

YOU'VE BUILT YOUR BUSINESS, NOW BUILD YOUR EXIT PLAN

You've done it. You've built a booming construction company and now you're ready to relax. As a business owner, it's important to plan your exit from the company years in advance to ensure you can depart with confidence. How will your exit impact you and your family? A comprehensive plan will address the legal and tax consequences of your personal finances and should also answer these questions:

1. What is your timeline for leaving?
2. How much annual income will you need when you leave?
3. How will you manage/invest your acquired wealth?

THE BOTTOM LINE

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ARE YOU READY TO EXIT?

A major component of your company's succession plan will detail how you exit your business. Once you've decided how you want to exit, you'll need to decide when you want to exit. Ideally, exit planning should begin about 10 years prior to when you wish to leave the business. This will allow sufficient time to consider all tax implications in transferring ownership and time to generate other sources of retirement income if necessary.

Selling your business is a popular way to fund retirement for all business owners and provides quick cash, but is not without tax implications that require advance planning to avoid paying tax penalties. Knowing if the sale will require you to pay capital gains tax or ordinary income tax is important to consider and will require tax advice from an expert.

The type of business you are selling will also impact your tax liabilities. C corporations and S corporations are two common business structures with different tax guidelines. S corporations have friendlier tax benefits for business owners, and it is appealing for some owners to convert to an S corporation prior to a sale. Currently, the IRS requires a business to have been converted to an S corporation for several years prior to selling, making it crucial for business owners to plan their exit years in advance.

If your plan is to gift your business to a family member, there are several options including exchanging or selling stock, selling in installments or outright gifting. Each method will require careful planning to help you minimize estate and gift taxes.

Regardless of the method, you'll want to ensure you give yourself enough time to evaluate all of your options and pick the best plan to ensure your company continues to thrive without you and that you will have adequate funds to retire.

WILL YOU HAVE ENOUGH TO RETIRE?

Knowing exactly how much money you'll need to live comfortably in retirement may be difficult to determine. It's important to factor in expenses that you'll be eliminating, possibly a mortgage or business expenses, and also newly anticipated expenses, such as travel or private health insurance.

Another thing to consider is how much you'll be receiving monthly in social security benefits and if you have any other sources of retirement income. With cost-of-living steadily rising, it's important to reassess your retirement plan every few years.

By planning in advance, you'll be able to weigh all your options and decide if you want to invest in a retirement plan for yourself or your employees, or if you wish to fund your retirement solely on the sale of your business. If considering a retirement plan, a SEP IRA, SIMPLE IRA and self-directed 401(k) are all options for business owners that will help you save for retirement and reduce tax liability at the same time.

HOW WILL YOU MANAGE YOUR WEALTH?

According to the Social Security Administration, the average life expectancy age for men is 84.3 and 86.6 for women, so ensuring you have adequate funds to last 20-30 years takes a disciplined approach.

From the sale of your business, you may suddenly assume a large amount of cash to manage. Although it may be tempting to go purchase that yacht you've always wanted, you'll need to focus on the big picture. What will you do with all that money? Take time to evaluate all of the investment vehicles that are available to you and choose the ones that provide the greatest benefit to your personal future.

A solid succession plan requires a thorough understanding of your situation and all components involved. HORNE can help. Contact us if you'd like more information, need to revise your current plan or need help developing a plan.

CONNECT WITH US TO GET STARTED.

Contact Joel Bobo at 601.326.1332 or at joel.bobo@hornellp.com for insights and assistance with questions.



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