



## **Financial Planning on Separation Conference 2024**

Business Assets and Divorce  
Valuation and Tax Efficient Extraction



**#ResFAConf**

# Business Assets and Divorce – Valuation and Tax Efficient Extraction

## Valuation

- What can your clients expect?
- Valuation
  - Approaches
  - Valuation of shareholdings
- How can you help?

## What can your clients expect?

- Idea of valuation required for the Form E – 99% of the time the NAV will be used
- Selection of an SJE (if necessary)
- SJE valuation process:
  - Information gathering / discussions with the business owners
  - SJE report
  - Questions on the SJE report

# Business Assets and Divorce – Valuation and Tax Efficient Extraction

## Valuation approaches\*

- 1) Cost (NAV)
- 2) Market (multiple of earnings)
  - Compare to identical or comparable assets
  - Transactions with the company's own shares
- 3) Income (DCF)
  - Value of future income expressed as a single current value

\* Methodologies prescribed by the International Valuation Standards Council

## Valuation approaches - Cost

Common adjustments to the balance sheet for:

- Market value of property / investments
- Recoverability of debtors (DLA / bad debts)
- Post balance sheet date performance

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## Valuation approaches – Market

- Multiple of normalised:
  - Revenue (e.g. Saas, business services)
  - **EBITDA**
  - EBIT (asset heavy businesses, e.g. haulage)
  - PAT
- Adjust for cash free / debt free:
  - Cash
  - Surplus assets e.g. property, investments
  - Loans

Normalised earnings

x

**Multiple**

=

**Enterprise value**

+

**Cash / surplus assets**

-

**Net debt**

=

**Equity value**

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## Calculation of the value of a shareholding

Value of shareholding in a company:

- Pro-rata
- Premium
- Discount
- Other – hurdles / waterfalls

Adjustments to reflect:

- Control
- Voting rights
- Restrictions
- Quasi-partnership (Family Courts)

# Business Assets and Divorce – Valuation and Tax Efficient Extraction

## How can you help?

1. Managing expectations
  - Is a valuation needed?
  - The process / approaches
2. Assisting with submissions
3. Assisting with questions



# Business Assets and Divorce – Valuation and Tax Efficient Extraction

## How can you help?

### 1. Managing expectations

- Is a valuation needed?
- The process / approaches

### 2. Assisting with submissions

### 3. Assisting with questions

Possibly not if...

- New company not yet trading
- Dormant, minimal net assets
- Business being wound up, insolvency practitioner appointed
- Personal service company
- Low net assets, low profits, minimal director's remuneration
- Business ceased to trade / sold assets
- Tiny % interest with no dividends paid
- Loss making, net liabilities (but consider industry)

# Business Assets and Divorce – Valuation and Tax Efficient Extraction

## How can you help?

### 1. Managing expectations

- Is a valuation needed?
- The process / approaches

### 2. Assisting with submissions

### 3. Assisting with questions

Possibly yes if...

- Property investment company where property held at cost
- Healthy balance sheet and / or profitable
- Complex articles / shareholders' agreements with waterfalls
- LLP or partnerships
- Alphabet shares
- Private equity investment
- Loss making, net liabilities (but see previous slide)

# Business Assets and Divorce – Valuation and Tax Efficient Extraction

## How can you help?

### 1. Managing expectations

- Is a valuation needed?
- The process / approaches (as discussed)

### 2. Assisting with submissions

### 3. Assisting with questions



- Clear / concise submissions / questions
- Robust / reliable information
- Thinks about the other side / the other argument
- Will the answer help your client?

# Business Assets and Divorce – Valuation and Tax Efficient Extraction

## Tax Efficient Extraction

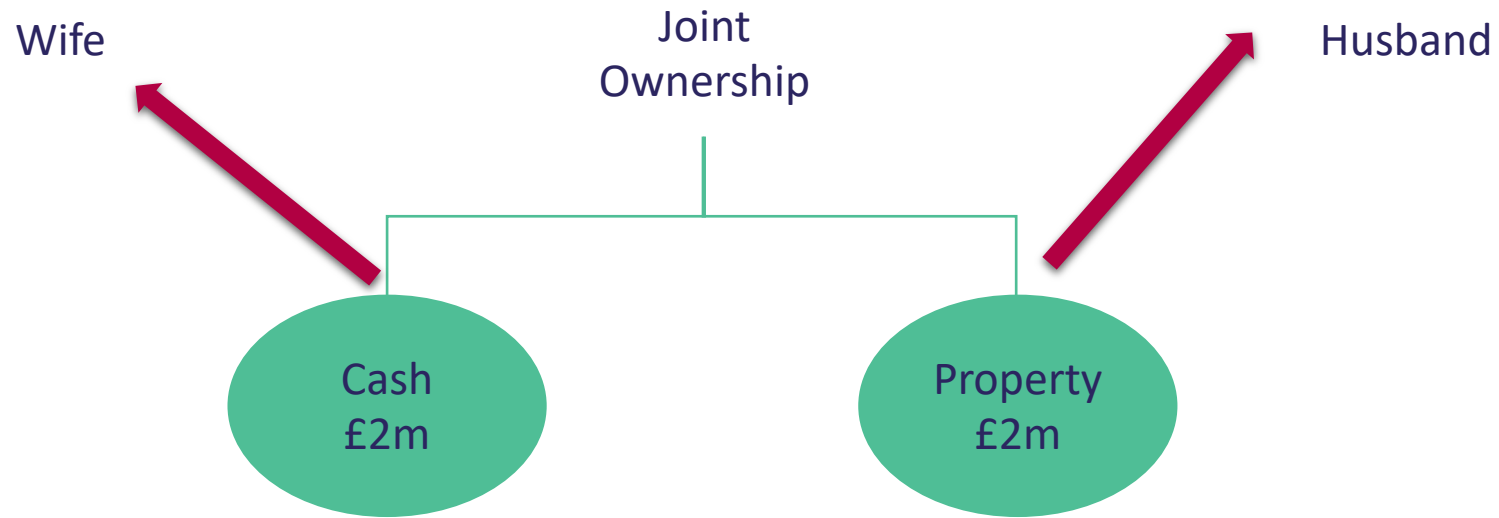
- Finance Act 2023 – Most significant change to the Tax Landscape for separating couples.
- Increase in the number of calculations needed in SJE Reports.

# Business Assets and Divorce – Valuation and Tax Efficient Extraction

## Key impacts of no-gain no-loss transfers

- If assets are transferred between the parties, now there will often be no CGT.
  - Does tax still need to be calculated?
  - Could this affect which assets are retained and which are liquidated?
- The relaxation only applies to transfers between the parties themselves, not legal entities.
  - In investment or business situations, the benefit of the new rules may be less significant than expected.

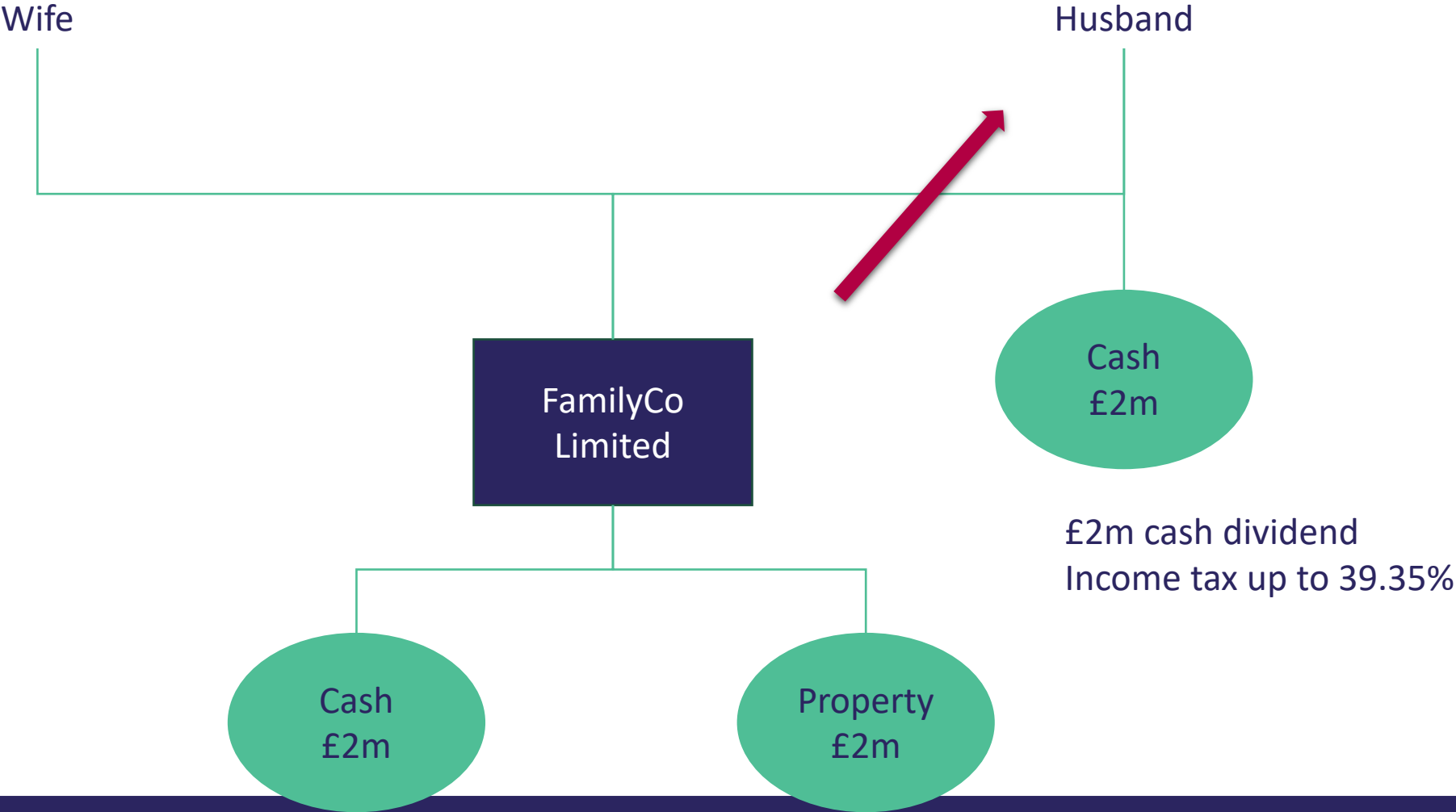
# Inter-Spouse Transfers



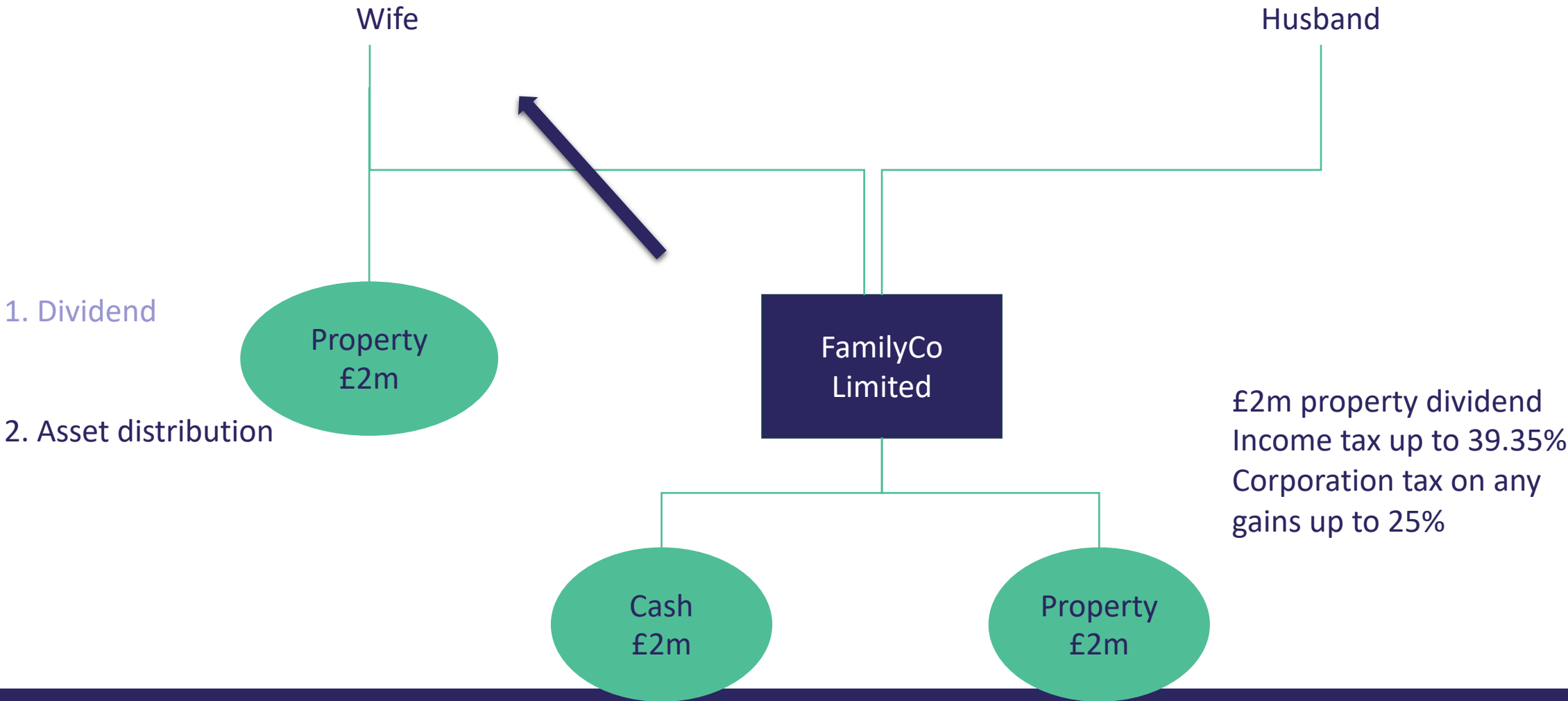
No tax when going directly between spouses

# Extracting and sharing company assets

1. Dividend

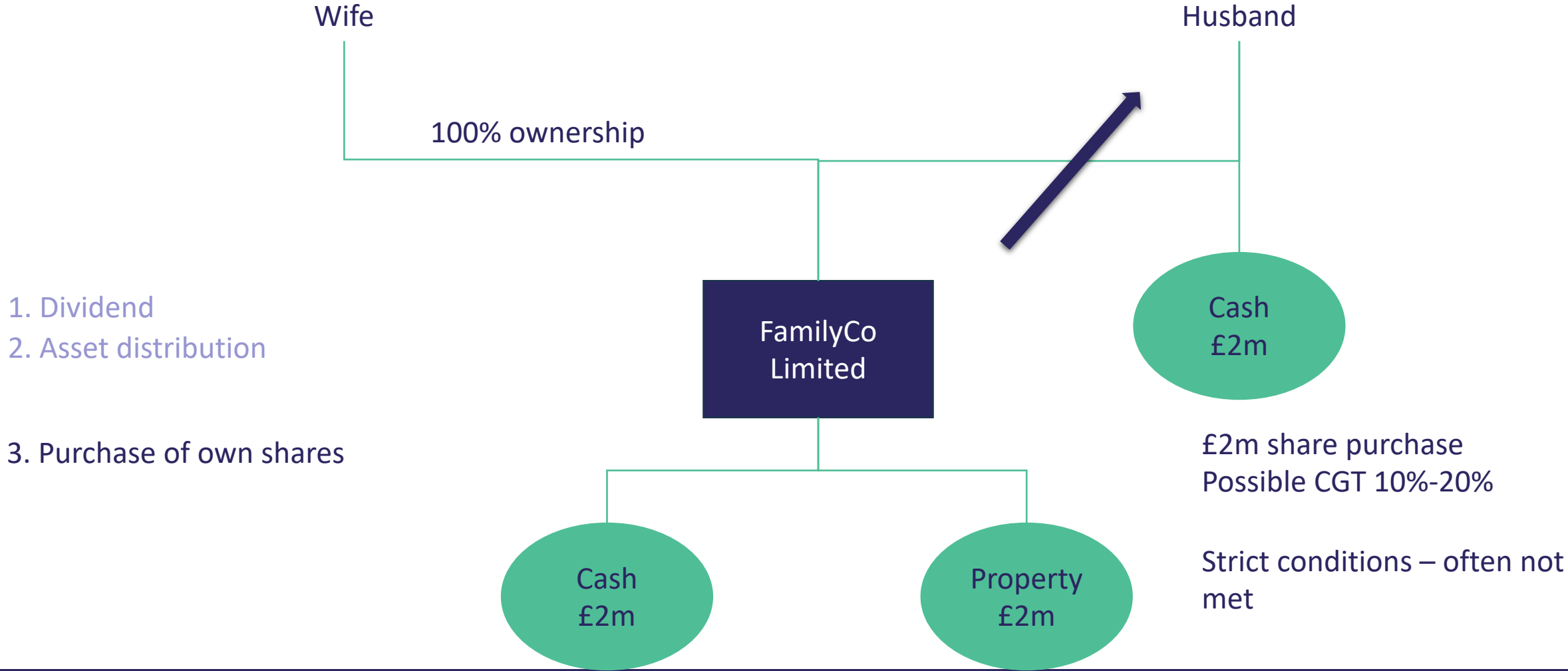


# Extracting and sharing company assets

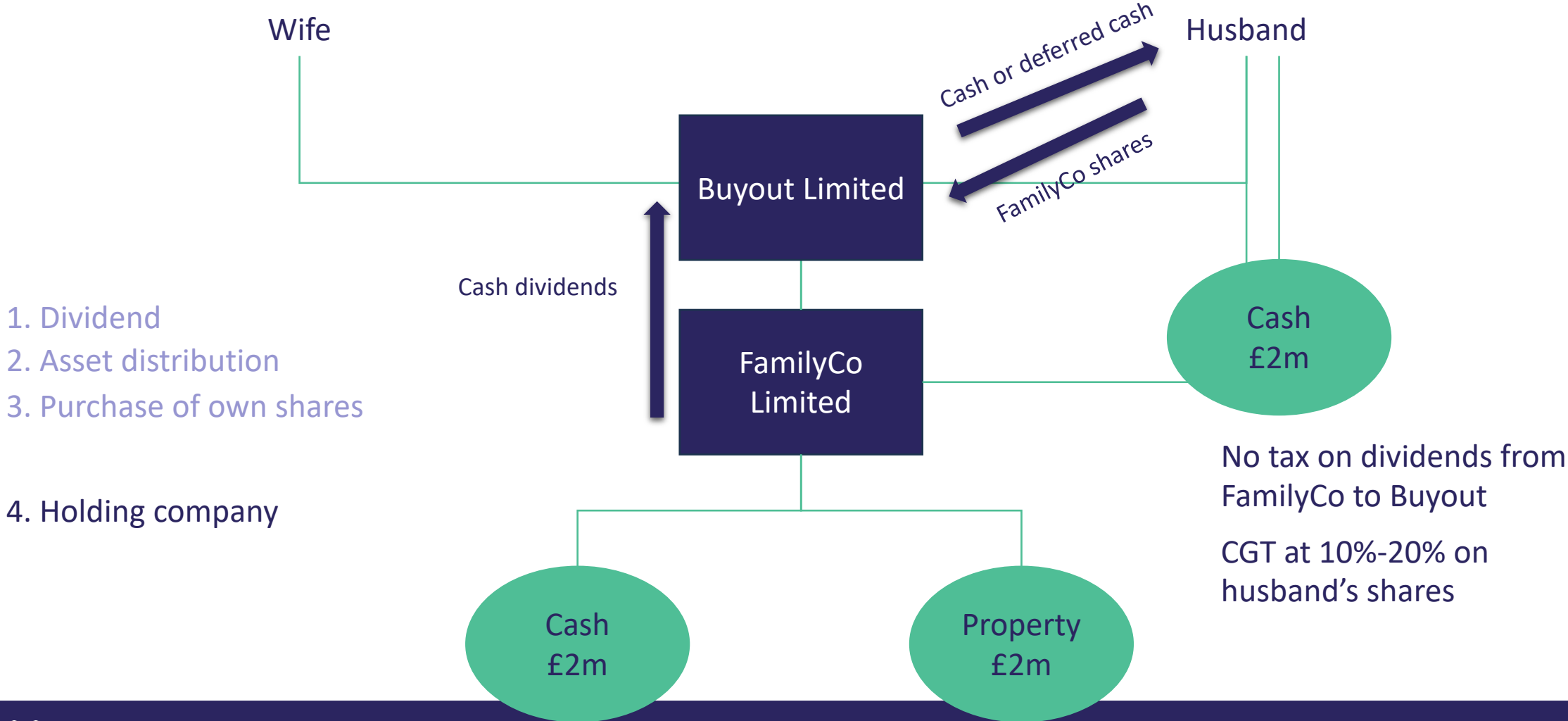




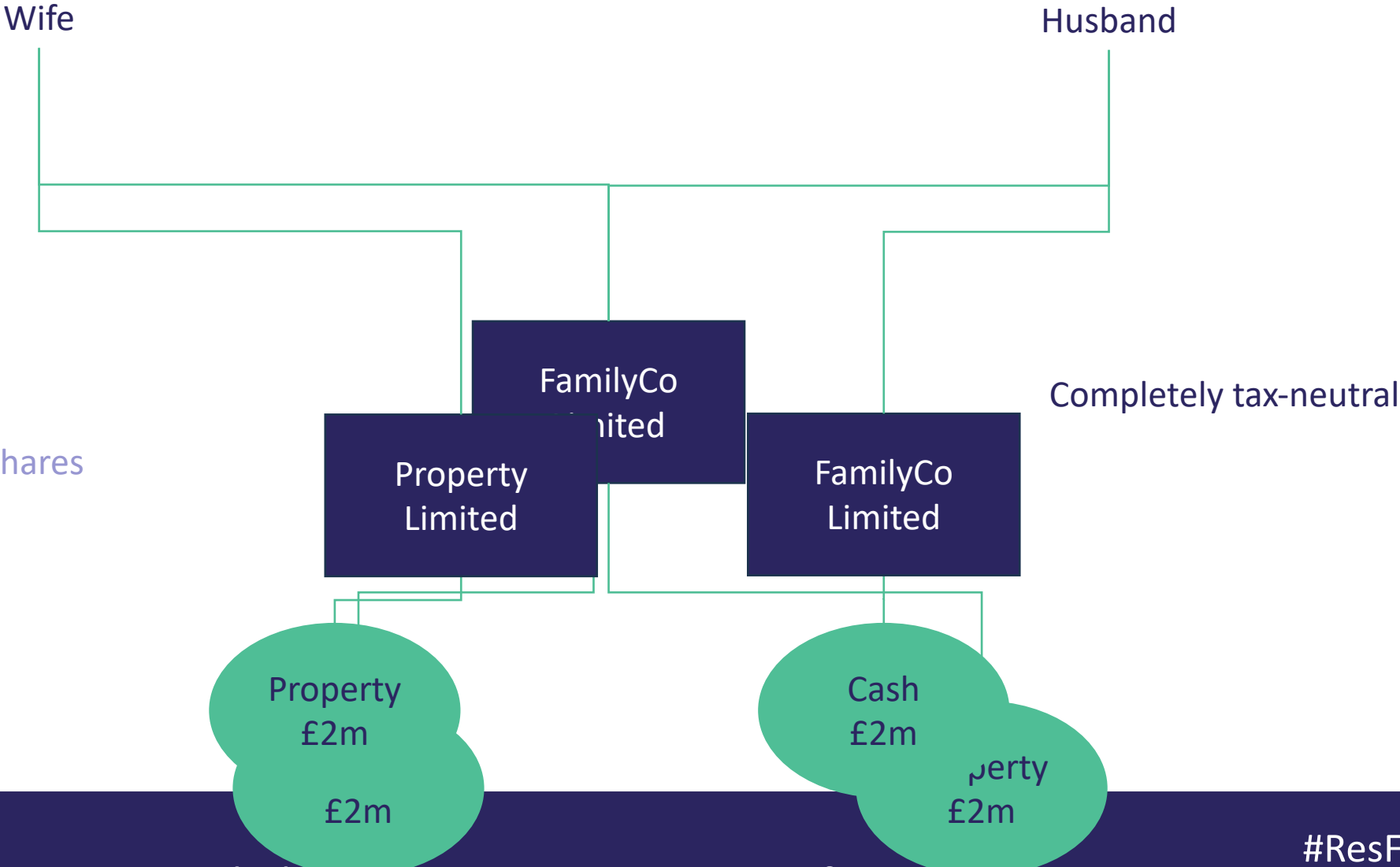
# Extracting and sharing company assets



# Extracting and sharing company assets



# Extracting and sharing company assets



- 1. Dividend
- 2. Asset distribution
- 3. Purchase of own shares
- 4. Holding company
- 5. Demerger



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