

Exit planning: Prepare for an out while you're still in

Running a successful business is time consuming, leaving you little time to plan what may seem like distant succession issues. It's important, however, to outline an exit plan and make succession decisions as early as possible. Evaluating and grooming possible successors or preparing for an outside sale can take years. And it's never too early to make retirement and estate plans.

Take stock

Before determining where you want to be when you're ready to retire, assess where you and your business are financially today. Prepare a detailed financial analysis of your business with the help of a valuation professional. This expert will review historical data to determine its current value.

Also examine all contracts and agreements to make sure your business is transferable. Transfer restrictions, such as professional license restrictions, government contracts, franchise agreements, lending agreements, shareholder agreements or other types of contracts, can slow down the process significantly.

Transfer or sell?

Next, develop a succession plan that outlines how your business will be sold or transferred. If you have business partners, they will most likely be able to buy your ownership interests according to the terms of your company's shareholder or other agreements.

You might choose to groom a family member to eventually take the helm. Or consider selling the business to a key employee or group of employees. Employee buyers may have several financing options, including private equity partners, bank



loans and Employee Stock Ownership Plans (ESOPs).

If none of these succession options seem viable — or attractive — you'll likely want to sell your business to an outside party. Competitors or those in related industries might view your business as a good expansion vehicle. To protect confidentiality, you should consider working with an M&A advisor to identify potential strategic buyers.

At the same time, consider whether the company would likely generate more proceeds if sold intact or broken down by segments. Liquidating or divesting your assets might be your best option if you have equipment or real estate, or particularly valuable profit centers, and it seems unlikely you'll be able to sell the business outright because of weak financials or a changing marketplace.

Living the good life

Although the value of your business won't be determined by your retirement needs, it's important to conduct a personal financial assessment.

To determine income needs after you step down from your business, consider your health, lifestyle and financial obligations. Then, with the help of financial advisors, determine what you have. This might include Social Security benefits, retirement accounts such as IRAs, or 401(k), Keogh, or Simplified Employee Pension (SEP) plans. When tapping these accounts, be sure to avoid actions, such as early withdrawals, that could have negative tax consequences.

Also consider that certain corporate entity formations may provide options for additional distributions and more favorable tax treatments. Think about changing your corporate structure and placing assets where they facilitate the most cost-efficient succession.

You might also want to consider staying with your company after the sale — perhaps as a paid consultant or salaried employee. Doing so may provide extra income, and you'll be able to continue contributing to tax-advantaged retirement plans.

But working part-time also has tax consequences, so be sure to discuss any such plans with your advisors.

Protecting your heirs

Just as important as succession and retirement plans is an estate plan. If you haven't already, write a will and appoint an executor to oversee the distribution of your assets when you die.

Trusts can help you avoid the costs and inconvenience of probate. Trusts may also protect assets from creditors and provide privacy. Your circumstances — including your assets' estimated value, their allocation and your beneficiaries — will help determine the structure and tax implications of your ideal trust.

Critical issues

Succession planning isn't just about who will run the company when you step down. The process also enables you to secure your own future income and provide for your heirs. Critical issues such as these can't be put off.