johnny is aged 55 and his business is profitable,

and he is keen to catch up, so the company makes a contribution to his pension fund for 2023.

Johnny's pension

This is calculated by reference to his salary and years of service, so the maximum contribution is **€288,000** for 2023.

Johnny's pension

Johnny's employer can now make a contribution of **€2,000,000.**

Mary (spouse)'s pension

Johnny's wife, Mary, is aged 53 and has worked in the business for 6 years with a salary of €20,000 p.a. She also wants to catch up on funding her pension. The company can make a **contribution of €2,000,000** for her in 2023.

Key staff

A similar exercise could be undertaken for key executives who helped Johnny build the business.

2023-2028

Johnny's pension

Additional payments **up to €576,000** related to the unfunded 10 years' service between 2013-2023 could be made by the company but tax relief would be spread over the following 5 years.

Mary (spouse)'s pension

Johnny's wife, Mary is aged 53 and has worked in the business for 6 years with a salary of €20,000 p.a. She also wants to catch up on pension funding. The company can make a **contribution of €100,000** for her in 2023. This is calculated by reference to salary and years of service. In addition, the company can make a further contribution for her of €50,000 a year for years two to seven.

Key staff

A similar exercise could be undertaken for key executives who helped Johnny build the business.

Johnny's pension, Mary (spouse) pension and key staff

If the **full €2,000,000** is not paid in 2023, the shortfall could be paid at any point over the following 5 years and qualify for tax relief in the year of payment.

2028 Pension Pot at Retirement

Mary's pension pot

€400,000

Johnny's pension pot

€864,000

Mary and Johnny's pension pot

€2m each

Note: This example is presented to illustrate the Finance Act 2022 change and it does not constitute investment or tax advice. Given the potential restrictions that apply, such as the €2,000,000 Standard Fund Threshold and salary sacrifice rules, it is important to seek advice. The above example does not account for any potential investment growth.

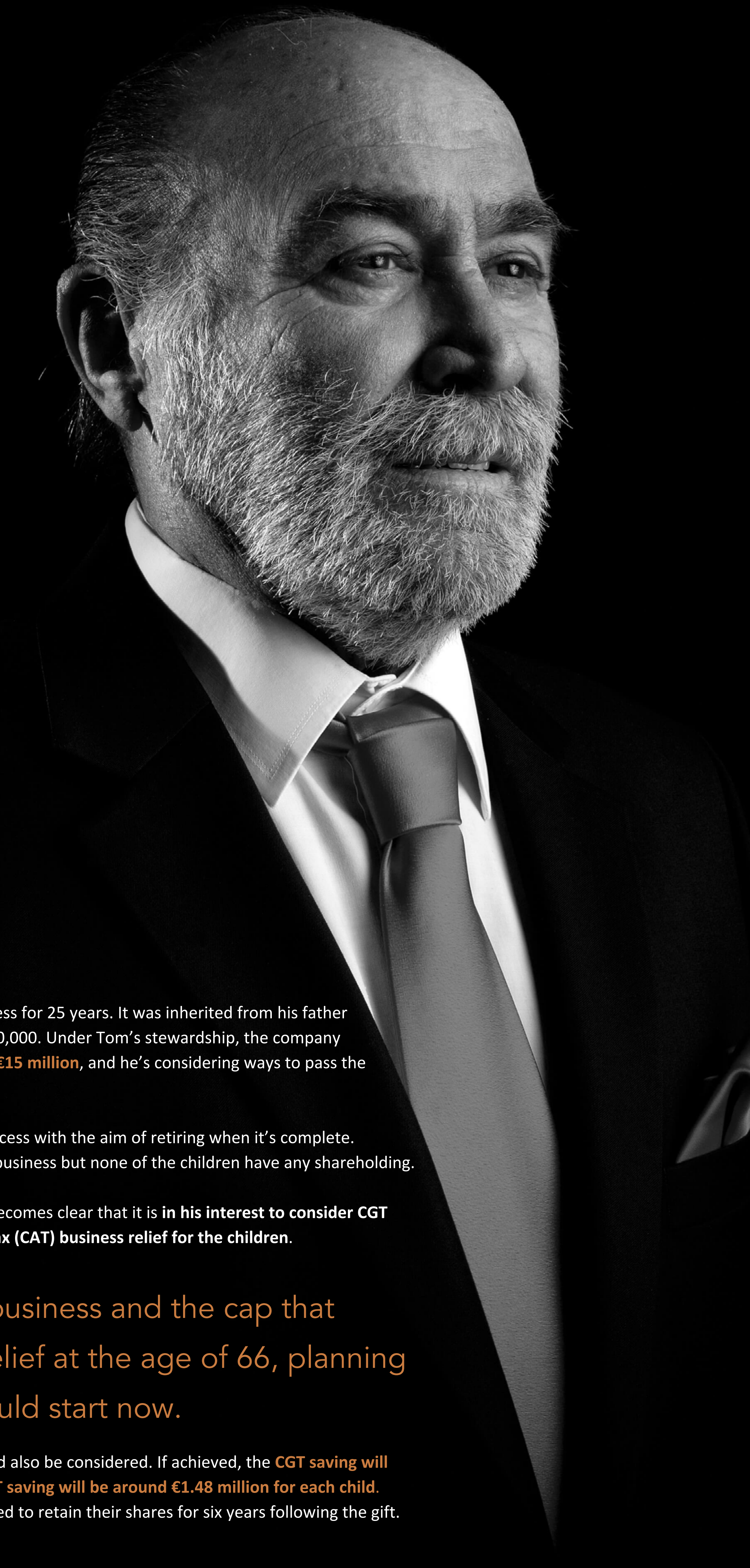
Getting your ducks in a row

KEY TAKEAWAYS

- Be clear on your motivations to exit – different exit routes can have different tax implications
- There are three main reliefs for business owners to consider*
- Entrepreneur relief allows a business owner to pay only 10% CGT on gains of up to €1,000,000
- Retirement relief allows owners aged 55-65 to hand the business to the next generation and potentially claim full CGT relief with no cap on the value
- Business relief reduces the taxable value of the business by 90% if it's passed down as a gift or inheritance

* All the reliefs are subject to certain conditions being met

CASE STUDY



TOM, 60

Owns and runs a business for 25 years

Tom (60) has owned and run a family business for 25 years. It was inherited from his father at a time when the business was worth €500,000. Under Tom's stewardship, the company has been very successful and is **now worth €15 million**, and he's considering ways to pass the business down to his three children.

He would like to oversee the succession process with the aim of retiring when it's complete. One of his daughters works full time in the business but none of the children have any shareholding.

After discussing the situation with Tom, it becomes clear that it is **in his interest to consider CGT retirement relief and capital acquisitions tax (CAT) business relief for the children**.

> Given the value of the business and the cap that applies on retirement relief at the age of 66, planning for retirement relief should start now.

The conditions for CAT business relief should also be considered. If achieved, the **CGT saving will be in the region of €4.5 million and the CAT saving will be around €1.48 million for each child**. To avail of these reliefs, the children will need to retain their shares for six years following the gift.

When thinking about the next chapter, deciding what kind of transition makes the most sense for the business's circumstances is crucial.

The most common options are: family succession, trade sale/merger, or management buyout or private equity (PE). We also see recapitalisation or an initial public offering/public equity forming part of the exit strategy. The tax implications of the exit strategy for owners was the number one driver in our survey results. So, we think owners should be clear about the motivation behind their exit because this will help them decide the best way to achieve their goals. If their objectives are not aligned, it could devalue the business, put buyers off, and destabilise management and employees.

Passing the business onto family

In our survey, nearly a quarter (23%) of owners wanted to pass the business down to their family. This kind of transition needs to be handled delicately, and owners who are considering transferring control should ask themselves whether the business can continue without them; what happens when some family members are involved and others aren't; and whether they have extracted enough wealth to fund their post-exit lifestyle. In our experience, we have seen succession in name only but not in practice. Sometimes these conversations can be challenging, particularly with family members, but it is important that there is a practical transition plan in place so that an outgoing business leader is not overshadowing their successor and inadvertently undermining their position.

Irish law governing the tax treatment of business and farm succession by way of a gift or inheritance has been written with the importance of indigenous small and medium-sized businesses to the Irish economy in mind. Family succession offers the most options for optimising tax positions. We believe it is important for business owners to take an integrated approach to developing tax-efficient exit plans as well as ensuring their personal position is augmented post transfer. Transferring a company to children has the potential to attract different taxes, including a CGT liability for the parent business owner plus a gift or inheritance tax liability and stamp duty for the children.

Tax legislation is always subject to change so tax considerations should be a priority in any disposal. The 33% rate of CGT applies to any gains that are not covered under available tax reliefs, but the reliefs for owners aged 55-65 who are looking to transfer business assets can make a significant difference to the wealth they can extract.

There are three main reliefs available to business owners: retirement relief or entrepreneur relief for the business owner, and business relief for the successor to the business. Agricultural relief is another incentive that encourages farmers to pass on farms to their children during their lifetime or when they pass away. Which of these reliefs applies depends on several factors, including the value of the business, whether the business is being transferred to a family member, and the age of the business owner. The key consideration, of course, is to minimise or eliminate CGT and CAT.

Entrepreneur relief

Selling the business and making a capital gain can be very efficient if the owner benefits from entrepreneur relief. The standard rate of CGT is 33% on the gain after deductions for allowable expenses, but entrepreneur relief allows a business owner to pay only 10% CGT on gains of up to €1,000,000, subject to certain conditions being met. This is a lifetime cap, with the balance chargeable at 33%. To qualify for the relief, there must be a disposal of a qualifying business asset by a qualifying individual.

For family succession purposes, retirement relief can be preferable to entrepreneur relief because it can be far more generous. However, the qualifying conditions for entrepreneur relief are generally easier to meet, so it is often the only relief available before paying full CGT. Where a business owner is trying to realise value from their business or a business investment – and they do not intend to pass it on to a child – entrepreneur relief may also be more appropriate.

Retirement relief

Retirement relief doesn't mean the seller has to retire, so they could dispose of the asset but stay working for the business. If you are between 55 and 65 and decide to hand the business down to the next generation, full CGT relief with no cap on the value may be available. The beneficiary must retain the

There are three main reliefs available to business owners: retirement relief or entrepreneur relief for the business owner, and business relief for the successor to the business.

business for six years or the CGT relief will be clawed back. If you are 66 or over, the relief is restricted to proceeds of €3,000,000.

If you choose to sell the business to someone outside the family, the limits are €750,000 for those aged 55-65 and €500,000 if you are older. If the business is worth over these thresholds, marginal relief will limit the CGT liability to 50% of the difference between the actual value and the threshold. Retirement relief generally encourages owners to keep the company in the family so it's an excellent way of safeguarding jobs for at least six years.

Business relief

Business relief can apply before or after the business owner dies, so it's a useful tool for financial planning before inheritance. A person retiring from their business, for example, can transfer ownership to their children while benefiting from business relief, which allows the children to save on tax immediately and also simplifies the inheritance process later. When combined with retirement relief, this is a powerful incentive to hand control of a business to children or other beneficiaries sooner rather than later.

Business relief reduces the taxable value of a gift or inheritance of a relevant business property by 90%. The property could include unquoted shares or securities, which would qualify for the relief provided that the beneficiary satisfies one of the following criteria after taking the benefit: they either own more than 25% of the voting rights; or for example they control the company by owning more than 50% with other people; or they own at least 10% of the aggregate nominal value of all the company's shares and securities, and they have also worked full-time in the business for the previous five years.

Depending on the value of the business, this relief can eliminate a big chunk of the tax bill when combined with the CAT threshold. The higher the value of the business, the greater the chance that some tax will be owed of course. Business relief can be clawed back if, at any time within six years of the date of the gift or inheritance, the business is sold or ceases to be a qualifying business asset and is not replaced by another qualifying asset within a year.

Agricultural relief

Agricultural relief cuts the market value of agricultural property by 90%, so it drastically reduces the tax liability for anyone receiving the land. For example, if a farmer leaves land worth €1,500,000 to his daughter, the value is only €150,000 for tax purposes. As the current threshold is €335,000, the daughter would pay no inheritance tax. If this type of relief didn't exist, the daughter would pay nearly €400,000 in tax. This could force her to sell land and break up the farm, which could harm the business.

> "Retirement relief can be a more generous tax relief but it's often easier to meet the qualifying conditions for entrepreneur relief."

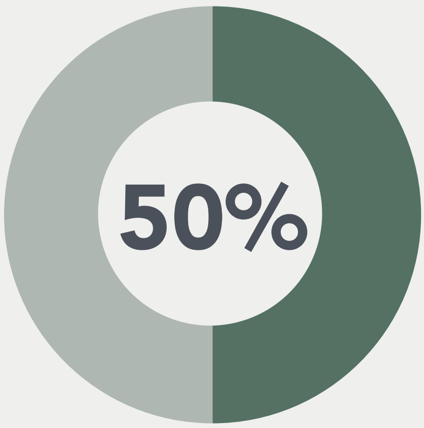
When the moment comes

KEY TAKEAWAYS

- Appointing an adviser can help business owners prepare the business for sale and maximise the valuation they achieve at exit
- If you are considering an exit from a business that you have spent much of your life building, getting the transaction right will help you maximise its value
- A business plan and Information Memorandum will help potential buyers assess an appropriate valuation for the business

1 in 3 had their **business valued** within the last year

52% **intend to sell their business** while **23%** wish to **pass it on to family**



believe they have a **strong understanding of the exit options** available to them

If you are considering an exit from a business that you have spent much of your life building, it's very important to get things right to ensure you maximise the value on exit.

In our experience, when a business owner is ready to sell, they should first consider appointing a corporate finance adviser to help them manage the sales process. Most business owners or management teams will undertake only one or two transformative transactions in their lifetime. An experienced adviser will have the benefit of working across a multitude of transactions, dealing with different types of exit processes and buyers. An adviser can explain how the process will work and what to expect from different parties, as well as providing guidance on an appropriate valuation range for your business.

One question we are often asked is: "Is it the right time to sell my business?" Generally speaking, the best time to sell is when your business has demonstrated a strong track record of profitability and is operating in a growing marketplace. It is also helpful if prevailing economic sentiment is positive as valuations typically tend to be higher in a bullish market, although this is not always the case. Some more practical considerations include the personal circumstances of the shareholders and any valuation expectations they may have; the level of debt currently in the business, as this can impact financing options for buyers; and any operational or administrative issues that need to be addressed, such as key gaps in your management team.

If you have decided that the time is right for exit and appoint a financial adviser, the next step is to prepare documentation that can be shared with buyers during the due-diligence phase. Our teams work with many business owners to prepare the business for sale to ensure it is presented in the best light to potential buyers, which includes drawing up an Information Memorandum (IM) and financial model. An IM is a sales document that sets out an overview of the business and its product/service offering, an analysis of the market in which it operates, the business's historic and projected financials, potential for future growth, and strengths of the management team, among many other factors, all of which are critical when determining value. A financial model will also help guide buyers on the business's prospects and its ability to generate future cashflows for a new owner.

When deciding who the most suitable buyer might be, owners and buyers are often well known to one another. For example, the management team may be considering an MBO of the business so will already be familiar with the opportunity. We also see businesses being sold to trade competitors who may have been circling for years just waiting for the right time to make a move. Regardless of the likely buyer, to maximise the value on exit, it's advisable to engage with a broad range of parties, both trade and private equity, and structure the process in such a way that will maximise competitive tension among potential buyers. Building a well-thought-out, competitive process will impact the outcome in terms of valuation, consideration structure, transaction timeframes and completion risk.

While the above factors are important in relation to the technical side of the sale process, attention also needs to be given to the emotional side of selling a business. Entrepreneurs tend to have a deep personal connection with their business and its employees, and they might be wary of bids that don't value the company accordingly. Many owners will have planned to live on the proceeds from the transaction, so it's only natural for them to want to maximise the value of the business. We advocate an integrated advisory approach so there is effective coordination and alignment between the corporate objectives and the personal needs of the owner.

Trade sale

A trade sale involves the sale of the entire business to another business that is often a competitor or a partner. For businesses seeking to scale quickly, the acquisition of a direct competitor can help deliver that objective within a shorter timeframe than by organically growing the business. Trade buyers are likely to be familiar with the industry in which you operate, which can lead to a more efficient process with the industry in which you operate, and shorter transaction timelines. In addition, as trade buyers can often extract greater synergies from the transaction than private-equity firms, such as combining departments or functions between two similar businesses, trade buyers may be willing to pay a higher valuation multiple for your business than a private-equity buyer, which is obviously good news for the seller. A trade sale is often the cleanest form of exit, particularly if you are selling 100% of your business.

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Private equity (PE)

A sale to private equity involves selling a percentage of the shares in the business, from a minority stake to majority ownership. At one end of the investment spectrum, a venture-capital fund will take minority stake investments, typically in smaller emerging businesses. For more mature businesses, however, PE buyers usually look to buy a controlling stake. Regardless of the stage of the business seeking PE investment, one thing all PE buyers have in common is that they seek to invest in strong management teams who can demonstrate solid growth projections. A typical PE investment horizon is three to five years, during which time they'd hope to grow the business two- or threefold, and after which they'll look to sell up and move on.

Corporate finance specialists like Goodbody have years of experience negotiating with PE investors and are well-placed to facilitate these kinds of deals. We also have a network of partners across Europe and the US, with whom we can connect to take advantage of their local knowledge. AIB has extensive experience providing debt funding and wider financing packages to support transactions where a PE firm is acquiring a stake in a business. AIB also has a track record of providing further funding solutions to these businesses to enable business growth through acquisitions as well as organically.

Management buyout (MBO)

As with any sale, a buyout gives the owner the chance to unlock their wealth from the business. If market conditions are favourable, an experienced management team might look to execute an MBO whereby the management takes over all or part of the business. As the team is unlikely to be able to raise all the capital among themselves, they will often need backing from external investors and/or debt funding. The investors are usually PE funds who take a stake in the company in exchange for financing the deal.

In our experience, most companies that are open to an MBO find themselves in this position because there is a good relationship between management and the owner. This is often due to the owner putting in place the right management team many years before their own exit because they know they will take the business forward when they retire. Careful selection of a competent management team and ensuring the transfer of key business knowledge and relationships is critical for any owner to be able to extract themselves from the business when it is time to leave. AIB's relationship model approach ensures that we work closely with management teams on an ongoing basis on all aspects of the company's banking requirements. This results in a strong understanding of the management team, built up over many years. Therefore, when the time comes to execute an MBO, AIB is well placed to quickly assess the associated funding requirements.

> "Entrepreneurs tend to have a deep personal connection with their business and its employees, and they might be wary of bids that don't value the company accordingly."

If you have decided that the time is right for exit and appoint a financial adviser, the next step is to prepare documentation that can be shared with buyers during the due-diligence phase.

Recapitalisation

An effective way of distributing cash to shareholders without an outright sale of the business is to consider a recapitalisation. For example, a dividend recapitalisation is where a speciality lender provides a loan to the company that is then distributed to shareholders via a dividend. The dividend can be distributed to all shareholders to create liquidity for the entire shareholder base, or, alternatively, the loan can be used to buy back the shares of those shareholders who wish to exit, concentrating ownership in fewer shareholders.

Apart from ownership retention, there are tax advantages to this kind of exit. When an owner pays themselves out of company resources – salary, director's fees, dividends – they will have to pay income tax at rates of 52%/55%. But by using the company's cashflow to take on debt and then pay out an amount based on the value of the company, excluding any CGT reliefs that may be due, the owner may only be liable for CGT at the standard rate of 33%.

Initial Public Offering (IPO)

IPOs are rarer because they would usually only be considered by companies that are looking to raise tens of millions of euros in new capital. They are probably the best way to create wealth for shareholders and scale for stakeholders, and the prospect of a lucrative exit is attractive for entrepreneurs. The benefits of going public are not limited to the financial windfall, however. An IPO brings many structural benefits for a business because the preparation itself is a long-term investment in sound management and financial practices. The discipline required to run a public company can also add value.

Time for an afterparty?

KEY TAKEAWAYS

- Few founders prepare themselves for life after exiting their business and often the post-exit ideal might not be the reality
- Whatever the path, post-exit wealth planning is key to ensure that any exit proceeds can be protected and enhanced to support your next move
- Assessing the tax implications of moving abroad or sharing the wealth with family should also be a priority

The process of building your life after exiting the business is not unlike the journey you embarked on when founding and growing your company, but it serves up new challenges and is often underestimated by owners.

How do you manage your wealth while establishing a new vision for yourself? What do you want to do next, and who do you want to be? It is not uncommon for many successful owners to have done no professional or personal preparation for what comes next.

We often meet owners who say that finding post-exit fulfilment is an even bigger challenge than making the business successful in the first place. Making the transition into retirement or into the next phase of life is crucial for your happiness, so it's worth drawing up a plan. You may not stick to it but it's always better to have something in place. This can help owners focus on the next phase, which should also involve mapping out how the proceeds from an exit can support your ambitions. Wealth can help make a step-change in lifestyle but it also needs to be carefully managed so that it continues to work for you and your family in the future.

What next?

Having exited their business, many entrepreneurs use their wealth to start or invest in another company. Others may take on consulting or advisory roles or invest the proceeds from the sale in a portfolio. Plenty of owners look to establish a foundation or charitable trust, while some are happy to walk off into the sunset. Whatever the path, we recommend undertaking a comprehensive financial review so that you can meet your annual living costs and backfill any potential holes through strategic investment management.

Entrepreneurs are often attracted to the pursuit of high-risk investments and they tend to lean towards certain sectors or asset classes that they are familiar with to the detriment of diversification. They also don't rebalance their wealth portfolio as often as they should, which is a vital tool in terms of protecting their investments in the long term. Irrespective of your personal preferences, it's worth segmenting a portion of the proceeds to a mix of assets that will deliver steady returns and iron out the bumps caused by potential volatility of a favoured sector or higher-risk investment opportunities.

Reframing your wealth strategy

When there are proceeds from an exit or sale, many wealth managers apply a single investment strategy, exposing it all to the same level of risk. However, we believe in a different approach called **multi-purpose investing whereby we allocate a business owner's accumulated wealth into three segments**: essential, desirable and aspirational. Each segment has a distinct purpose, so each is underpinned by a different investment strategy.

1. Essential

The purpose:
To meet the essential income needs of the client over the next 5-10 years, the underlying strategy is designed to provide the necessary level of liquidity.

Up to 20% is invested in high-grade bonds and bond funds to meet annual drawdown needs as agreed in advance.

2. Desirable

The purpose:
To achieve moderate growth of the wealth within the segment, often to fund lifestyle choices, we construct a diversified portfolio designed to deliver returns with high probability.

Around 60% is invested in a core portfolio of liquid global equities, property, bonds and funds.

3. Aspirational

The purpose:
To generate surplus capital to secure a family legacy or philanthropic giving – we would invest in less-liquid assets and special situations over the long term.

Around 20% is invested in concentrated, less liquid opportunities, such as private equity.

How do you manage your wealth while establishing a new vision for yourself? What do you want to do next, and who do you want to be? It is not uncommon for many successful owners to have done no professional or personal preparation for what comes next.

Moving abroad

We can also look at the tax implications if you decide to move overseas. This is especially important for owners who retain shares in the company after exiting because they may be liable for additional tax. Owners often decide to become non-resident as they approach an exit so they can take advantage of more favourable tax regimes overseas. The extent of someone's charge to Irish tax depends on their tax residence, ordinary tax residence and domicile status. If an owner is tax resident, ordinarily tax resident and domiciled in Ireland, a liability to Irish tax arises on their worldwide income and gains.

It is important to understand the rules because establishing non-residence and non-ordinary residence in Ireland takes time and is often impractical for families. To become non-resident, you need to be present in Ireland for fewer than 183 days in the tax year or 280 days in aggregate in the current tax year and the preceding year (this test only applies where an individual has spent more than 30 days in Ireland in each year).

So it's important for owners to remember that if they do not spend 183 days or more in Ireland in a tax year, they can be considered an Irish tax resident under the 280-day lookback rule. For example, if an individual spent 90 days in Ireland in 2023 and 300 days in Ireland in 2022, they will be Irish tax resident in 2023 under the 280-day lookback rule on the basis that the combined number of days spent in Ireland in 2022 and 2023 is 280 or more. In these circumstances, it would take until 2024 before the owner could establish non-residence in Ireland. However, the individual will continue to be ordinarily tax resident until three consecutive tax years of non-residence have elapsed. Where an individual is ordinarily tax resident but not tax resident in Ireland, a liability to Irish income tax arises on worldwide income, although exceptions do apply for profits of a trade or profession or remuneration from employment where all the duties are exercised abroad.

We speak to many clients who are thinking of moving to destinations like Portugal at retirement. Where they have Approved Retirement Funds (ARFs), drawdowns from the ARF remain subject to Irish income tax irrespective of their tax residence and ordinary tax residence status. It may therefore be sensible to postpone any decision regarding accessing a pension fund until you are no longer tax resident and ordinarily tax resident in Ireland.

Sharing the wealth

We also speak to clients who want to give some of their wealth to family members during their lifetime. The concept of family charters or family constitutions are becoming more popular

> "Current legislation in Ireland allows parents to give each of their children a tax-free sum of up to €335,000 in the form of a gift or inheritance."

We often meet owners who say that finding post-exit fulfilment is an even bigger challenge than making the business successful in the first place. Making the transition into retirement or into the next phase of life is crucial for your happiness, so it's worth drawing up a plan.

because they help tap into the family culture and define their values and aspirations. Setting out broad principles over everyone's expectations relating to education, investment decisions, personal expenditure and philanthropy can help with the transition. It can also open lines of communication and resolve conflicts.

Current legislation in Ireland allows parents to give each of their children a tax-free sum of up to €335,000 in the form of a gift or inheritance. This threshold is cumulative so every gift or inheritance received since 1991 would count towards it. If the cap is breached, any more gifts or inheritances will be subject to capital acquisitions tax (CAT) at 33%. However, small gifts of up to €3,000 can be given annually without attracting any CAT. These smaller amounts don't count towards the threshold but could be extremely useful if the recipient needs to pay for childcare, education or even a deposit on a house.

Giving money to charity used to be managed through a disposition in someone's will, but lifetime giving is increasingly common as many owners seek to deploy capital to causes they are passionate about. Involving the next generation in the decision-making process is also something we're seeing more of. When there are reserves of cash or assets that aren't earmarked for the family, families could consider setting up a charitable foundation. It is worth exploring whether such a structure is the right vehicle for you and your family as an initial first step. As an alternative, if the owner donates cash or assets directly to charity, CGT, CAT and stamp duty will not normally be applied.

HOW CAN WE HELP

Thank you for reading our report – we hope you found it useful.

Goodbody and AIB Capital Markets have set up a Succession Advisory Team that includes M&A and tax specialists, tax advisers and wealth planners to offer business owners a coordinated one-stop advisory service across all aspects of a potential business exit. We focus on optimising both personal and corporate financial readiness for business owners considering a transition.

Regardless of how distant or close your business exit might be, why not start a discussion with our team today?

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