Cranleys
CHARTERED ACCOUNTANTS



CRANLEYS' CUNNING PLANS · No. 25 · SELLING AND EXIT

Earn-Outs, Retention and The Handover Checklist

Tick it, print it, pin it up. Every box you cannot tick is a conversation worth having.



By Colin Davison FCA, Managing Partner, Cranleys Chartered Accountants. In practice since 1998. Reviewed 15 November 2026 against the 2026/27 rules.

THE QUICK ANSWER

Earn-outs tie part of the price to future performance, so you carry risk after the sale. Check how targets are measured, who controls the business, what happens on a dispute, and how tax applies. Plan your handover role and the length of any non-compete.

THE KEY FIGURES

The key facts	What to know
Earn-out	price depends on future results
Tax	the right to the earn-out can be taxed at sale
Retention	part of the price held back for claims
Handover	a defined period and role

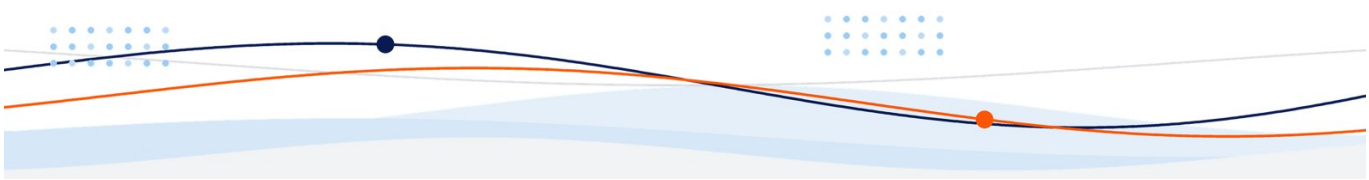
The checklist, box by box

	The check	What to do	Keep as evidence
☐	**Is the earn-out measure clear?**	Profit, revenue or milestones, and how they are calculated.	Sale agreement
☐	**Who controls the business?**	The buyer's decisions can change your result. Ask for protections.	Protections clause
☐	**How is it taxed?**	The right to future payments is itself an asset taxed at sale.	Tax advice
☐	**Is retention understood?**	Know how much, how long and what can be claimed.	Retention terms
☐	**How are loan notes treated?**	Type and security affect tax and risk.	Loan note terms
☐	**Is your handover role defined?**	Hours, duties, pay and end date.	Service agreement



MY PRO TIP

earn-outs reward the buyer's choices as much as yours.



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A worked example

A £2m price is £1.2m at completion, £500,000 after a year and up to £300,000 on a two year earn-out. The guaranteed amount is £1.7m. Only £1.2m arrives on day one, so the tax bill on the sale can arrive before all the cash does.

The trap to avoid

Agreeing an earn-out on profit when the buyer controls costs. Allocated overheads can wipe out your result.

The case that matters

Marren v Ingles [1980] 1 WLR 983: the right to future earn-out payments is itself an asset valued at completion, so tax can arise before the cash does.

The Rufus test

One question that tells you if you have the right adviser:

If the buyer made decisions that cut my earn-out, what could I do about it?

What has changed recently

- Tax on the sale. See the business sale tax checklist.
- Negotiate protections. See the finding buyers checklist.
- Manage the cash. See the after the sale checklist.

Questions I get asked

What is an earn-out?

Part of the price that depends on how the business performs after the sale.

Is an earn-out taxed when I receive it?

Not necessarily. The right to the earn-out can be valued and taxed at completion.

What is a retention?

Part of the price held back to cover warranty claims.

How long is a handover period?

It varies. Agree the role, the hours and the end date in writing.

The 9 CAD Keys link: Alignment

Alignment means the buyer and seller both want the same result after completion.

Colin's 9 CAD Keys. CORE: Clarity, Capability, Consistency. ADVANCED: Analysis & Positioning, Alignment, Acceleration. DYNAMIC: Differentiation, Dexterity, Development. Score each key 1 to 5 in the free Business Value Assessment Scorecard, total out of 45. *Freedom is built. One CAD Key at a time.*

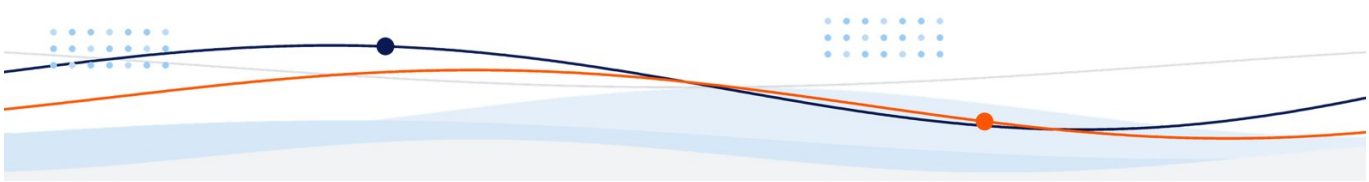
Tick these next

Business checklist 24
Finding Buyers and Negotiating the Deal Checklist

Business checklist 26
After the Sale: Cash, Tax and What Next Checklist

Business checklist 27
Succession, Family and Management Buy-Out Checklist

Tax checklist 27
Business Sale, Exit and Succession Tax Checklist 2026/27



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Go deeper: my books

For this topic, start with **Business Exit Secrets**, part of The Cranleys Business and Tax Secrets Series: Property Tax Secrets, Inheritance Tax Secrets, Business Tax Secrets, Starting Up Secrets, Business Growth Secrets and Business Exit Secrets. The books are launching soon. Join the launch list at cranleys.online/books and I will tell you the moment each one is released.

YOUR NEXT STEP

Ring me. Free draft plan, no hard sell.

I will build you a free draft tax plan or business plan on my 9 CAD Keys: a scorecard, a 12-month cashflow forecast, a 90-day action plan and a review with me. **1** Get in touch. **2** Short intro call. **3** Your free draft plan in plain English. You decide what happens next.

Get paid, then hand over.

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Scan to read online, tick it on screen and take the Scorecard



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