

# Exit Strategies for Business Owners

Like most business owners, you focus on marketing, sales, cash flow, employee retention, and the day-to-day details of your business. Your business plan helps map your path to success and sustain momentum. But you probably won't own your business forever, and you know you can't take it with you when you die.

## What is Business Succession Planning?

Similar to traditional business plans, business *succession* plans plot courses for a business owner to eventually depart from the business. This might occur at milestones you set for yourself, for the business, for your employees, or at your death or disability. A business *succession* plan should be part of your traditional business plan, incorporating your personal vision for the business, economic factors, and an implementation strategy.

## Personal Vision

Timing. Exhilarating or exhausting, your role in your business changes constantly. So might the time horizon for your departure, depending on your age, retirement prospects, other business opportunities, and anticipated lifestyle or residence changes. Owners should periodically reassess their feelings about the work, the future of the business, and the time and energy they want to devote to it.

Who Should Get the Business? Without a plan, family members generally inherit the business at the owner's death. This may be your goal if the family members contributed to the success of the business. If they did not, or if you believe they cannot run the business without guidance, "no plan" could mean the end of the business. Worse yet, it could mean the end of good family relationships. A deliberate, orderly plan of succession is always better than hastily concocted arrangements after the owner's death, especially if unexpected.

There other decisions to be mapped out in a succession plan. Should family members inherit the business outright, or should they be required to earn it? If some family members are involved but others are not, should each member receive an equal share? Would a key employee or employees who are not family be a better candidate to run or own the business, and under what circumstances? Is there a market for selling to an outsider? Could the business be merged with or sold to a competitor? And what is the business really "worth?"

## Economic Factors

Income. Your business is your livelihood. If your exit is planned properly, it may continue to be. How much money do you need after leaving the business? Is a new business venture on the horizon? Would it be better to sell for cash, or to "carry" a note earning interest? How should the note be secured? Could you gift fractional interests in the business over time and still retain income?

Taxes. Each technique for departing from your business has different tax consequences, including personal and business income tax, gift tax and estate tax. Understanding these consequences, the amount of taxes that might ultimately be paid, and how they affect your bottom line may well lead you to choose one or more exit strategies over others.

Business Condition and Value. Whether selling to an investor, competitor or employee, maximizing the value of the business prior to transfer makes good sense. Accounting methods, customer base, distribution channels, market share and management continuity are important factors for determining the sales price. For transfers to family members or employees, setting a different value for the business could minimize or even eliminate estate taxes at the owner's death.

### **Implementation**

Depending upon the business and the specific succession plan(s), your team of advisors may include an accountant, business planning attorney, financial or insurance advisor, investment banker, business broker, and estate planning/tax attorney. Each offers expertise and objectivity in areas that the business owner is likely inexperienced or influenced by emotion. A good team can save the owner time and money in the long run, with much greater likelihood of success.

*The attorneys at the Schafer Thomas Maez PC, specialize in succession planning, business, tax, estate planning and probate law. Contact them at 303-469-7367.*