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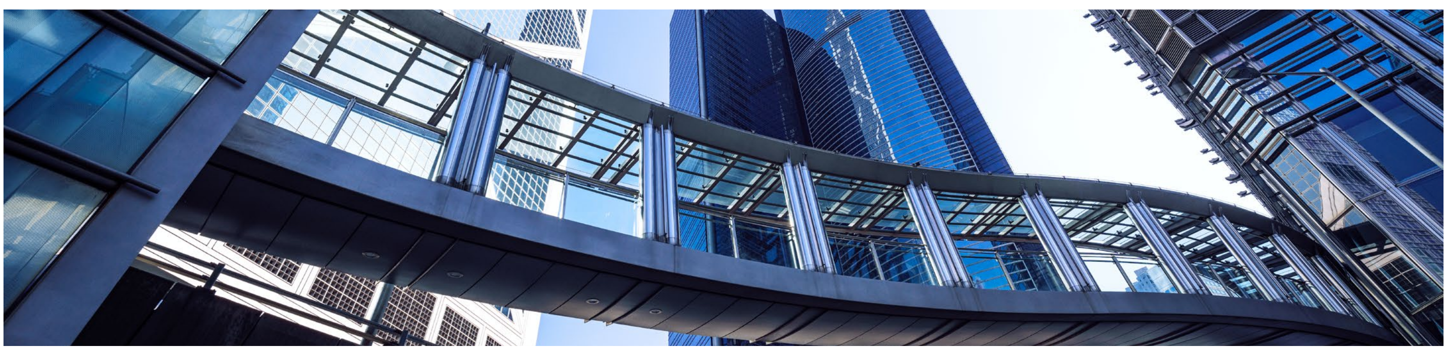
Tax-smart retirement planning for business owners:

Maximizing value during and after your business sale

If you're like many business owners, selling your business may be the culmination of a lifetime of hard work and dedication. Many business owners have more than 80% of their net worth tied up in their business, which makes a business sale not just a liquidity event but a defining moment in their financial lives. The outcome of your business sale has the potential to shape your retirement security, legacy outcomes and your ongoing lifestyle.



Without a plan in place, you could lose a significant portion of your sales proceeds to taxes, potentially impacting your ability to achieve your personal financial goals. Fortunately, smart tax planning can help optimize your sale and put you in a better position to live out your retirement dreams.

Pre-sale planning – Actions to take before you sell your business

After years of effort, selling your business is more than a transaction; it's the moment you realize the value of what you've built. Careful preparation can help you preserve more of that value.

As you near your business sale, the following tax-planning strategies can help reduce your tax exposure and maximize your after-tax proceeds.

1. Consider an installment sale

An installment sale provides an opportunity to defer paying taxes on your capital gains until you receive payments. This approach can help you manage cash flow and spread your tax liability over several years. Different parts of the installment payments are typically subject to different tax treatment:

- **Cost basis:** Exempt from taxes
- **Interest income:** Taxed as ordinary income
- **Gains:** A portion is taxable in the year it is received

2. Determine whether a 1042 exchange makes sense for you

A 1042 exchange provides an opportunity to defer capital gains on eligible stock sold to an employee stock ownership plan (ESOP), then reinvest the proceeds into a qualified replacement property (QRP) within a designated period of time.

This option is available to C corporations that sell a minimum of 30% of their company stock. S corporations are not eligible for the full tax deferral. Because this strategy involves complex timing and requirements, it's important to work with your advisor and tax professional to ensure your 1042 exchange is properly executed.

3. Establish a charitable giving strategy

If your financial goals include supporting charitable causes that are important to you, a charitable giving strategy can help maximize your impact while providing potential tax benefits. Consider the following strategies:

- **In-kind donation of appreciated assets:** Instead of selling stock and donating the proceeds, consider making an in-kind donation of appreciated assets. This allows you to claim the full value of the stock as a tax deduction. And because charitable organizations are tax-exempt, the charity can sell the stock without paying capital gains tax.
- **Donor-advised fund (DAF):** DAFs are charitable giving vehicles that allow you to contribute a lump sum and receive an immediate tax deduction during the year of contribution, while distributing assets to charities over time.

  DAFs can be especially effective during years in which your income is higher than normal—such as the year you sell your business—because they allow you to make a single large contribution and offset your taxable income.

- **Qualified charitable distributions (QCDs):** Once you reach age 70 ½, you can donate to a charity directly from your tax-deferred IRA via a QCD. While QCD eligibility begins at age 70 ½, QCDs may be applied toward required mandatory distributions (RMDs) only once RMDs are required under current law. The donated amount can be used to satisfy your RMD without being considered taxable income.
- **Charitable remainder trusts (CRTs), including Flip CRUTs:** For certain business owners, a charitable remainder unitrust (CRUT) can be a powerful pre-sale planning tool. A Flip CRUT allows the owner to contribute business interests or stock prior to a liquidity event, potentially avoid immediate capital gains tax and receive an income stream for life or a term of years.

  The trust initially pays based on net income and can "flip" to a standard unitrust payout upon a triggering event, such as the sale of the business, which offers the potential for greater cash flow once liquidity is achieved.

  It's important to note that CRT planning must happen before a letter of intent (LOI) is signed. If this is a strategy you're interested in implementing, be sure to consult with legal, tax and financial advisors prior to entering into a binding sales agreement.

4. Asset sale vs. stock sale

One of the most important and frequently negotiated elements of a business sale is whether the transaction is structured as an asset sale or a stock sale. The difference can have significant tax and economic consequences for both buyers and sellers.

- **Asset sale:** Buyers often prefer asset sales because they can receive a step-up in basis for the acquired assets and can selectively assume liabilities. For sellers, asset sales may result in higher overall taxes due to a mix of ordinary income and capital gains treatment.
- **Stock sale:** Sellers generally prefer stock sales because they often result in capital gains treatment on the full sale price and a provide cleaner exit from liabilities. Buyers, however, may be less inclined due to the lack of basis step-up and potential exposure to unknown liabilities.

Reviewing these alternatives early—well before negotiations intensify—allows owners to understand the after-tax implications and explore strategies to bridge valuation or tax gaps between buyer and seller expectations.

After you sell your business

While your business may be sold, your influence and impact continue; how you manage and grow your wealth helps shape the legacy you leave.

The following strategies can help you minimize your tax exposure and make the most of your wealth, post-sale.

1. Continue growing your investment portfolio

Some retirees make the mistake of investing too conservatively in an effort to preserve their savings. However, depending on when you sell your business, you may spend 20 or 30 years in retirement. Over that time, inflation can significantly reduce your purchasing power.

Rather than letting inflation erode your assets, work with your advisor to create a portfolio allocation that balances long-term growth with your retirement income needs.

One approach is to hold several years' worth of assets in a semi-liquid investment account to support your monthly income and cover living expenses. The rest of your assets can then be invested in a diversified portfolio focused on long-term growth.

This approach also creates opportunities for tax efficiency within your growth portfolio, such as tax-loss harvesting and asset location. Your advisor can help you identify strategic times to sell a portion of your growth portfolio and transfer assets to your short-term account, potentially unlocking additional tax savings along the way.

2. Make a plan to achieve your legacy goals

If your goals include leaving a lasting financial legacy for the people and causes that matter most in your life, it's important to have a tax-efficient estate planning strategy in place. This can help ensure your wealth supports your intentions, both during your lifetime and beyond.

Trusts can be a powerful way to transfer assets to the next generation in a tax-efficient manner. Each type of trust offers different levels of protection and control, and the appropriateness of any trust strategy depends on individual circumstances, objectives and applicable tax law. Your wealth advisor and estate planning attorney can help you determine which structure best fits your goals.

- Revocable trust
- Spousal lifetime access trust (SLAT)
- Intentionally defective grantor trust (IDGT)
- Grantor retained annuity trust (GRAT)
- Irrevocable life insurance trust (ILIT)
- Special needs trust (SNT)

3. Establish a tax-efficient withdrawal strategy

The sequence in which you withdraw funds from your various retirement accounts can greatly impact your lifetime tax exposure. A coordinated withdrawal plan helps extend the life of your savings and reduce avoidable taxes.

Your advisor can help you create a strategy that fits your specific needs. Two common approaches are:

- **Traditional approach:** This approach draws first from taxable accounts to allow your tax-advantaged retirement savings to continue growing. Tax-deferred accounts are drawn down next, while tax-exempt accounts, such as Roth IRAs, are withdrawn last. This sequence helps maximize your tax-exempt growth potential.
- **Proportional approach:** With a proportional approach, you withdraw from each type of account in proportion to its overall balance. This can help stabilize your annual tax bill and provide more predictable income.

Custom strategies to meet your needs

As you navigate the challenges of running your business and planning for your financial future, it helps to have a team in your corner to align your decisions with your long-term goals and uncover efficiencies across your entire financial picture.

At Mariner, we offer personalized, end-to-end solutions designed to help you manage the complexities of both your business and personal wealth. Your advisor can work with you to develop a tax-smart retirement planning strategy that supports your business, your family and your legacy.

Finally, while financial planning is critical, a successful exit also requires non-financial planning. Many owners underestimate the emotional transition that follows a sale. Clarifying your identity and sense of purpose post-exit—including how you will spend your time, stay engaged and find meaning beyond the business—is an essential part of preparing for life after the exit.

For more information visit: **mariner.com**

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