

OPTIMIZING YOUR OPTIONALITY

The Ultimate Guide to Selling or
Transitioning Your Business

WHAT YOU WILL LEARN IN THIS GUIDE

- Available options to sell or transfer your business to fund a secure retirement
- How to turn your business into retirement income without selling
- Proactive tax strategies for you, your family, and your business
- Estate planning strategies that benefit business owners
- Five tax considerations for owners considering selling
- Choosing the optimal time to sell your business
- How to structure asset location to optimize future results
- Helpful retirement planning resources for business owners

In the U.S. business and financial media, some of the most dramatic headlines are reserved for startups and businesses boasting exponential growth rates and earnings. There are fewer headlines to remind investors and business owners that what matters is not what you earn, but what you keep. When business owners are laser-focused on growing a business, it's easy to delay exit planning until they start thinking about selling or transitioning their business.

The numbers can be shocking. One of the most important future challenges for many owners is how to capture business value and achieve optimal outcomes when it comes time to sell or transition. Research shows that many business owners have 80% to 90% of their assets tied up in their business. These assets are often not held in a tax-efficient way, and a large portion of wealth held in the business may be subject to legal actions or other business setbacks. Only 30% to 40% of businesses listed for sale actually ever sell, according to [Investmentbank.com](https://www.investmentbank.com). More than three-quarters of business owners who sold their businesses regretted that sale within a year, according to the [Exit Planning Institute](https://www.exitplanninginstitute.com).

The financial lives of business owners are vastly different than the financial lives of their employees. This guide is designed to help business owners plan ahead to optimize the value of their business to fund a secure and comfortable retirement whether they decide to sell or transfer.

So many business owners have a “wealth gap” where almost all of their net worth is tied up in an illiquid business. This gap is a clear signal of the need for strategic long-term planning.

A team of specialists, including a financial advisor who is experienced in exit planning, can help business owners define their wealth gap and create a plan to close it. That means they can choose from some desirable options when selling or transferring, without the need to exit under less-than-ideal circumstances.

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HOW TO OPTIMIZE YOUR OPTIONALITY

It's no exaggeration to say that family-owned businesses are the foundation of the U.S. economy. Family businesses employ 59% of the U.S. workforce and drive 54% of U.S. gross domestic product (GDP)—nearly \$7.7 trillion, according to [Familybusiness.org](https://familybusiness.org). And although each is unique, many of the family business owners we work with share a similar goal: To sell or transfer their business to optimize its full value to fund a secure and comfortable retirement.

Retirement planning is challenging in general. The combination of business ownership concerns, along with family dynamics, can compound those challenges.

The solution is a combination of optimization and optionality, which enables business owners to maintain current operations and growth while preparing an effective plan to optimize outcomes when it comes time to sell or transfer their business.

Optimize	To make something as good as it can be; to use something in the best possible way. Source: Oxford Learner's Dictionaries
Optionality	Something that has more than one good solution for a complex challenge. Source: Forbes

In this case, Optimizing Your Optionality means giving yourself every advantage by creating a plan for success and security, regardless of whether your goal is to sell or transfer your business.

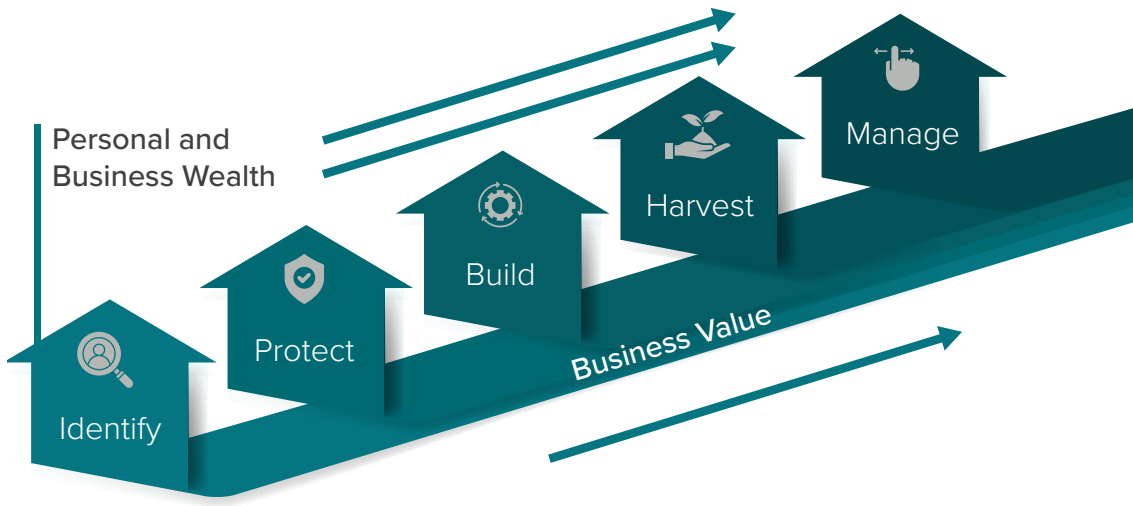
UNLOCKING THE VALUE OF YOUR BUSINESS

Although many business owners share this goal of transforming the fruits of their labor into a comfortable retirement, research shows a need for more preparedness among business owners regarding the sale or transition of their businesses to support a secure retirement.

One model that's detailed in the book *Walking to Destiny* by Christopher Snider shows the importance of aligning business and personal wealth for business owners. It's common for business and personal wealth to get out of line when owners are focused on managing and growing a business to provide for their families and their teams.

Walking to Destiny is described as a “business owner’s handbook to know how to rapidly grow value and ultimately unlock the personal wealth trapped in your most significant financial asset: Your Business.” The book describes The Five Stages of Value Maturity to create a more valuable business, each one increasing the value of a business for an eventual sale or transfer.

THE FIVE STAGES OF VALUE MATURITY



Source: Exit Planning Institute

Identify	Conduct annual business valuations to identify focus areas and goals
Protect	Protect the accumulated value in your business by mitigating risks
Build	Focus on building social, customer, structural, and human capital
Harvest	Begin to tap into business value, examine exit options
Manage	Manage the exit of your business to optimize value and net proceeds

The diagram above shows the alignment of personal and business wealth through five stages of value maturity. This is sometimes called the journey from “Success to Significance.”

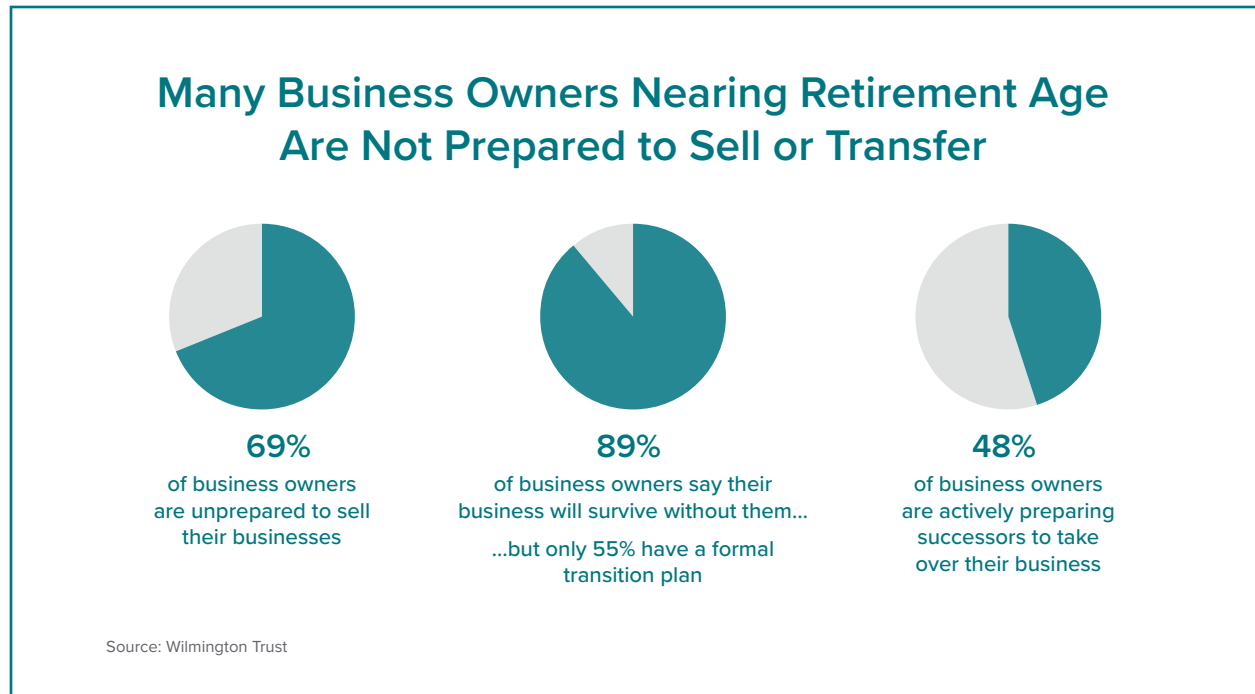
During this progression, business owners consider questions including:

- How do I shift my focus from business growth to creating personal wealth to fund my retirement, family, and legacy?
- How do I increase the readiness and attractiveness of my business to buyers?
- What’s my next chapter after liquidity?
- How will exit planning help to close my wealth gap and fund my next chapter?

In addition to building business value, the alignment between business and personal wealth can be improved with each stage. The five stages also underscore the need for another type of alignment: Ensuring that the company’s increasing business value translates into net proceeds after fees, taxes, debt, and other costs associated with selling or transitioning.

These considerations even extend to how you own your business. Many businesses begin as sole proprietorships or partnerships. But as your business grows, you must take care that your business structure keeps pace. Structuring as a corporation, LLC, or specific types of partnerships can help protect personal assets from creditors.

The way you structure your business affects your tax efficiency and ability to obtain credit. The right business structure also helps position your business for a successful sale, transition, or recapitalization. Now that we have this parallel thinking framework to build upon, let's look at some other important aspects of optimizing your business value and making the most of your exit options.



In a [2019 survey](#) by Wilmington Trust, 89% of owners believed their business would survive without them. However, less than half of business owners are preparing successors to take over for when they are ready to step back.

The same survey showed that 69% of business owners reported that they were not prepared to sell their businesses. Their reasoning isn't negative, though. The most common answer for why they aren't preparing to sell is because they enjoy running the business.

While we understand that you may not want to sell your business—and you may never need to—an important part of *Optimizing Your Optionality* is **being prepared to sell your business in case you decide to**. This way, you won't be caught scrambling if the need arises. If you need to sell your business or transfer it to your successor, you need to have a plan in place, so you aren't forced to do so under unfavorable circumstances.

By the Numbers: Key Stats Business Owners Should Know

SELLING A PRIVATELY HELD BUSINESS? YOU NEED TO BE OPTIMIZING YOUR OPTIONALITY. HERE ARE A FEW STATS THAT YOU MIGHT FIND SURPRISING.

1.

Between 80% to 90% of business owners' wealth is locked into their companies, according to [CNBC](#). This extreme lack of diversification makes the successful transfer of the business critical to each business owner's future financial plans.

2.

There's an oft-cited statistic that only 30% of family-owned businesses survive through the second generation, and only 3% survive the fourth. This stat came from a [single study](#) that focused on a single industry (manufacturing companies in 1980s Illinois), but it doesn't undercut the lesson: **If you want your family business to survive the ages, you need to have crystal clear communication with your successors.**

3.

Over half of business owners try to sell the business themselves, according to [Benchmark International](#). When you've built your business from the ground up, it makes sense that you want to be able to sell it yourself too. But selling a business is a lot different from building a business—which is why you need a team to help you do it successfully.

4.

In a study by the [Exit Planning Institute](#), **53% of San Diego business owners said they had given "little to no attention" to their business transition plan,** though 75% of the respondents were older than 50. In addition, 70% of those surveyed didn't know how much after-tax income they needed to support their lifestyle.

5.

According to [Andrew Cagnetta](#), CEO of business brokerage firm Transworld, **about half of all business transactions fall apart during the formal due diligence stage** due to poor disclosures and communication. If prospective buyers and sellers work with experienced advisors, expensive mistakes can be avoided.

ESTATE PLANNING CONSIDERATIONS FOR BUSINESS OWNERS

Estate planning is critical for business owners. You not only need to consider the transfer of your personal assets but also the smooth transition and preservation of your business. It's a complex problem that requires a full-systems approach.

GETTING A VALUATION

First, you must know what your business is worth. An accurate and current valuation is the ounce of prevention that can avoid many issues in the sale or transition process. Plan to get a professional, third-party valuation of your business to determine its worth accurately. According to [Wilmington Trust](#), just 49% of business owners have performed a business valuation.

BUY-SELL AGREEMENT

If you have co-owners or partners and you don't already have a buy-sell agreement, you'll need to get one in place. Also known as a buyout agreement, this is a legally binding contract that outlines what happens to the ownership of the business under specific circumstances:

Death	If you or another owner dies, the buy-sell agreement establishes the process by which the remaining owners can purchase the deceased owner's share from their estate or beneficiaries.
Disability	If an owner can no longer actively participate in the business, the agreement can set guidelines for the buyout of their share.
Retirement	If a co-owner decides to retire, the agreement stipulates the terms under which the remaining owners can acquire their position.
Voluntary Sale	If an owner wishes to sell their interest, the agreement can lay out terms for such transactions.

A critical underlying factor in a buy-sell agreement is the valuation of the business. Once in place, a buy-sell agreement can ensure a smooth transition of ownership and avoid potential disputes in the future if the unthinkable happens.

SUCCESSION PLANNING

If you wish for someone to take over your business when you retire, you'll need to start planning for it. The earlier you start, the easier the process becomes. First, identify and groom potential successors, whether they're family members, key employees, or existing partners. Think about their qualifications, abilities, and commitment to the business's long-term success. Then, consider the following points:

Contingency Planning	Estate planning with succession in mind involves creating contingency plans in case a potential successor is unwilling or unable to take over the business. Ask yourself "what if" and come up with different solutions.
Business Continuity Plan	Develop a comprehensive plan that outlines the steps necessary to keep the business operational during and after a transition. Address emergency management, key personnel responsibilities, client communication, and any potential challenges that may arise.
Regular Reviews	You need to keep your plans up to date. The world changes quickly, and circumstances can drastically shift between planning sessions. If you're legitimately considering succession as an exit for your involvement with your business, you should be reviewing and updating your plan regularly—at least once a year.

Financial and wealth advisors who assist you with your succession planning should have access to a team of tax experts because taxes are a critical piece of your estate plan. **Getting your tax projections wrong can mean leaving millions of dollars on the table.**

ESTATE TAX PLANNING

For many business owners, the most important aspect of estate planning relates to taxes.

Tax Minimization	Strategies for tax minimization may involve establishing trusts, gifting shares of the business, or using valuation discounts to reduce the taxable value of the business.
Business Structure and Entity Planning	Consider the legal structure of your business and how it affects your estate plan. For example, if you have a sole proprietorship, the business assets are generally included in your personal estate. However, if you have a corporation or limited liability company (LLC), you may need to consider how ownership interests are passed on and any restrictions imposed by your operating agreement or bylaws.
Succession Design	Proper estate planning can help structure the transfer of business ownership in a way that minimizes tax burdens for both the current owner and the successor(s).

Remember, estate planning is a complex area, and even more so for business owners. You need to work with experienced professionals who can help you navigate the complexities and tailor a plan to your specific needs.

CHECKLIST: ESTATE PLANNING DOCUMENTS FOR BUSINESS OWNERS

Being a business owner doesn't exclude you from needing an estate plan. **Your unique position makes planning even more critical.** Here's how your business fits into estate planning documents:

- ☐ **Will:** A Last Will and Testament documents who receives your assets when you die. Business owners can use a will to direct how their business and personal assets should be distributed following their death. You can name beneficiaries, appoint an executor for your estate, and provide instructions for the transfer or sale of your business.
- ☐ **Living Will:** Documents what type of medical care an individual wishes—or does not wish—to receive in the event they are unable to communicate. A living will is essential if a person is seriously injured, unconscious, or unable to instruct health care professionals on the use of life-sustaining treatments such as assisted breathing or tube feeding.
- ☐ **Power of Attorney:** The POA allows you to designate someone to step in and manage your finances if you are unable to. This document is important for business owners because it allows a trusted individual to make decisions and manage the business in your absence.
- ☐ **Trusts:** Certain types of trusts can be beneficial for business owners in different circumstances. A revocable living trust could allow you to transfer ownership of your business and other assets during your lifetime, ensuring a smooth transition while avoiding probate. Irrevocable trusts, such as an irrevocable life insurance trust (ILIT), can be used to minimize estate taxes and provide liquidity for the business.
- ☐ **Charitable Trusts:** An irrevocable trust established for charitable purposes. A charitable trust provides investors a way to use assets to benefit their own families as well as selected charities, often providing tax and other financial benefits. The name of this document may vary according to your jurisdiction.
- ☐ **Buy-Sell Agreement:** A buy-sell agreement is essential if you have co-owners or partners. This document outlines the terms and conditions for the transfer of ownership interests upon certain events, such as death, disability, or retirement. It helps maintain business continuity and provides a mechanism for the fair valuation and purchase of a deceased owner's share.
- ☐ **Operating or Shareholder Agreement:** For businesses with multiple owners, an operating agreement (for LLCs) or shareholder agreement (for corporations) outlines the rights, responsibilities, and transferability of ownership interests among the owners. It can address issues related to business continuity, succession planning, and dispute resolution.
- ☐ **Insurance:** Owners should regularly review their life insurance policies to ensure they can cover any financial obligations, such as business debts or buy-sell agreements. Additionally, consider key person insurance to protect the business in the event of the death or disability of a key employee or owner.
- ☐ **Family Limited Partnership:** An agreement between family members to pool their money in support of a business initiative. Individual family members can buy shares of the business and participate in profits or losses accordingly. Family Limited Partnerships are often used by families as a tax-advantaged way to pass along generational wealth.

ASSET LOCATION FOR BUSINESS OWNERS:

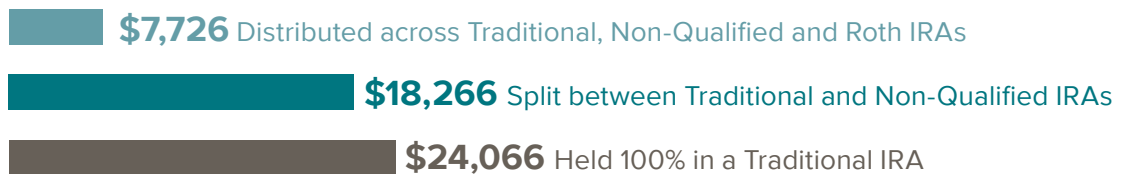
Most business owners keep a close eye on asset growth but pay less attention to how those assets are held. All business owners, not just those considering selling or transitioning, should be aware of where they are locating their assets. The way business owners allocate assets can have a dramatic impact on current tax liabilities and long-term financial goals such as retirement income and estate planning.

Different types of accounts (taxable, tax-deferred, tax-advantaged, tax-free) are subject to varying tax treatments. Understanding these treatments can help optimize long-term value and reduce overall tax liabilities. Let's look at an example of how allocation between taxable, tax-deferred, tax-advantaged, and tax-free accounts can affect your bottom line.



In the example below, note each of the three distribution scenarios has the same assumptions and a gross income of \$179,750. But the **tax treatment** and take-home income are where the big differences come into play.

TAXES ON GROSS INCOME OF \$179,750



That's a potential annual tax savings of \$16,340 – nearly 68% – simply by reallocating assets.

These savings can make a major difference in building your wealth over time. In addition to minimizing tax liabilities, this type of diversification can help minimize risk and potentially benefit your retirement income and estate plan.

This is only one example of tax efficiency and savings, and there are others that may be actionable depending on your situation. For this reason, it's important for owners to practice tax-smart asset allocation throughout the life of their business, and work with an advisor to stay informed about potential tax law changes to make informed decisions.

5 TAX CONSIDERATIONS FOR OWNERS SELLING THEIR BUSINESSES

By now it's clear that selling a business is no small task. In addition to the complexity of the sale itself, owners need to keep taxes in mind. Here are the five most important tax considerations business owners should track as they explore their transition options:

Capital Gains Tax	The sale of a business can trigger a taxable event. The profit or gain from the sale can be subject to capital gains tax. The tax rate can vary depending on several factors, including the holding period, the business type, and the individual's tax bracket. When business owners are approaching a sale, they need to consult with tax professionals to understand the strategies they can use to mitigate their tax burden (including exemptions, deferment, installment sales, or like-kind exchanges).
Section 1202	The Small Business Stock Gains Exclusion, also known as Section 1202, allows qualified small business stock to be eligible for partial or complete exclusion from capital gains tax upon sale. Requirements include holding the stock for at least five years, as well as other exclusions relating to the business type and value.
Entity Structure	The tax implications of selling a business can vary depending on how the entity is structured. Sole proprietorships, partnerships, LLCs, and corporations may have different tax consequences. Business owners should consider the benefits and drawbacks of restructuring the business before its sale.
Purchase Price Allocation	During the sale of a business, both buyers and sellers must submit a purchase price allocation. In this document, parties assign value to various assets, such as tangible property, intellectual property, customer lists, and goodwill. All these categories may be subject to different tax treatment. Savvy sellers and their tax advisors can therefore design a tax-efficient allocation strategy, which can help minimize the tax liability for both the buyer and the seller.
State and Local Taxes	In addition to federal taxes, owners must consider state and local tax obligations when selling their business. Different states have different rules and rates; they may impose taxes on the sale of assets or business interests.

TIMING IS EVERYTHING: HOW TO KNOW WHEN IT'S TIME TO SELL?

In exit planning, timing really is everything. All other things being equal, the decision of when to transition can mean the difference between success and failure.

BUSINESS PERFORMANCE & MARKET CONDITIONS

Is your business healthy? Are you profitable? Does your market have a positive outlook? The more you say yes, the better prospects your sale has. The current performance and projections of the business are crucial considerations. Favorable conditions, including high demand for businesses in the industry or a strong local economy, can increase the likelihood of a successful sale and potentially fetch a higher price.

PERSONAL READINESS

You need to believe that you're ready for your business transition to succeed. Doing so means you need to evaluate your life: financial goals, retirement plans, lifestyle preferences, and the desire to pursue other ventures. It's important to align the timing of the sale with personal objectives and ensure the sale can fund your future.

EXIT STRATEGY & VALUATION

Before you consider transitioning your business, you need to prepare. Developing a comprehensive exit strategy and succession plan (if applicable) is vital for a successful transition. It takes time to execute a well-planned exit strategy, so start the process early and allow sufficient time for transition.

Upstream of your exit strategy is performing a business valuation: The financial health and valuation of the business play a critical role in determining the timing of a sale. Owners should carefully review their financial statements and cash flow projections before and after receiving their valuation. Strong financial performance and growth trajectory can enhance the value of the business and attract potential buyers.

When Selling Your Business, Timing Is Everything



Personal Readiness

- ☐ Are you ready to transfer your business?
- ☐ Can you sustain your desired lifestyle?
- ☐ Have you considered what you'll do next?



Business Performance

- ☐ Is your business profitable?
- ☐ Is your industry in demand?
- ☐ Do you have a strong local economy?



Exit Strategy

- ☐ Have you performed a business valuation?
- ☐ Do you have contingency plans?
- ☐ Have you consulted an experienced financial advisor?

**The more you answer “yes” to these questions,
the better prepared you are for your business transition.**

You may not be able to choose the specific time you want to sell your business. However, you can take steps now to create a state of readiness for yourself and boost the attractiveness of the business to potential buyers, as shown in the Five Stages of Value Maturity. You and your business must be ready when the most favorable exit opportunities appear. The optimal timing for your own sale or transition will depend on your individual circumstances. We recommend that you consult with experienced financial advisors, business brokers, and industry experts who can provide guidance specific to your situation and help you make informed decisions about the timing of the sale.

RESOURCES FOR BUSINESS OWNERS

Fortunately, business owners don't have to walk the road alone. You have many resources available to learn more about your options, from estate planning to succession and transfer. Here are a few places where you can go for guidance:

- **Business and Trade Associations:** Many industry-specific business and trade associations offer resources, seminars, and workshops on estate planning for their members. Wealth Enhancement Group provides comprehensive financial, estate, exit, and retirement planning resources.
- **Financial Advisors:** Offer guidance on wealth preservation, tax-efficient strategies, and investment planning. The advisors at Wealth Enhancement Group work alongside our Roundtable™ team of experts to provide you with the pertinent advice you need—all with one point of contact.
- **Estate Planning Attorneys:** Ask your financial advisor or check with your local bar association for referrals to estate planning attorneys who have experience working with business owners. Consulting with an estate planning attorney is crucial for business owners. These specialists can provide personalized advice, review your specific circumstances, and help you create a comprehensive plan tailored to your needs. Use the checklist of estate planning documents in this eBook to guide your conversations.
- **Financial Institutions:** Banks, trust companies, and other financial institutions often have wealth management divisions that offer services to business owners. They can provide advice on financial planning, trusts, and other strategies necessary for your transition.
- **Online Resources:** There are many online resources available that provide information on transitioning and estate planning for business owners. Websites of reputable legal and financial organizations, such as the American Bar Association (ABA) and the [Wealth Enhancement Group blog](#), offer educational materials, articles, and FAQs on topics related to planning.

THE ROUNDTABLE™ APPROACH TO OPTIMIZING YOUR OPTIONALITY

While online resources can provide general information, it's essential to consult professionals who can assess your unique circumstances and provide personalized advice. Through our Roundtable™ team approach, Wealth Enhancement Group provides clients with a team of professionals, which enables your financial advisor to ensure all aspects of your family's estate plan and business considerations are addressed comprehensively.

The Roundtable™ approach means business owners don't need to think about finding and hiring a team of professionals experienced with the complexities of selling or transferring a business. We can help you achieve your desired goals through the transition of your business. That's all managed by your financial advisor.



ABOUT WEALTH ENHANCEMENT GROUP

WEALTH ENHANCEMENT GROUP IS AN INDEPENDENT WEALTH MANAGEMENT FIRM WITH AN ENDLESS PASSION FOR ENRICHING THE LIVES OF OUR CLIENTS.

We continually seek to perfect our craft of personalized financial planning with our team based Roundtable™ and UniFi™ processes that go far beyond the standard approach. We proudly provide unique financial plans and investment management services to over 49,000 households from our 99+ offices—and growing—nationwide. Since 1997, Wealth Enhancement Group has tirelessly raised the standard of wealth management with specialized knowledge and more attentive service that helps every client craft their future.

Discover how partnering with Wealth Enhancement
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To learn more about our Business Growth and Exit Planning Services,
call 888-208-1883, **Contact us** or **schedule an appointment**.

From creating your financial plan to investment management, retirement, tax efficiency, exit planning, and estate planning, Wealth Enhancement Group strives to provide an unmatched level of service to executives and business owners.



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