



Autumn 2008

Franchising Update

Welcome to the latest edition of our Franchising Newsletter. In this newsletter we provide advice on buying a franchise, as well as covering important technical and advisory issues facing franchise businesses - we hope you will find it useful.

In this issue

- Tips on buying a franchise and how to structure your business
- New dawn for Menzies LLP!
- Multi-unit franchise deals call in Menzies Corporate Finance
- How do the new Capital Gains Tax (CGT) rules affect the sale of your business?
- Is an up to date business plan important?

Latest news

Tips on buying a franchise and how to structure your business

Buying a franchise and considering whether or not to set up the business as a sole trader are arguably two of the most important decisions a franchisee has to make. Menzies provided two articles for Business Franchise Magazine, the official publication of the BFA, providing guidance in these areas.

Click on the links below to see these articles:

- [Buying a franchise - think before you jump](#)
- ["Ltd" or sole trader status?](#)

Both articles are available to view at the [Menzies](#) website.

New dawn for Menzies LLP!

Menzies is pleased to announce that on the 1 July 2008 the partnership became a limited liability partnership. As part of the conversion Menzies has undergone an extensive re-branding exercise.

Jenny Cheung, head of Menzies franchising service said "Having worked with a number of franchise businesses over the years we understand the importance of moving with the times, and the need to constantly strengthen your brand. Menzies LLP is committed to helping franchise businesses fulfil their potential by delivering a bespoke package relevant to their business needs."

Menzies is committed to working closely with the franchise sector and actively works with the British Franchise Association.

Multi-unit franchise deals call in Menzies Corporate Finance

Menzies Corporate Finance Limited advises privately owned businesses on matters such as mergers & acquisitions, fundraising, due diligence and disposals. Menzies Corporate Finance has been active in the franchise arena over the last 12 months.

Corporate Finance director Mike Grayer commented "We have acted for and advised banks during the last year in connection with lending to acquire a number of franchise businesses. Two transactions of particular note involved a 14 outlet KFC, and a five outlet Subway franchise."

Mike's view on the franchise market is that "Despite the general difficulties in the market place it is clear that banks remain open for business where a robust business plan and strong management team can be demonstrated."

Advisory corner

How do the new Capital Gains Tax (CGT) rules affect the sale of your business?

Following the budget in March 2008 we are now able to confirm that business asset taper relief and indexation relief have been abolished. Both reliefs have acted to reduce capital gains, whilst taper relief was particularly generous on the sale of qualifying business assets, reducing the effective rate of tax to as low as 10%. This 10% rate was available on the whole gain regardless of the size of the chargeable gain.

From 6 April 2008 this has been replaced by a flat rate of 18% on all disposals made by individuals. A new form of relief has also been introduced in the form of entrepreneurs' relief which is applied to gains made on disposal of a trading business where the relevant conditions are met. The relief works by reducing the gain

by 4/9ths, subject to a lifetime limit of £1m on qualifying disposals. The 18% tax rate is applied to the remaining gain. The net effect of these rules is that an individual can enjoy a 10% effective tax rate on business gains up to £1m during their lifetime.

Example 1 – Tom sells four of his franchise businesses for £1.1m, giving rise to a chargeable gain of £1.1m

£1m of the gain will attract entrepreneurs' relief of £444,444 (being 4/9ths of £1m), therefore leaving a chargeable gain of £655,556. This will attract CGT at 18%, thereby giving rise to a tax liability of £118K (Effective rate of 10.73%).

Example 2 – Tom decides to sell one of his franchise businesses for £300K, giving rise to a chargeable gain of £300K.

Entrepreneur relief equates to £133,333 (being 4/9ths of £300K), thereby leaving a gain of £166,667 taxed at 18%. The CGT liability is therefore £30K (i.e. effective rate of 10%).

The above examples assume that the CGT annual exemption has already been fully utilised against other gains.

Is an up to date business plan important?

The two key reasons for maintaining an up to date business plan are:

- To enable you to focus on the plan/vision for the business. It is easy to be distracted by other business activities and to lose sight of the core direction of the business. The business plan should therefore serve to clarify and refocus management on the direction of the business, alerting them to things which are not going according to your strategy. By maintaining a clear focus you can then communicate this vision to your network of franchise owners, who help to drive the business forward.
- To enable you to identify any shortfall in funding to achieve your strategy – a lack of funding can cripple a business. The ability to identify this shortfall and pre-arrange financing from the bank, third parties or investors, is critical to the survival of the business. The business plan should demonstrate that there is a good market for your product/ service; a competent management team in place, and that the lender/ investor stands a good chance of being paid back/ obtain a good return on their investment.

If you need any assistance with preparing financial forecasts or advice on your business plan, Menzies can lend you a helping hand.

If you would like to arrange a free no obligation meeting, please do not hesitate to contact me.

We hope that you have enjoyed reading this newsletter.

Kind regards

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