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Michael O'Leary of JPA Brenson Lawlor Chartered Accountants, examines the issue of succession and whether the successor will be up to the job

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It's quite normal, as a business owner, to think ahead about what may happen to your business in the future.

Typical questions asked by pharmacists include:

- ✔ How do I prepare my business for sale?
- ✔ How do I prepare my business for succession?
- ✔ What tax reliefs are available when I sell out or transfer my business to the next generation?
- ✔ How do I provide for my retirement and how do pensions fit in the overall?

But interestingly, that though there's a growing awareness of these issues within the sector, pharmacy owners are raising worries as to whether those who take over the business are up to the job?

Let's start with the basics. If you are selling, you should take all the necessary actions to structure the sale as tax efficiently as possible. For those over 55, assuming conditions are satisfied, the good news is that no capital gains tax (current rate 33%) is due if sale proceeds do not exceed €750,000. Marginal relief restricts tax to 50% for proceeds over €750,000. However the bad news, for those aged 66 and over, is that the €750,000 is reduced to €500,000.

This raises a real concern, as these after-tax proceeds will also be liable to inheritance tax on death, an unpleasant case of double taxation! However, a sale by a qualifying holding company provides that capital gains tax will not be payable unless that company is liquidated. Income of €65,600 per annum is liable to 20% income tax for a married couple with two incomes, so you should consider taking salaries instead from your holding company. The shares in the holding company can pass on death to a spouse who can take the cash out at no tax cost.

While asset values are low it is a good time to look at succession within the business. However, the successor must be ready to do the job – and we are seeing and hearing more concerns around this issue. As a solution for those who are unsure about their successor's ability, we recommend the establishment of a transition period whereby owner and successor work together passing on key relationships and experiences.

A transfer within the family by way of gift (not inheritance) may also be liable to capital gains tax in your hands, but exemption can be available. However, if you are 66 or over, tax exemption will be restricted to the first €3m of assets. In the case of gift or inheritance, the beneficiary is also liable to capital acquisitions tax, but reliefs may also be available.

Your first task should be to provide for your own retirement. People say: "Oh God not pensions again!", but company pension contributions provide tax relief on investments, earn income tax free and provide access to tax free withdrawal (up to €200,000). Pensions should be part of every plan to build wealth outside the business but it should not be your only wealth strategy and this applies whether or not you plan to sell your business.

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