
EXIT AND SUCCESSION TAX PLANNING FOR BUSINESSES

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About this guide

This guide looks at the exit and successions strategies available to business owners and the tax implications of each.

Most people do not want to work for ever and a business owner will need to plan for their retirement and how they are going to fund that. They will also need to think what they are going to do with their business when they retire.

The options that are available to the business owner will depend on the nature of the business and whether it is operated by a sole trader, a partnership or a company, and also on the business owner's personal circumstances.

A business owner will also need to think about what will happen to their business if they die. They will need to make a Will to ensure that the business is dealt with in accordance with their wishes.

In this guide we look at the tax implications of passing a business or the business assets on during the business owner's lifetime, of selling the business or business assets and of passing the business or business assets on when the business owner dies. We highlight the importance of planning ahead and outline the various tax reliefs available.

The guide considers tax efficient exit and succession strategies for sole traders, partners in a partnership and for limited companies, such as personal and family companies.

The guide is based on the law as at 28 February 2026, as it applies for the 2026/27 tax year. Rates and allowances used in this guide and in the examples are those for 2026/27.

1

The need for an exit strategy and succession planning

To ensure that the business is brought to a close or passed on in a tax efficient manner, it is important to have an exit strategy in place.

It is also important to plan ahead for what will happen to the business should the business owner die and to ensure that provisions are in place to ensure that this happens in a tax efficient manner.

Many reliefs depend on conditions being met for a qualifying period. Consequently, it is important to plan ahead to ensure that the qualifying conditions are met on the planned exit date.

Will planning is essential to ensure that your businesses passed on as you wish and also in a tax efficient manner.

1.1 Nature of an exit strategy

An exit strategy is a plan for when the business owner either leaves or sells the business, and may form part of the business owner's retirement planning.

To benefit from the tax reliefs that are available when a business is sold or passed on, there are conditions that need to be met for a period of time. Planning ahead allows time to ensure that the conditions are met.

Where the business is to be sold, it is important to allow time to prepare the business for the sale to ensure that the best price is achieved.

Planning ahead and putting an exit strategy in place also provides peace of mind and allows for a smooth transition or closure of the business.

There are various options for exiting a business, which include selling the business or its assets, or passing it on to family members. Alternatively, a management buy-out or the sale to an employee ownership trust could be considered. Where the business is operated through a limited company, the company may be able to buy back the shares.

The optimal strategy will depend on both the nature of the business and the business owner's personal circumstances.

When putting together an exit strategy for your business, it is important to take professional advice.

1.2 Succession planning

No-one knows when they are going to die. It is therefore important to have a plan in place as to what will happen to the business should the business owner die. Planning ahead is also important to mitigate inheritance tax liabilities and to take advantage of available reliefs. On death, the business or business assets could be passed on to family members or sold and the sale proceeds distributed to the beneficiaries of the Will.

It is important to make a Will as in the absence of a Will the intestacy provisions will apply and these will not necessarily provide the best result.

When putting a succession strategy in place, it is important to take professional advice.

2

Exit strategies and succession planning for sole traders

A sole trader is a self-employed individual who owns and runs their own business. Operating as a sole trader is the simplest form of a business. The sole trader is responsible for all the debts of the company and is able to keep all the profits after paying tax. Unlike a company, an unincorporated business has no separate legal identity.

A sole trader pays income tax on the profits on their business, which form part of their overall taxable income. If a sole trader makes a gain on the sale of a business asset, a capital gains tax liability may arise (although reliefs may be available).

A sole trader has unlimited liability and is personally liable for all the business debts.

There are a number of exit strategies available to a sole trader. They can simply close their business down; they can sell or pass on their business assets (including the goodwill) to someone else for them to take over the running of the business.

The sole trader should also plan ahead as to what will happen to their business assets should they die to ensure that their assets are passed on in a tax efficient manner.

2.1 Closing down an unincorporated business

If a sole trader does not want to pass on the business, they can simply close it down when they want to stop working. Unlike a company, there is no formal procedure – the sole trader can simply stop taking on any additional work and pay the outstanding debts.

If the business has assets, these may be sold or given away. The tax implications of selling assets is considered at 2.2, while the tax implications of giving away assets or selling them at an undervalue is considered at 2.3.

2.2 Sale of business assets

As an unincorporated business is not a separate legal entity it cannot be sold 'as a business'. Rather, the sole trader will sell the business assets, which may include goodwill. A sole trader may also sell their business assets if they close the business.

Where business assets are sold, a capital gains liability may arise. However, this may be reduced if Business Asset Disposal Relief (BADR) is available. If

the assets are sold at a loss, the sole trader will be able to set the loss against chargeable gains that they realise in the same or a future tax year.

2.2.1 Business Asset Disposal Relief for sole traders

Business Asset Disposal Relief (BADR) is a capital gains tax relief that reduces the rate of tax payable on the gain. The relief was previously known as Entrepreneurs Relief.

From 6 April 2026, the rate of capital gains tax on gains eligible for BADR is 18% – the same as the rate of capital gains tax applying where income and gains fall within the basic rate band. Where the gain would otherwise be charged at the higher capital gains tax rate of 24%, BADR reduces the tax payable by 6%.

Each individual has a lifetime limit of £1 million for BADR. Spouses and civil partners each have their own BADR £1 million limit. Married couples and civil partners can take advantage of the rules that allow them to transfer assets between them at a value that gives rise to neither a gain nor a loss to maximise the BADR available. However, it is essential to plan ahead so that the transferee spouse/civil partner meets the eligibility conditions for the qualifying period.

As far as individuals are concerned, BADR is available where there is a material disposal of business assets. A disposal of business assets is a disposal of all or part of the business or an identifiable part of it or a disposal of assets, or of interest in such assets, which were used for the purposes of a business which has now ceased and were in use by the business at the time of cessation. Business assets will include the business premises, plant and machinery and goodwill. However, if the sole trader transfers their business to a close company in which they retain a stake of at least 5%, BADR is not available on the goodwill.

The disposal must be a ‘material disposal’. Where the disposal is of all or part of the business, the individual making the disposal must have owned it throughout the two years to the date of disposal. Where the disposal is of assets which were used in a business which has now ceased, the following conditions must be met:

- the assets were in use by the business at the time of cessation;
- the business was owned by the individual making the disposal for a period of two years immediately prior to the date on which the business ceased; *and*
- the disposal takes place within three years of the cessation of the business.

The date on which the business ceases will usually be clear. It should be noted that the three year window following cessation during which the assets must be disposed of in order to secure BADR is a statutory limit and HMRC have no discretion to extend this period.

The relief is not available for the sale of random assets while the business continues – the business must be disposed of or ceased.