WHICH COMES FIRST? ESTATE PLANNING OR EXIT PLANNING?

A successful business *Exit Plan* achieves three important owner goals:

1. **Financial Security.** (The business sale or transfer provides the amount of income the owner, and owner's family, needs after the owner's exit.)
2. **The Right Person**. The owner chooses his or her successor (children, key employees, co-owners or a third party).
3. **Income Tax Minimization** maximizes the amount of cash in the departing owner's pocket.

A successful *Estate Plan* achieves three important personal goals:

1. **Financial Security** (for the decedent's heirs).
2. **The Right Person.** The decedent (rather than the State) chooses who receives his or her estate.
3. **Estate Tax Minimization** reduces the Government's bite leaving more funds for one's heirs.

Once owners see that the two processes share the same goals, they can appreciate how to leverage the time and money they spend developing their Exit Plans into the design of their estate plans.

For example, when you engage in Exit Planning you most likely determine your objectives and secure an estimate of value on your business *before* you start working to create more business value. In securing an estimate of value, you possess a piece of information that's critical to both your business continuity and estate plans.

Thinking of exit and estate planning in tandem brings the owner's entire picture into focus:

- If you don't make it to your business exit date, how will you provide your family with the same income stream they would have enjoyed if you had?
- How will you make sure that your business retains its previously determined value?
- If your exit strategy involves transferring part of the business to the children, or if it does not, does your estate plan reflect and implement your wishes if you don't survive?

THE BOTTOM LINE

Once owners see that the two processes share the same goals, they can appreciate how to leverage the time and money they spend developing their Exit Plans into the design of their estate plans.

- If you die before you exit the business, are you certain your family will still receive the full value of the business? (This question is especially important to answer if you are the sole owner. Sole owners are unlikely to have a buy-sell agreement because there are no remaining co-owners to purchase and/or continue the business.)

Your estate plan can manage these issues, but does it?

As you recall, another goal of the Exit Planning process is to protect your assets from creditor attack during your lifetime and to minimize tax consequences upon a transfer of your ownership. Does your estate plan also work to minimize creditor risk—not only yours but that of your heirs? It is possible to achieve these goals through both your Exit and estate plans.

It is worth repeating that you must devote the same energy and analysis to lifetime transfers (benefiting you) as you do to a transfer occurring at your death (benefiting your family). Since both planning your exit from your business and planning your exit from this life are based on the same premises it can be relatively easy to develop a consistent outcome.

Two last issues may help you to determine which task to undertake first:

1. Estate taxes are easier to avoid than income taxes.
2. Estate planning techniques often involve funding from life insurance proceeds (which pay in cash upon death) whereas exit planning techniques often involve the owner's own funds (accumulated over decades).

There isn't one right answer to the "Estate or Exit Planning?" question. In the end, you must take action on both fronts since a failure to act in either creates lasting problems not just for you, but for your business and for your family.

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