

ADVANCED TAX PLANNING FOR COMPANY OWNERS: EXIT AND SUCCESSION

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OCTOBER 26

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Advanced Tax Planning for Company Owners: Exit and Succession – First published October 2026.

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About Nick Wright

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Nick is a regular contributor to various tax journals including Taxation magazine, Tax Journal, Tax Adviser, Tax Insider and ICAEW Taxline, sharing his expertise with the broader professional community. Nick is also a contributing author of Tolley Tax Planning, Finance Act Handbook and the British Tax Review publications.

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Nick is the host of 'The Tax Hour', a podcast dedicated to sharing expert tax advice from the industry's leading specialists.

About this guide

A generation of company owners who built their businesses over the last two or three decades is now reaching the point of asking not how to grow the company but how to leave it. That question divides into two – realising value and taking the cash (exit) and passing the business to the next generation or the management team (succession) – and the two pull the tax analysis in different directions. After the reforms of the 2024 and 2025 Budgets, the decision has become both more pressing and more expensive to get wrong.

This report sets out how the exit and succession of a private trading company are taxed, and how the structure should be matched to the owner's objective. It examines the principal routes by which value leaves a company – a third-party trade sale, a management buyout, a sale to an employee ownership trust, a company purchase of own shares and succession within the family – the reliefs each opens or forecloses, the preparation that protects them and the anti-avoidance rules that police all of it, with worked examples and practical guidance throughout.

One theme governs almost everything that follows: no route dominates, and the effective tax rate is only one input into the choice. The price, the certainty and timing of payment and the commercial fit of the structure matter as much as the rate, and a lower rate on a lower, deferred price is frequently the worse outcome. Trading status is the second thread – it is the gateway to business asset disposal relief, gift holdover relief and business property relief, and a company carrying surplus investment assets can forfeit all three.

The analysis ranges across capital gains tax, corporation tax, income tax and the employment-related securities rules, inheritance tax and business property relief, and the stamp taxes across the UK jurisdictions, together with the recent and announced changes that bear on decisions taken now – the 18% business asset disposal relief rate, the halved employee ownership trust relief, the £2.5m cap on business property relief and the rewritten reorganisation anti-avoidance rule.

The report's central conclusion is that there is no universal answer, only a disciplined matching of structure to objective – and that, because almost every relief now turns on a purpose test and a qualifying period, the owner who plans early and records the commercial rationale is the one who keeps the choice open.

1

Introduction

1.1 What exit and succession planning involves

Exit and succession planning is the body of advice concerned with how the owner of a private company transfers ownership and realises value, whether to a third party, to management, to employees or to the next generation of the family. It is distinct from the disposal of an unincorporated business, where the analysis turns on the disposal of underlying assets rather than of shares, and where reliefs such as gift holdover and incorporation relief dominate. The focus of this report is the company: the disposal of shares in, or the reorganisation of, a private trading company carried on through one or more limited companies.

The subject sits at the intersection of several tax codes. A single transaction will often engage capital gains tax on the shareholder, corporation tax on the company, the employment-related securities rules where managers acquire shares, the transactions in securities code where value is extracted in a capital form, inheritance tax where any element of gift is present, and stamp taxes on the transfer of shares or land. Few areas of practice require the adviser to hold so many regimes in view at once, and fewer still punish a narrow focus so severely: a structure that is efficient for capital gains tax can be expensive for stamp duty, and a step that secures an income tax exemption can forfeit a death uplift worth more than the tax saved.

The stakeholders for succession advice are broad. The owner who wishes to retire and monetise a lifetime's work has different priorities from the founder who wishes to keep the business in the family, or the shareholder who has fallen out with a co-owner and wants out, or the proprietor who believes in employee ownership and is willing to accept a lower price to achieve it. The routes examined in this report – third-party sales (Section 4), family succession (Section 5), management buyouts (Section 6), company purchases of own shares (Section 7) and employee ownership trusts (Section 8) – are not mutually exclusive. A common structure gifts part of a holding to a child with holdover relief and sells the balance to management for cash; another sells to an employee ownership trust and incentivises the ongoing team with enterprise management incentive (EMI) options afterwards. The adviser's first task is to understand what the client actually wants, and only then to identify the most suitable structure.

1.2 How the landscape has changed

For most of the last decade the default advice was stable. The main rate of capital gains tax was 20%, entrepreneurs' relief (later renamed business asset disposal relief (BADR)) delivered a 10% rate on up to £10m of qualifying gains, sales to an employee ownership trust (EOT) were entirely free of capital gains tax, and shares in a trading company passed on death free of inheritance tax without limit and with a tax-free uplift in base cost. Against that backdrop, the planning questions were largely about qualification, not selection.

Two Budgets have dismantled that stability. The detailed rates and provisions are set out in Section 2 and analysed in the technical sections that follow,

but the headline shifts are worth stating at the outset because they drive the whole report. The Autumn Budget 2024 increased the main rates of capital gains tax to 18% and 24% from 30 October 2024 and set the BADR rate on a phased increase to 18% (having already had the lifetime limit cut to £1m from 11 March 2020). The same Budget announced the capping of APR and BPR, a reform later softened in December 2025 but still a fundamental change. The Autumn Budget 2025 then halved the relief on sales to an EOT to 50% of the gain, rewrote the share exchange and reconstruction anti-avoidance rule in TCGA 1992, s 137, with effect from 26 November 2025 and raised dividend tax rates from 6 April 2026.

The practical consequence is that three of the five exit routes have been re-priced since November 2025, and the relative ranking of the routes by after-tax outcome has narrowed. BADR, once worth up to £1m of tax (£10m of gains at a ten-percentage-point saving), is now worth at most £60,000. The EOT, once a 100% relief, now carries an effective 12% charge. The retain-to-death strategy, once a reliable route to an inheritance-tax-free succession of a trading company, now exposes value above £2.5m per person to an effective 20% charge. None of these changes removes a route from the table, but each changes the case for it, and the adviser who has not revisited a pre-2025 succession plan is working from an outdated regime.

1.3 The routes compared

The table below maps the five principal routes against the characteristics that most often determine which is appropriate. The tax columns reflect the position for 2026/27. Each route is examined in detail in the section indicated.

Route	Process and diligence	Cash profile	Vendor capital gains tax (2026/27)	Detailed analysis
Third-party trade sale	Lengthy due diligence, warranties and indemnities	Largely up front	18% / 24%; BADR 18% on first £1m	Section 4
Management buyout	Lighter due diligence; vendor often dictates terms	Largely deferred, often funded from profits	18% / 24%; BADR 18% on first £1m	Section 6
Family succession	No external process	Little or no cash	Gain held over (s 165), IHT within capped BPR	Section 5
Sale to an employee ownership trust	Lighter due diligence, long-term compliance	Largely deferred, often funded from profits	12% effective (50% relief from 26 November 2025)	Section 8
Company purchase of own shares	Internal, tax and company law conditions	Cash and distributable reserves needed up front	18% / 24% if capital conditions met	Section 7

The trade sale typically delivers the highest headline price and the most cash on day one, but it is the most intrusive process and the value is exposed to competitive negotiation rather than guaranteed. The management buyout and the EOT both defer most of the consideration and fund it from the company's own future profits, which suits an owner content to be paid over time but exposes them to the company's trading risk; external bank funding may be considered if necessary and appropriate. Family succession often involves little or no cash and turns on inheritance tax and holdover relief rather than on price. The company purchase of own shares is an internal mechanism that works only where continuing shareholders remain to carry the business on. The chapters that follow take each in turn, but the comparison should be made at the outset of every engagement, before any structure is designed.

2

The legislative and rate framework

This section provides the framework a practitioner needs before engaging with the detailed analysis. It identifies the principal regimes, their scope and their key provisions, and it states the rates and thresholds in force for 2026/27. It does not reproduce the detailed analysis, which belongs in the dedicated sections and is cross-referenced throughout.

2.1 The capital gains tax regime

Capital gains tax is charged under the Taxation of Chargeable Gains Act 1992 (TCGA 1992). Since 30 October 2024, the main rates have been 18% for gains falling within an individual's unused basic-rate band and 24% for gains above it. These rates apply to disposals of shares in the same way as to most other chargeable assets, the previous distinction for carried interest and residential property having been largely collapsed into a single pair of rates.

Business asset disposal relief, in TCGA 1992, ss 169H–169S, reduces the rate on qualifying gains within a lifetime limit. The lifetime limit is £1m and includes claims to entrepreneurs' relief prior to 11 March 2020. The rate of relief has been increased in stages: it was 10% to 5 April 2025, 14% for 2025/26 and 18% for 2026/27 onwards. The relief is therefore now worth, at most, the difference between 24% and 18% on £1m of gains – £60,000. Investors' relief mirrors the BADR rate and operates within its own £1m lifetime limit, reduced from £10m in October 2024. The conditions for BADR and the relief's interaction with the various exit routes are examined at Section 4.2.

Because the BADR rate increased on 6 April 2025 and again on 6 April 2026, anti-forestalling rules apply to disposals that straddle those dates to counter arrangements designed to lock in the lower rate. The mechanics – the 'excluded contract' conditions for unconditional contracts under TCGA 1992, s 28, and the parallel restrictions on elections under TCGA 1992, s 169Q – are addressed where they arise, at Section 4.3 and Section 6.5. For a disposal completing in 2026/27, the current 18% rate simply applies; the anti-forestalling code is now of relevance mainly to returns reporting 2025/26 disposals and to understanding why the timing of recent deals mattered.