

Using a Financial Planner to Develop an Exit Strategy for Selling Your Business or Retiring

by Chris Lester / June 2024

For many business owners, the eventual exit from their business can be just as significant as the day they first launched it. Whether you're thinking of selling your business, passing it on to a family member, or simply closing the doors to retire, having a well-structured exit strategy is crucial. A financial planner can help you navigate this complex process, ensuring that your financial goals, personal preferences, and legal obligations are met.

Here's why working with a financial planner is beneficial and an overview of the different options for exiting your business:

Benefits of Using a Financial Planner for an Exit Strategy

1. Objective Financial Analysis

A financial planner brings objectivity and experience to the table. They'll assess your current financial situation, the value of your business, and your retirement needs. This helps ensure you don't make emotional or uninformed decisions that could cost you financially.

2. Maximizing Business Value

If selling the business is your goal, a financial planner can collaborate with other professionals like business appraisers, accountants, and attorneys to maximize the business's value. They can guide you through potential tax implications, ensuring you retain as much of the proceeds as possible.



3. Tax-Optimized Strategies

Exiting a business involves various tax considerations. A planner can help you manage the capital gains taxes associated with selling your business, or help structure buyout agreements in tax-efficient ways. They can also offer strategies for minimizing inheritance taxes if you're passing the business on to a family member.

4. Aligning Exit Plans with Retirement Goals

Your business exit needs to align with your overall retirement plan. A financial planner can ensure that the sale or transition of your business supports your long-term financial stability. This might include building a portfolio from the sale proceeds, setting up a trust for a legacy, or ensuring you have income streams in retirement.

5. Managing Family Dynamics

If you plan to pass your business to a family member, a financial planner can help facilitate the process, keeping family dynamics in mind. These transitions can be emotional, and a neutral third-party planner can help smooth the way, ensuring the next generation is prepared for success.

Exit Options for Business Owners

1. Selling Your Business

- **External Sale to a Third Party:** This is often the most lucrative option. You may sell to a competitor, private equity firm, or an individual looking to invest. A financial planner can assist in valuing the business, structuring the sale, and preparing for the tax consequences. They can also help you decide between an outright sale or financing part of the deal with the buyer through a seller's note.

- **Employee Buyout:** Another option is selling the business to your employees. Through an Employee Stock Ownership Plan (ESOP), your employees can gradually buy shares in the company over time. A financial planner can help structure this type of deal and ensure it's beneficial for both you and your employees.

2. Passing the Business to a Family Member

- **Gift or Selling to a Family Member:** Many business owners prefer to keep the business within the family. If this is your plan, a financial planner can help you decide whether to gift the business (which could have tax implications) or sell it to a family member at a favorable price. They'll also help structure any estate planning strategies necessary to protect the family and minimize taxes.

- Gradual Transition: You could choose to stay on board during a gradual transition, training the next generation before stepping away completely. A financial planner can help coordinate this timeline with your retirement goals, ensuring you have sufficient income or retained equity during the transition phase.

3. Shutting Down the Business and Retiring

- Liquidating Assets: If selling the business or passing it on isn't an option, shutting down and liquidating the assets may be necessary. A financial planner can help you develop a strategy for selling off equipment, inventory, and real estate, as well as winding down outstanding debts. They can also ensure that your personal financial health is secure, regardless of the business's closure.

- Financial Planning for Retirement: Shutting down doesn't mean the end of your financial journey. A financial planner will ensure your retirement needs are met through alternative income sources such as investments, real estate, or Social Security benefits.

Exiting a business is a major financial and emotional decision. Working with a financial planner can make the process smoother and more beneficial by helping you evaluate your options, plan for taxes, and ensure a comfortable retirement. Whether you choose to sell, pass the business to a family member, or close its doors, having a well-crafted exit strategy will protect both your financial interests and your legacy.

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