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Reducing Taxes Via Exit Planning

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Yeah, I'm the taxman. And you're working for no one but me. -George Harrison

Selling your business comes with major tax implications. You likely don't want to pay any more than the minimum in taxes when you sell. With planning, it's possible to reduce your tax burden and reap the most out of a business sale. It can also help you reduce the likelihood of a larger-than-expected tax bill negatively affecting your post-ownership plans. But what kind of planning might it take to do so?

Know the Value of Your Business

Knowing the value of your business will play an important role in determining the sale price of your business. In turn, the sale price of your business will likely play a role in how much (or little) you pay in taxes.

So, an important first step in reducing your tax burden is to acquire a professional business valuation. It may be tempting to take a best guess at what your business is worth, based on what other, similar businesses may have sold for. It's prudent to avoid this temptation so that you can use the most accurate measures of your company's value to then potentially reduce your tax burden.

Knowing your company's value may allow your negotiation team to create more leverage to sell your business at the price you want while your Advisor Team proactively addresses the tax consequences that the sale price creates.

Consider Whom You're Selling To

The entity that buys your business may also play a role in your tax responsibility.

For example, if you choose to sell to a third party, that third party will likely work to reduce their tax burden for purchasing the business. They may do so by hiring a high-quality negotiation team to reduce the sale price, which may affect your financial security.

This may mean that to lower your tax responsibility, you also need a strong negotiation team to find ways to reduce your tax burden and still complete a sale that allows you to sell your business and achieve financial security, along with your other goals.

As another example, if you choose to sell your business to insiders, you may want to consider strategies such as an employee stock ownership plan (ESOP) to potentially reduce capital-gains taxes. Such plans may require you to potentially change how your business is set up in advance (e.g., "S" corporation vs. "C" corporation).

Take Advantage of Tax Codes

You may be able to take advantage of current tax codes to reduce your tax liabilities as well. For example, investing in a Qualified Opportunity Zone may allow you to defer capital-gains proceeds from a business sale for a set amount of time.

Hire a Professional to Help

The US Tax Code can be complex. A tax professional can play a crucial role in helping you find ways to minimize your tax liabilities in the context of selling your business and achieving your goals after you leave your business.

Building your business to the point where you can sell it and achieve financial security is a huge accomplishment. Many business owners want to keep as much of the value they built as possible, rather than having to pay a sizable sum in taxes. Installing a strong tax-minimization strategy could help you do exactly that.

We strive to help business owners identify and prioritize their objectives with respect to their businesses, their employees, and their families. If you have questions on this topic, we can help with more information or a referral to another experienced professional.

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