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Succession Planning

A very significant proportion of Irish businesses are family run and the issue of when, or indeed if, a business should transfer to the next generation is a difficult one for owners given the personal and emotional issues associated with it. However, by identifying in advance what the issues are and getting the right support and advice certainly helps owners address these concerns.

The Market Place is flush with Consolidation of businesses making it even more important for Family run businesses to get the succession right so that owners are concentrating on ensuring that their business will survive and continue to be successful.

A well-structured succession plan deals with the emotional issues of family relationships along with minimising tax liabilities. Passing over the business is a significant decision and they need to be happy that the timing is right for them and for their son or daughter. It is never too early to plan as it gives a family time to be involved in and consider options. It also, of course, ensures that the various tax reliefs can be planned for to ensure there is minimal cash leakage on tax, monies that would be much better spent on future business development, new business ideas in the current ever changing economy, and of course enjoyment.

A succession plan involves a number of steps and it can be done gradually allowing parents and children both having an input and can allow parents having involvement post transfer if this is desired. As regards the tax consequences, there are three main taxes which can arise when a family business is gifted from a parent to a child namely Capital Gains Tax (CGT), Capital Acquisitions Tax (CAT) and Stamp Duty. However, the current tax regime contains numerous reliefs, which can significantly reduce or indeed eliminate altogether the tax costs arising on the transfer of a business to the next generation. These invaluable tax reliefs include the following:

- > CGT is payable at 33% by the parent however CGT Retirement Relief may eliminate or significantly reduce the exposure. Alternatively, Entrepreneur Relief, introduced recently, provides for a reduced 10% rate of CGT on the first €1m of gains on the disposal of certain assets. Both of these reliefs are invaluable in terms of transferring the business and perhaps extracting some cash from the business for use by the business owner for his retirement.

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- > CAT or Gift tax is also payable at 33%, however CAT Business relief or CAT Agricultural property relief can reduce the value of the gift by 90%. In addition, there are tax free thresholds for CAT currently in excess of €300,000 which a child can receive from their parent tax free. When combining both of these reliefs means that a business totalling in excess of €3m can be transferred without exposure to CAT assuming the various conditions are met.
- > In addition to these tax reliefs on business transfers, areas such as pension planning and perhaps extraction of funds by a retiring shareholder can also be very important as well as tax free termination payments.

A Succession Plan brings all of these Financial issues together with the operational aspects of the plan and links it to the overall Wealth Retention plan for the entire family. It takes into account updating Wills, Shareholder Agreements, future Income and Pension requirements, and so on.

However, availing of various tax reliefs and considering tax efficient terminations and pension planning is not straight forward and contains numerous conditions as regards active involvement in the business, periods of ownership of the business, etc, and therefore a well thought through Succession Plan needs time in advance to ensure that, when the time is right, the financial plan surrounding it kicks in.

Passing on a business is a significant lifetime decision for any entrepreneur as building it took a lot of hard work and sacrifice over the years. Therefore they need to ensure that passing it onto their children does not extract value overall and reduce their wealth.

RBK have been involved in supporting and assisting family generations for the last 60 years through all stages of the business life cycle. We work closely with clients so that we can understand what is important to them and we build a succession plan surrounding this to ensure that their objectives are met as far as possible and its cost in tax terms is minimised.

ENDS

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