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5 Ways to Exit a Company or Business in Tanzania

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Exiting a company

Exiting a business means leaving or transferring ownership, whether by selling shares, transferring business segments, or winding up operations. It involves various strategies that allow owners to cease involvement in the business, either partially or entirely.

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1

Selling Shares to a Partner, Shareholder or Investor

A shareholder can exit a company by selling their shares to an existing partner, another shareholder, or an external investor. This process involves transferring full ownership of their shares in exchange for a negotiated price.

It is important to note that pre-emptive rights apply, meaning that existing shareholders must be given the first opportunity to purchase the shares before they can be offered to an external investor.

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2

Management Buyouts

A management buyout (MBO) occurs when a company's management team or employees buys all or part of the business from the current shareholders. This option allows the company to stay in familiar hands, ensuring a smooth transition.

The purchase is typically funded through a combination of personal savings, private investors, and loans. While this can be a good solution, it requires the management team to have the skills and commitment to keep the business successful.

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3

Merger and Acquisition

This strategic exit option allows a business owner to sell their company to another entity. In a merger, two businesses combine to form a new, unified organization, while in an acquisition, one company purchases another.

This approach enables the owner to cash out and realize a financial return, while ensuring the company continues to operate and benefit from the resources and capabilities of the acquiring or merging company. It offers an opportunity for growth under new ownership, though it requires careful planning and negotiation.

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4

Liquidation or Voluntary Winding Up

Liquidation is a common exit strategy for businesses that are no longer viable or able to meet their financial obligations. It involves selling off business assets to pay creditors and shareholders, with any remaining funds distributed accordingly.

If a business is solvent, directors may opt for voluntary winding up, declaring that they can settle all debts within 12 months. Unlike dissolution, which formally ends a business entity's existence, liquidation focuses on converting assets to cash to pay off liabilities.

5

Striking Off a Company from the Register

Striking off a company means removing it from the official register because it is no longer active or has violated legal rules. The Registrar of Companies may take this action if the company isn't doing business, hasn’t filed necessary documents, or is involved in illegal activities.

The company will be notified and given 30 days to respond. If there’s no response or a valid reason to keep the company active, it will be struck off and dissolved. However, the company’s debts and responsibilities may still exist, and it can be restored to the register through a court application if needed.

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When exiting a business, it’s crucial to consider tax obligations, regulatory compliance, and sector-specific requirements. The company registry will likely not approve any exit, transfer, or closure of the business without a valid tax clearance certificate.

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For more information please do not hesitate to contact us through: info@extentadvisory.co.tz

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