

Selling a business to a private equity buyer is often the culmination of years of investment, risk-taking and value creation. For many founders, management teams and financial sponsors, the sale process can be both a rewarding and demanding experience. From a tax perspective, careful preparation is essential. Unfortunately, wanting to sell does not mean being ready to sell.

The earlier sellers start addressing tax compliance, structuring and cash extraction issues, the smoother the transaction and the better the net outcome is likely to be.

Below are a few key considerations for sellers, which if implemented, can ensure they are “deal ready” from a tax perspective in an Irish private equity context.

## 1. Early Health Check: Tax Compliance Readiness

A robust tax compliance profile reassures buyers and avoids price chips late in the process. Sellers should:

- **Conduct a vendor tax due diligence (VDD)** – Identify and, where possible, remedy any historic exposures around Value Added Tax (VAT), payroll taxes, transfer pricing or corporation tax before launching the sale.
- **Ensure all returns are up to date** – Outstanding filings or queries from the Irish Revenue Commissioners (Revenue) can create red flags. It is important to ensure that all filings and payments are up to date, and that all engagements with Revenue have been closed or progressed as far as possible.
- **Document key positions** – Buyers often probe areas such as Research & Development tax credits, capital allowances claims, restructurings or cross-border arrangements. Having clear support for the tax positions taken in respect of these and other points could streamline the buy-side due diligence process and reduce negotiation friction.

## 2. Structuring the Sale: Shares vs. Assets

Private equity buyers will have their own preferences as to the manner in which the target or target assets are acquired, but sellers should understand the tax impact of different sale structures:

- **Share sale** – Typically preferred by sellers, as gains on shares in a trading company may qualify for Ireland's participation exemption (for corporate shareholders), or for capital gains tax (CGT) reliefs (for individuals, e.g. retirement relief or entrepreneur relief).

- **Asset sale** – May be less favourable for sellers due to potential double taxation (corporation tax at company level, followed by further tax on distribution of the proceeds). However, asset deals may arise in distressed situations or where buyers wish to “cherry pick” operations.

Engaging with advisers early allows sellers to structure the business in preparation for the future sale e.g. hiving off non-core assets or reorganising group holdings, in a tax-efficient way before approaching buyers.

## 3. Cash Extraction Pre-sale

Sellers often wish to extract surplus cash or property from the business before completion. Options include:

- **Dividend distributions** – This is a straightforward way of extracting excess cash pre-sale, but subject to income tax for individuals (at higher rates). The timing of distributions in advance of a sale could also avoid impacting enterprise value, this however (particularly in the case of corporate sellers), must be balanced against the anti-avoidance provisions, which would treat the distribution as consideration received for the sale of shares.
- **Capital reductions or share buybacks** – The proceeds from a capital reduction or share buyback may achieve capital gains treatment rather than income tax treatment in the hands of the shareholder (provided certain conditions are met) and is a useful way of exiting minority shareholders and simplifying the shareholding structure of a company pre-sale.
- **Demerger or separation of assets** – Real estate or investment portfolios can sometimes be separated tax-efficiently from the trading business ahead of a sale.

Advance planning is critical, as leaving excess cash extraction to the eve of signing risks the creation of inefficient outcomes.

## 4. Preparing for Life After the Sale: Reinvestment and Estate Planning

For many sellers, the deal is not just about maximising exit proceeds, but also about the next chapter. Key considerations include:

- **Future use of funds** – Proceeds may be reinvested into new ventures, diversified across asset classes or placed into family structures. Tax-efficient holding vehicles (such as Irish or offshore companies, or investment partnerships) should be considered.
- **Personal tax planning** – Reviewing eligibility for CGT reliefs (entrepreneur relief, retirement relief) well in advance can reduce effective tax rates. For example, restructuring shareholdings or transferring shares to the next generation before signing heads of terms may unlock significant reliefs.

- **Wealth succession** – Integrating the sale into a broader estate plan ensures that wealth is preserved for future generations in a tax-efficient way.

## 5. Vendor Support for a Smooth Transaction

Private equity buyers will run rigorous due diligence across various workstreams as part of an acquisition. Sellers can simplify/assist this process by:

- **Creating a tax information pack** – Presenting clear summaries of the group structure, tax attributes (losses carried forward and credits) and compliance history speeds diligence.
- **Considering VDD report** – Particularly for competitive auctions, a VDD prepared by the seller's advisers can streamline buyer diligence and reduce negotiation time.
- **Anticipating Warranty & Indemnities (W&I) insurance** – Many private equity deals rely on warranty and indemnity insurance. Having tax issues clearly addressed upfront facilitates smoother underwriting.

## Conclusion

For sellers in private equity transactions, preparation is everything. Addressing compliance, structuring, cash extraction and future planning well in advance of a sale can deliver tangible value, not only in headline price, but in certainty of execution and post-sale peace of mind.

Engaging early with tax and legal advisers allows sellers to run a process on the front foot, avoiding last-minute surprises and ensuring that the years of effort invested in building the business translate into a tax-efficient and rewarding exit.

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Please contact our Head of Tax for Ireland, Andre Vermeulen, to discuss any queries you may have in relation to the application of Irish taxes.

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