CASTLE VALUATION
A DIVISION OF CREATIVE PLANNING

Retirement Income and Succession Planning

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Considerations When Selling to Family Members or Key Managers

If you are a business owner nearing retirement, you may wonder what succession/exit planning strategy makes the most sense for you and your business. After all, you want to maintain your net worth and retire comfortably, but you also want to ensure a successful transition to your company's next generation of business owners.

It's important to be aware of the following if you plan to transition your business to family members or key managers.

Where to Begin

When selling to family members or key employees, you have many options for generating future retirement income, reducing your income taxes on the sale, protecting your net worth and helping the company thrive after your departure. Begin by making some basic decisions about how the sale will be structured.

1. Determine who will step in as majority owner

One of your first considerations is to decide who will have majority control of the business. If one person will ultimately have control of the company, you will need to transition a controlling interest of at least 51% to that individual. If control will be shared by two or more people, you'll need to decide if one person should have majority ownership.

2. Implement a trial period

For some business owners, it's not immediately clear which family member or key employee is best suited to take over the company. If you're struggling with this decision, you may consider implementing a 12- to 24-month trial period in which you gradually allow potential owners to take on more and more control of running the business. Let them make big decisions and take the lead in working with employees, vendors and customers. Observe how they handle the pressures of running the business and how others respond to their management style. After this trial period, it may become obvious who is best suited to take over.

3. Decide how to handle company real estate

If you own the real estate where your business is located, you will need to decide how the property will be handled following the sale. You may consider establishing a long-term lease with the new owners in order to generate additional monthly income to fund your retirement. Or, it may make sense to sell the real estate to the new owner(s) and invest the lump sum in more liquid assets.

Establish a Source of Retirement Income

Most business owners still want, or need, additional retirement income after the sale is complete. It typically works well to use a combination of two or three of the income options below, keeping in mind that some of these are good for the company while others are good for the retiring owner.

- If you retain some of the stock, dividend some income.
- Serve on the board of directors and receive directors' fees for several years.
- Be paid a consulting fee to provide ongoing support to the company.
- If you own the building, retain rental income.
- Sell some of the stock with a monthly installment sale note.
- Take a reduced salary and work part time.

The goal here is to determine a combination of options that help minimize the seller's taxes and maximize the amount of cash flow available to the retiring owner.

Maximize Usable Cash Flow

Usable cash flow is to a business what gas is to a car. Just as a car will stop operating when it runs out of gas, so will a business stop operating when it runs out of cash. As you structure your business sale, it's important to make sure the business continues to have adequate cash flow.

Your advisory team can help you determine how much usable cash flow is available and make sure there is enough to pay an income to the new buyers, cover business expenses and taxes, and also make any required payments to you, the seller.

At Castle Valuation, we specialize in helping business owners navigate the sale of their business. As a division of Creative Planning, a nationally recognized wealth advisory firm, we are supported by a team of credentialed, educated, experienced and action-oriented advisors, including CERTIFIED FINANCIAL PLANNER™ practitioners, certified public accountants, insurance specialists, attorneys and other professionals dedicated to helping you achieve your goals. We work together to help ensure all aspects of your business and personal finances are well cared for. If you'd like help preparing to sell your company to a family member or key employee, or for any other financial concerns, please schedule a call.