



A guide for family businesses



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Introduction

Family businesses are crucial to our economy. According to the Institute for Family Business, the UK's three million family businesses make up two in three of all private sector firms and provide more than nine million or 40% of private sector jobs. They also contribute nearly a quarter of UK GDP.

Working with your family in a business can bring valuable benefits and opportunities. However, it can also bring challenges and the potential to affect day-to-day operations, and even the future growth and direction of the business.

At Nicklin, we have experience of working with family businesses and have created this useful guide to highlight some of the key issues which businesses in this specialist sector may face, including how to pass the business down to the next generation.





About Nicklin

At Nicklin, we pride ourselves on providing a first-class service for our clients, taking the same care and attention over your business as we do our own.

Although we are audit, tax and accountancy experts, we also provide specialist business development advice, financial management services and taxation mitigation advice too. This strategic support is valued by our clients because it is exactly what they need when they are starting out, growing, investing in or stepping aside.

Because we recognise that sometimes business and personal lives are closely linked, we can also provide expert advice to help our clients protect the wealth they have worked hard for and enable them to pass it on in the most tax-efficient way. We can also help family business owners understand the attitudes, opinions and expectations of the younger generation in the business and to see why they are different to their own.

Family businesses – what are the main challenges?

- Although the strength and closeness of family relationships can add great value to businesses, loyalties and emotional ties can influence decision-making and the effective running of the business. Poor communication and differences of opinion can result in these businesses stagnating or even bring about failure of the business altogether, especially where age gaps or generational differences are causing conflict.
- The traditional values and ethos of an established family business are often its key assets, but these also need to be balanced with commercial objectives too.
- Family businesses may take a longer term view of their operations and objectives but gaining consensus on strategic planning issues may become complicated when ownership is split between a number of family members.
- Research suggests only around a quarter of family businesses successfully transfer to the second generation, and little more than 10% to a third.
- The skill-set and career aspirations of family members may not reflect the business's needs but integrating "outsiders" into a board or management structure may prove challenging.
- The business may need to raise finance but be uncomfortable about involving external investors.



Family businesses – finding the right business structure

The way your business is structured can help to support its operations in a more efficient manner.

At Nicklin, our family business specialists can work with you to help establish practical management and shareholding structures to support the effective day-to-day running of the business, which in turn contribute to its long-term viability.

We can work with you to put in place effective management structures that make the most of strengths and skills from both family and non-family members within the team – and make it clear who is doing what, and when.

We can also offer advice on structuring shareholdings that deliver appropriate rewards to those involved in the day-to-day running of the business and those who are not actively engaged, along with non-family personnel in senior roles.

Remuneration strategies for family businesses

A valuable tool to help maintain motivation and morale could be to introduce a fair and transparent remuneration strategy that reflects the contribution of key family and non-family employees to the business.

Salaries paid to family members in particular should be carefully balanced so that they do not exploit loyalty by being pitched too low, or are set too high which could suggest preferential treatment.

Our specialists can advise on putting in place consistent remuneration strategies – including benefits, bonuses and incentives – and suggest ways of reviewing these to ensure they continue to reflect the make-up and operations of the business. We can also ensure that arrangements are structured in the most tax-efficient way.

Tax-efficient profit extraction for your family business

When it comes to running a family business, planning for and actively managing tax issues can play a key part in its financial health.

At Nicklin, tax planning is an integral part of our family business services and we work hard to ensure that you make it one of yours, too.

We will guide you on all the available alternatives and explore the tax consequences of each method of profit extraction, with the aim of maximising tax efficiency and national insurance liabilities.



Family business solutions – raising finance

For many family businesses, balancing the need for external funding against investors' potential and actual demands can cause real challenges. Trying to generate funds internally could create complex financial arrangements involving a number of family investors.

We have the expertise to review your position and give you objective, realistic advice on affordable ways forward that also best suit the needs of your family business.

Our knowledge of finance sources means that we are ideally placed to identify the ones which are most appropriate. We can assist you with funding proposals and during any negotiations, and advise on structuring deals to optimise tax and other benefits.

We can explore funding options including government-backed schemes, traditional banks and other financial institutions as well as the increasingly popular option of peer-to-peer lending for businesses looking to raise finance.

Offering an independent opinion

In difficult family business situations, relationships can often become strained. Those involved can sometimes be too close to the problem to take a step back and a more objective view that prioritises the interests of the business is required.

In these circumstances, an independent adviser can help you see the bigger picture. That's where the team at Nicklin can help.

From our experience advising many family and owner-managed businesses, we understand that each one is unique and we take time to understand your business and the sector you operate in, so that we can provide the advice that meets your particular needs.

We take an objective, pragmatic approach, clarify the issues, identify the options and potential courses of action and help the decision-makers reach agreement on the way forward.



Succession planning – tackling this key issue

Statistics show that 60% of UK businesses are family-owned, but only a quarter of these make it to the next generation. It is vital to give some thought to what will happen to your business when you want to step down.

At Nicklin, we can help business owners to look at the skills, abilities and wishes of all family members to help them decide whether keeping the business in the family is the right option, particularly in instances where relatives would need time to learn the ropes.

In situations where there is no obvious family successor, a management team buyout or sale to an external buyer may be the best option. If the business is small, or too closely linked to your own specialist skills to attract a buyer, the best option may be to wind it up and realise its assets.

We can help you to put in place a succession plan that addresses the key issues, removes doubt and prepares family members and other interested parties, as well as taking into consideration tax and other key financial issues.

With a plan in place, an effective transition should not only ensure the continuity of the business, but can help to lay solid foundations for the future too.

Estate planning and family businesses

When you have worked hard to make your business a success, you want the wealth you have built to benefit your family when you are no longer around.

The earlier you start planning for the way you will pass on your estate the greater the opportunities to make your arrangements as inheritance tax-efficient as possible.

The team at Nicklin are experienced in estate planning and can advise you on a range of options to minimise your inheritance tax (IHT) liabilities, including trusts, lifetime gifts, wills and life insurance.

We understand that although you want to reduce the IHT payable on your estate, you also want to keep enough of the wealth that you've worked hard for to enjoy a comfortable standard of life through your retirement.

We will work with you to balance your financial needs and ensure that the right provision for yourself and your partner is put in place for your later life; giving you peace of mind that these important issues are being expertly dealt with.

We can also help with the drafting and updating of your will and where appropriate, act as trustees or executors.



What happens next?

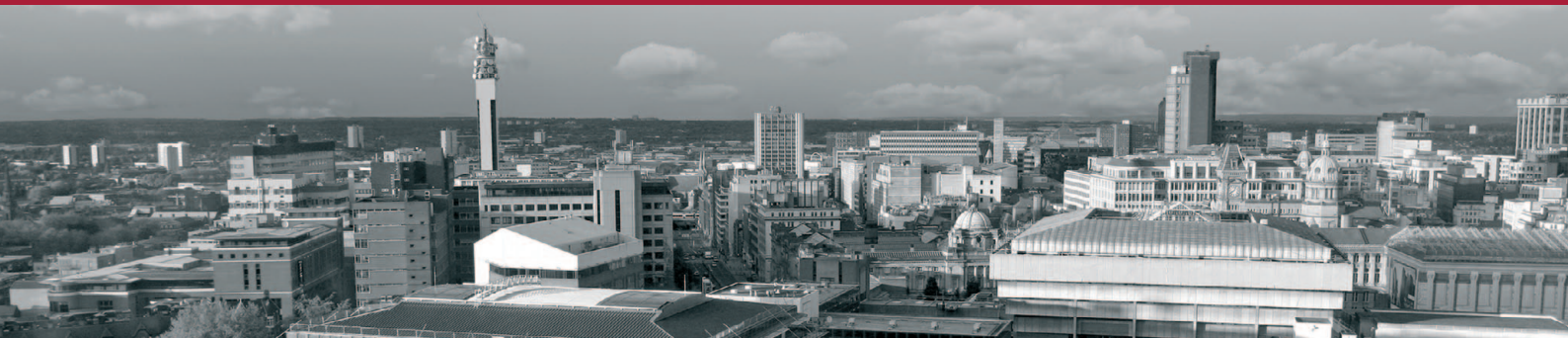
If you would like to know more about how our knowledge and experience can help your family business, please contact us to arrange a free no obligation initial meeting.



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