

**Abstract:** Business owners must monitor the cash flow and tax positions of their companies, while also looking out for their own personal financial futures. This article looks at how to lay the foundation for a strong exit strategy using a buy-sell agreement and family-focused succession planning techniques.

## **Every business owner needs an exit strategy**

As a business owner, you have to keep your eye on your company's income and expenses and applicable tax breaks. But you also must look out for your own financial future. And that includes creating an exit strategy.

### **Buy-sell agreement**

When a business has more than one owner, a buy-sell agreement can be a powerful tool. The agreement controls what happens to the business if a specified event occurs, such as an owner's retirement, disability or death. A well-drafted agreement provides a ready market for the departing owner's interest in the business and prescribes a method for setting a price for that interest. It also allows business continuity by preventing disagreements caused by new owners.

A key issue with any buy-sell agreement is providing the buyer(s) with a means of funding the purchase. Life or disability insurance often helps fulfill this need and can give rise to several tax issues and opportunities. One of the biggest advantages of life insurance as a funding method is that proceeds generally are excluded from the beneficiary's taxable income, provided certain conditions are met.

### **Succession within the family**

You can pass your business on to family members by giving them interests, selling them interests or doing some of each. Be sure to consider your income needs, the tax consequences, and how family members will feel about your choice.

Under the annual gift tax exclusion, you can currently gift up to \$15,000 of ownership interests without using up any of your lifetime gift and estate tax exemption. Valuation discounts may further reduce the taxable value of the gift.

With the gift and estate tax exemption approximately doubled through 2025 (\$11.4 million for 2019), gift and estate taxes may be less of a concern for some business owners. But others may want to make substantial transfers now to take maximum advantage of the high exemption. What's right for you will depend on the value of your business and your timeline for transferring ownership.

### **Get started now**

To be successful, your exit strategy will require planning well in advance of retirement or any other reason for ownership transition. Please contact us for help.