

Smart Planning Can Lead to a Successful Business Sale

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Although there is no ocean in Northern Colorado, we are about to ride the biggest wave of business turnover to ever take place in our history. The single largest demographic segment is now between the ages of 42 and 60, representing approximately 27 percent of the total US population and 28 percent of the nation's business owners. This group is also beginning to think seriously about selling their business.

In a survey conducted by the University of Dallas, 80 percent of today's business owners are thinking about selling their business and 75 percent anticipate doing so in the next three years. One of the reasons is age, as 57 percent stated that their age was the primary factor in considering a sale. Whether it is age, lifestyle change or some other reason, now may be the time to sell. The reason is private equity funds are flush with cash, interest rates are relatively low, long term capital gains rates are reasonable at 15 percent and merger and acquisition activity has increased (up 45 percent in the first quarter 2006 over 2005).

What does this mean to the business owner thinking about selling? Now is the time to PLAN. Smart planning for exiting a business can lead to the realization of the full value within the business. Smart planning is a seven step process:

Step 1 – Setting Exit Objectives – who is going to buy the business? Family? Employees? A 3rd-Party? What is the timeline? Who is on the team of advisors who will help me? Knowing your audience, your time frame and who is on your team allows you to develop appropriate strategies for selling.

Step 2 – Determining Value/Price – most business owners have a general idea of what their business is worth, but when was the last time you had an objective valuation of your business? Valuation gives the owner a starting point for planning. More often than not the answer is: "it's not worth as much as I thought", which leads to:

Step 3 – Preserving, Protecting and Promoting Value – what are the value drivers in my business that will get me to the perceived value I need to exit the business? Focus on increasing cash flow and making it sustainable and paying down debt are key steps business owners can take. Part of preserving the value is minimizing what is paid in taxes at the time of sale.

Here is where smart tax planning comes in. If you are charitably inclined, gift and sale or zero tax gift and sale may benefit both you and the community by producing enough tax savings to significantly reduce the total taxes paid. Likewise, planned sales to family members using gift credits and favorable valuation discounts, as well as other tax and financial planning strategies, can produce significant financial benefits at the time of transfer.

There are a number of caveats and exceptions that need to be explored before employing one of these strategies. That is why it is very important to assemble the right team of advisors, including legal and tax counsel, who can guide you to the best solution to achieve your objectives. Beware of individuals or firms who claim to "do it all". No one person can be an expert in everything and with one-stop shops, you may not realize all of the services you are really paying for as they may be bundled into one fee.

Step 4: Converting Business Value for Cash – once you have taken the time to work ON your business rather than in it, now is the time to realize your value out of the business. Will it be a stock sale or asset sale? Again, smart planning with your advisory team can lead to the best solution for you and help you realize your objectives for selling the business.

Step 5: Selling the Business for a Note – for some, this is the only way family members or employees can afford to buy the business. Do you as an owner have confidence in their abilities to carry on with the business, honor their obligation to you and make good on the note? Smart planning steps ahead of time

including gifting of stock can minimize the amount that needs to be carried in a note which can also produce favorable tax results.

Step 6: Contingency Planning Issues – once you have decided to sell (or even if you haven't yet), what happens to the business if something happens to you? What if you lose a key employee? Continuity of business ownership is critical to a successful exit. Working with your advisory team on a carefully crafted contingency plan can take care of you, your family, your employees and your customers in the event of unforeseen circumstances.

Step 7: Wealth Preservation Financial Plan/Retainer – the Exit planning process should really begin with this step: preparation of an estate plan. Most people do not like to consider their own mortality and often put this off. However, considering that usually most of a business owner's wealth is tied up in his/her business, having a well crafted estate plan that compliments any contingency planning can lead to significant tax savings and allow a business owner to realize the value out of a lifetime of work.

Step 7+: Life Stage Transition Planning – moving out of a business voluntarily or otherwise is a significant life-changing event. During the entire exit planning process, the business owner needs to be aware of this and take time to answer critical questions about the next stage of his/her life: how do I live on passive income instead of earned income? How will my time be spent now that I am not running my business? My business is my identity – who am I now? What is my purpose and how do I retain my self-worth? Part of the advisory team needs to include family, friends and trusted confidants who can help you with answers to these questions and to develop a plan for the next stage of your life.

Smart planning today can help business owners successfully ride the wave of business transition and realize the full value out of a lifetime of work.

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