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GROUP.

**What is a  
management buyout?**

**ExitPathway.**



Selling your business is a significant decision, and it's crucial to get it right. That's where Bankhall comes in. Unlike traditional mergers and acquisition (M&A) brokers, we work closely with you to help prepare your business for sale.

We thoroughly examine everything from data quality to regulatory and compliance standards. By identifying and fixing potential issues before a buyer sees them, we help protect and often increase your sale value. Our expertise in risk and regulation also streamlines the due diligence process, reducing the chance of delays or last-minute deal breakers. If there's untapped growth potential in your business, we'll highlight it, giving you the chance to boost your valuation before going to market.

We don't stop there. We use our extensive Sesame Bankhall Group network to help find the right buyer who aligns with your goals, values, and culture. When it's time to negotiate, we're with you every step of the way, from initial discussions to exchange and completion.

With trusted consultancy, practical tools, and end-to-end support, we're your proactive partner for life, whether you're ready to sell now or preparing for the future.

# What is a management buyout?

A **management buyout (MBO)** is a transaction where a company's management team purchases the assets and operations of the business they manage. This often involves the management team partnering with external financiers, such as banks or private equity firms, to secure the necessary funding.

Here are some key points about MBOs:

- **Control:** the management team gains control of the business, which can lead to more aligned interests between management and the business.
- **Funding:** financing for MBOs typically comes from a mix of personal funds, loans, and investment from private equity firms.

## Benefits of a management buyout

An MBO is a great opportunity for staff, or sometimes family members, to take over a company. There is a lack of disruption to clients and remaining staff and a great story to tell the clients as you look to exit the business. Unlike when selling to an external party, the risk of disruption or changes to things like branding, customer fees and job security for staff will typically be lower unless they have different plans for the business.

## Structuring options

Typically, when selling your business, you would expect payments to be made over three to five years with an initial payment followed by two or three deferred consideration payments. With an MBO, the payments will be driven by the amount of debt the staff are able to raise plus any money they are able to put in themselves. Flexibility is therefore crucial as it may take longer to get the full consideration than other potential sale structures. Deferred payments are normally paid out of income into the business in the coming years.

Debt can be difficult to raise in these scenarios and there will often be personal and business guarantees are required.

There are other ways to structure this deal, such as an earn out, where there is little, or no upfront payment and the staff essentially buy out the seller from the profits of the business over time.

Working with an accountant to help forecast an affordable way for the staff to acquire the business will be vital to ensure the deal works for all involved.

## Key considerations

While this is an appealing way to sell a business, it is also worth noting that many staff can be worried when taking on large amounts of debt which can often put them off the idea. The staff also may also not want the responsibility of running the business.

You, as the seller, are also at risk. If the business is not a success following the transaction, your deferred consideration may not be paid. So, whilst this is attractive option and has many benefits, it isn't a risk-free option.

## Tax treatment of a MBO

The tax status of a MBO in the UK involves several key considerations:

1. **Capital gains tax (CGT):** If the sale of shares is treated as a capital gain, the sellers may be eligible for business asset disposal relief (formerly known as entrepreneurs' relief), which can reduce the CGT rate to 10% for qualifying gains up to a lifetime limit. Otherwise, gains are taxed at 20% (above the basic rate band).
2. **Business asset disposal relief (BADR):** While BADR, formerly known as entrepreneurs' relief, remains available, its rate will increase from 10% to 14% for disposals made on or after April 6, 2025, and further to 18% from April 6, 2026. Additionally, the lifetime limit for BADR has been reduced to £1 million. This means that you can claim the 10% tax rate on qualifying gains up to this amount over your lifetime.
3. **Income tax:** If HMRC classifies the proceeds as income rather than capital gains, the tax rate could be as high as 39.35%. It's advisable to seek advance clearance from HMRC to ensure the gains are taxed under CGT rules.
4. **Employment tax charges:** If shares are sold for more than their market value, or if value is transferred to someone else, this can lead to employment tax charges, including up to 45% income tax plus National Insurance.
5. **Interest deductibility:** The interest on loans taken to finance the MBO may be deductible, but this is subject to transfer pricing and corporate interest restriction rules.
6. **Timing of tax payments:** Different forms of payment in a MBO have different tax consequences. Professional advice is crucial to manage the timing and structure of these payments efficiently.

It's highly recommended to consult with tax professionals to navigate these complexities and ensure a tax-efficient MBO process.

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