HIGHTOWER
Westchester

7 Steps to Take Well Before You Exit Your Business

As a business owner, you care deeply about your company's future and the implications for you, your loved ones and your employees. And you likely make decisions every day to increase the likelihood of optimal outcomes for these stakeholders.

But your time is limited, leaving little room for succession planning as your attention is necessarily focused on near- to intermediate-term plans for your company. However, this leaves your business, the people you care about and your hard-earned personal wealth at risk of not realizing their full potential.

To help you minimize this risk, we spoke to Gregg Jensen, a director within Hightower Advisors' business owner services group. In his role, which includes connecting advisors and their business-owning clients with solutions for valuation, liquidity and other needs, Jensen has a good vantage point: Over the course of his career, he has observed the common drivers of successful – and less successful – exits across a wide variety of industries, companies and business owners.

Below is a summary of essential planning steps that Jensen has seen help other business owners successfully transition away from their companies.

01 Prepare for the unexpected

Have you considered and planned for unforeseen circumstances, including global macro events or legislation that could disrupt your industry, the death or disability of key team members, or your own premature death or disability? When you step back to reflect on the financial impact of these types of events, you may find yourself significantly underinsured and lacking in terms of business continuity and communications plans. Protecting against these scenarios now can alleviate concerns, and the amount of time and money needed to do so are often miniscule compared to the value at risk.

02 Empower your management team

No matter what your exit strategy will look like, you will need help maximizing the value of your business. A strong management team can help you accomplish more when you're running your company and will invariably support a higher price as part of any due diligence process. Building an adept team requires both qualitative and quantitative incentives, such as providing decision-making authority and directly aligning compensation with company performance metrics. This can prove challenging for business owners who have built their companies largely through their own personal ideas and efforts, but at some point, empowering a team to support you will likely prove critical to your company's operations and valuation.

03 Identify your post-exit goals

Reflecting on and pinpointing what you would like to accomplish when it comes time to transition your business will help ground your decisions in the interim. Do you wish to pass down a considerable amount of your wealth to loved ones or charity? Would you like to do so during your lifetime or as part of your legacy? Do you envision funding large purchases once you finally have more time to enjoy them – for example, vacation properties or a yacht? Once you have outlined these goals, you can better quantify and align your future expenditures with investment and wealth planning strategies to begin implementing them as soon as today.

04 Build a personal cash flow analysis

As a business owner, you are likely acutely aware that poor cash flow management can have significant consequences for your business. The same is true for your personal life. Without proper accounting for your income, expenditures and liabilities, you can run into liquidity issues and/or unnecessarily high debt costs – even if your income is high and/or you receive a financial windfall when you exit your business. Implementing a system now to track your personal cash flow will help you avoid these issues – especially post-exit when your financial situation may change considerably.

05 Decide whether to sell your business outright or keep it in the family

For some business owners, this is a difficult decision that involves reconciling competing priorities and dealing with strong emotions. As a result, some delay this decision, with the assumption that they still have many years to address it. However, having an answer to this question well before you plan to exit your business allows you to better take advantage of certain tax-efficient transfer techniques (if you plan to transfer business interests to your family, management team or employees), or better prepare for any unsolicited offers (if you plan to sell).

06 Consider the timing of your exit

Outlining your goals for your personal wealth and business can also help you decide when to exit your business, especially if you decide to transfer significant wealth. For example, when interest rates are low and/or when markets are stressed (and valuations are down), conditions may be particularly favorable for gifting business interests to your family. Obviously, many other variables will factor into the timing of your exit, but having a plan in place ahead of time may allow you to act quickly and opportunistically, which in turn could result in considerable tax savings and other benefits.

07 Identify wealth transfer strategies

Knowing when to exit your business also requires identifying the best suited strategies for accomplishing your goals. If you plan to transfer ownership to your family and/or make significant gifts to your family or charity, you should determine the best methods for making these transfers. Below are just a few examples:

- **Grantor-retained annuity trusts (GRAT)** and **intentionally defective grantor trusts (IDGTs)** allow you to transfer assets to a trust in exchange for annuity payments for a set period of years. If structured properly, at the end of the term, any appreciation above the IRS-mandated 7520 interest rate passes to beneficiaries free of tax.
- **Dynasty trusts** can enable you to transfer assets across multiple generations free from gift, estate and generation-skipping taxes.
- **Charitable remainder trusts** (CRTs) allow you to gift assets to a trust that can potentially provide you income for a set number of years or for the rest of your life, after which the assets transfer to a charity of your choice.
- **Donor-advised funds** enable you to gift assets to a fund in which they can grow tax-free, providing an immediate tax deduction and the potential to make a larger impact in future years.

DELEGATE

With the right advisors, turning your attention to the future does not need to come at the expense of more immediate business priorities. Please reach out to us for help, and we can coordinate with your tax and legal advisors to implement the above strategies — allowing you to continue focusing on what you do best: helping your company thrive.

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