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## Planning a Business Exit

Selling a business is an exciting time. If you are in the fortunate position of having built a business that has attracted potential buyers, there are an abundance of wealth planning considerations to keep in mind. This kind of transaction requires time, support, and careful planning to ensure the best outcome for you, your family, and the legacy of your business.

### **Consider your family's financial future.**

Oftentimes, the business is more than a financial asset to your family. It is something that you and your loved ones have dedicated time, energy, and resources to, which is why it is important to involve them early when planning for an exit. Discussing wealth transfer goals with loved ones can help ease the emotional burden that often accompanies significant life decisions while seeing that the sale itself does not cause familial discord.

This issue can be especially sensitive depending on the division of assets among your children, grandchildren, and other heirs, or if you intend to leave most of the assets to charity but have not discussed these preferences with your family. If you have yet to discuss these goals, there may be assumptions or beliefs about entitlements that may differ dramatically from your views on inheritance. Working with a wealth advisor can help you think through some of these considerations to navigate family dynamics and avoid any resulting emotional tensions.

It is also important to ensure that your family is involved in the transition from thinking like business owners to thinking like long-term asset managers. Having confidence in the ability to select a prudent, sustainable asset allocation that best meets your family's needs while timing the implementation responsibly is important during this change.

### **Evaluate tax implications.**

If you are concerned about maximizing the amount of wealth you can pass to your descendants, proper planning early in the process is vital. As the value of the business increases, certain wealth transfer strategies may become less effective. It also becomes more expensive from a tax perspective.

The federal government imposes a gift tax on lifetime transfers as well as an estate tax on transfers at death to individuals or transfers in trust for their benefit. A generation-skipping transfer tax (GST tax) is also imposed by the federal government on transfers that skip a generation, such as those to grandchildren instead of a living child. Fortunately, the U.S. government provides federal lifetime gift and estate tax exemptions of \$13.61 million per person in 2024. When used wisely, these exemptions can offset a large portion of current and future tax liability.

Various states also impose their own gift, estate, and GST taxes on transfers of wealth to beneficiaries and heirs, so it is important to consider individual state tax laws as well. Working with a wealth advisor in conjunction with your estate planning attorney and accountant can help you understand the impact of these taxes on the sale of your business while allowing you to plan, have greater peace of mind, and ultimately help minimize your heirs' future tax liability.

### **Consider philanthropic endeavors.**

Selling a business also offers an opportunity to advance your philanthropic goals by donating to important causes while also reducing income and/or wealth transfer taxes. There are a wide variety of giving strategies to consider, including:

- Charitable Remainder Annuity Trusts (CRATs): CRATs can allow a business owner to convert a low-basis interest in their company to a more diversified portfolio with reduced gift and capital gains taxes while receiving an income tax charitable deduction. The remainder trust pays a taxable annuity to the owner, which provides an income stream for their lifetime or a set term of years. At the termination of the trust, the remaining assets pass to a selected charity.
- Charitable Lead Trusts (CLTs): CLTs, on the other hand, benefit the charity immediately through an annuity stream for a term of years, with any appreciation over a set amount passing to the owner's heirs after the lead trust's term lapses. The lead trust can be designed so that the owner receives a substantial income tax deduction upon its formation.

In addition to furthering your charitable giving goals, philanthropic commitments also offer an opportunity to engage family members in conversations about your values, goals, and priorities for charitable giving.

### **Understand the importance of contingency planning.**

As a business owner, you are integral to the ongoing success of the business. For this reason, adequate contingency planning, such as personal life insurance, buy-sell agreements, and personal liability coverage, is essential to ensure financial protection against accidents, lawsuits, or even death. Trust provisions should also be reviewed to ensure they comply with current laws and that assets bequeathed at death are in the correct amounts and to the desired beneficiaries. Working with an advisor can help ensure you have proper coverage while being prepared for all scenarios so that nothing slips through the cracks.

### **Determine your selling objectives and plans for the future.**

Building a business is a big accomplishment, and there are often mixed emotions that come with deciding to sell it. Whether you wish to enjoy the wealth you've earned, help your family financially, or support a meaningful cause, it is essential to have a clear plan and motive behind this decision to avoid negative feelings down the line.

Exiting a business is an emotional time, which is why it's important to manage your expectations and be prepared for the potential emotional turmoil that may occur. One way to

increase preparedness for you and your family is to consider your life after the sale and have a vision of what it might look like after this monumental change. How will you fill your time in a satisfying way? Will you stay involved with the business? If so, how limited will your involvement be? While these questions might seem daunting to consider, thinking about them now can help make the transition easier.

Pre-transaction planning can yield many benefits to business owners: it can ensure that you and your family are financially protected if some unexpected event happens before a sale, reduce potential family conflicts that may arise as a result of a sale, act as an ideal time to consider tax implications and plan for their reduction, and allow you the opportunity to support important charitable causes. By beginning to think about these goals sooner rather than later, you can help reduce some of the stress and uncertainty around the exit, allowing you to preserve your wealth and enjoy this entrepreneurial milestone.

For more information on preparing for a business exit, access our Checklist for Business Owners [here](#).

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