RETAILER: Developing your retail business

SUCCESSION PLANNING

Tax planning

Family Matters Section 5 Topic 15

The RETAILER programme aims to provide practical resources for independent retailers in the Eastern region, backed by the support of intermediate mentors and the RETAILER website www.independent-retailer.com

The RETAILER programme is supported financially by the European Social fund (ESF). Elements of the RETAILER programme build upon the APU SESAME programme. If you are interested in joining the RETAILER programme, please complete and return the form at the back of this document.

This RETAILER topic is based on Topic 15, *Tax planning*, from Section 5, *Exit*, of the SESAME Family Matters materials.

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Topic 15 Tax planning

Disposing of the business has tax implications. It is important to minimise their impact of and so this topic looks at some of the main forms of taxation liability that family business owners have to consider.

This is not intended as a detailed tax guide, but raises issues that you should include in discussions with professional advisers.

Inheritance tax

Inheritance tax (IHT) is the tax 'your estate' pays when you die, although it can also be charged on certain lifetime gifts. If your estate is over a certain amount (£242,000 in 2001/02), it bears inheritance tax at 40% on the excess.

It may seem unfair that we are pursued by the taxman even after death, but, unlike many other taxes, there are many steps you can take to reduce the IHT burden. Indeed, IHT is sometimes called a 'voluntary tax' by accountants, simply because so much of it is avoidable.

Steps you can take include:

- make a will now and keep it up to date (see Topic 14)
- review the value of your assets – do this every few years or so to take account of growth
- consider gifts – use your Lifetime gifts allowances to cut the size of your estate
- set up trusts – often a good way of protecting assets and minimising tax liabilities
- take out life insurance – this could cover any eventual tax bill
- take proper professional advice – essential for setting up trusts and writing a will – a badly written will is almost as bad as no will at all.

A gift of shares to children is exempt from IHT provided you survive for seven years after the gift. If you should die before seven years are up, a tax charge may arise, depending on the length of time since the gift.

Taper relief

If tax is payable on gifts made within seven years of death, 'taper relief' might be available. This is a reduction in the tax due at the full death rate for gifts made between three and seven years before death, as shown in the table opposite:

Years between gift and death	% of death rate tax payable
0–3	100%
3–4	80%
4–5	60%
5–6	40%
6–7	20%

Business property relief

This is a special kind of relief from IHT that has been available since 1996. It exempts from IHT transfers of business property made during the owner's lifetime, including transfers of shares in unquoted trading companies. The owner must have owned the business property for two years before the transfer and certain sorts of company are excluded from the relief (e.g. those dealing in securities, stocks and shares, or land and buildings, or those making or holding investments).

Capital gains tax

Capital gains tax (CGT) arises on the disposal of an asset, so selling the business attracts a CGT liability.

As with IHT, there is relief available which can reduce the CGT bill. Up to 2003, this included retirement relief available to vendors over 50 planning to retire. The loss of retirement relief has been offset by increases in taper relief, which reduces the amount of a gain subject to CGT, based on the length of time the asset has been held since 5 April 1998.

No CGT is payable on death. The beneficiaries of a deceased person's estate are treated as if they had acquired the assets of the deceased at their market value. For an older shareholder considering tax implications, it might make sense to retain shares until death in order to enjoy the CGT exemption, but such a course of action would depend on how the owner stood with regard to inheritance tax.

Gifts to spouses

Normally, gifts made to a spouse during your lifetime or on death are exempt from tax. This can be a useful way of avoiding tax liabilities, but can store up a higher tax liability for the surviving spouse, who may then bequeath an increased tax burden on their combined wealth when the surviving partner dies. For this reason, it may be important for both partners to use the exemptions and reliefs available during their lifetimes.

Charitable giving

Charitable giving can be part of an outgoing owner's will or estate plan. This has the dual advantages of benefiting a chosen charity, while also providing owners and heirs with income during their lifetimes.

One effective strategy is to make a deferred gift using a charitable remainder trust. The donor transfers cash or appreciated assets to a trust, which provides payments for the lifetime of the donor over a term of years. At the time designated by the donor, funds remaining in the trust are transferred to the charity. Charitable remainder trusts can be designed to provide variable or fixed payments while offering donors several tax and payment benefits.

The bare essentials

All in all, working out tax implications of retiring and dying is extremely complicated. The key points are:

- get professional advice
- review the situation regularly.

Check Point

Note your answers to these questions before summarising your plans in Action plan 5.

- How well formed are your plans for minimising tax on your exit from the business or on your death?

- What are the key elements of your strategy?

- What tax liabilities would arise if you were to die tomorrow?

- Do you have an up-to-date will which accurately expresses your wishes?

- If you are unable to answer these questions, you should seek professional advice immediately!

Now that you've seen some of the RETAILER materials, would you like to benefit from the RETAILER programme?

Through the RETAILER programme, Anglia Polytechnic University offers Till Side Training for independent retailers in Cambridgeshire, Suffolk, Norfolk and Essex employing less than 250 people.

The training is backed by practical materials, relevant resources, the support of experienced mentors and the RETAILER website.

Retailing is a 'people' business. Supermarkets, department stores and chains spend a significant amount of time and resources training their staff. Product knowledge, customer service, merchandising and selling are prerequisites for working in these companies, but training also:

- demonstrates commitment to their employees and their professional development (for many employees, the offer of training is the reason for deciding which company to work for)
- forms the principal rationale that supports all quality initiatives from simple Quality Control right up to Total Quality Management.

The RETAILER programme is supported financially by the European Social Fund, and is free to beneficiaries. The RETAILER programme is intended to train you, train your employees, and help you train future employees.

To find out more about the RETAILER programme please fill in your details below and send a copy of this page to:

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