

Planning for the Sale of a Closely Held Business



By
David Leibell
Senior Wealth Strategist
Advanced Planning Group

Jacqueline Denton
Senior Wealth Strategist
Advanced Planning Group

According to a recent UBS survey, 81% of business owners wish they had spent more time preparing for the sale of their closely held business.¹ This sense of regret is understandable. Business owners are busy running their businesses and for the most part, the process of selling a business is unknown to them. This may leave the business owner vulnerable to making significant mistakes.

Fortunately, there is help. UBS Financial Advisors, working with in house specialists in pre-liquidity planning, have extensive experience assisting clients and prospects (along with their outside professional advisors) in navigating the process of effectively selling a business. This spotlight provides a brief overview of the process.

The decision to sell

Ideally, business owners should begin the process of selling a closely held business a few years prior to the actual sale. Below we discuss important considerations in advance of the sale.

Timing of the sale

It is very important for the business owner to consider the timing of the sale in order to maximize value. This includes determining the current state of the business and where the overall economy is in terms of the mergers and acquisition cycle.

Family dynamics

Overcoming family dynamics issues are important in the case of a family business owner, including whether selling the business is better for the family, rather than passing the business to the next generation.

Assembling the team

It is crucial for the business owner to put together a team of professional advisors who can help execute the sale effectively and who can collaborate with each other to maximize value. The advisor team should include a certified public accountant (CPA), corporate and estate planning attorneys, an investment banker, and a financial advisor (working with in house specialists in pre-liquidity planning).

Potential buyers

Understanding the marketplace of potential buyers is important. These include strategic buyers (larger companies in the same industry), financial buyers (such as private equity firms), other family members or management (such as an employee stock ownership plan (ESOP)), initial public offering (going public), and patient capital (long-term passive investors like family offices).

¹ UBS surveyed 416 United States (US) business owners who are looking to sell their business in the next five years and 123 who have recently sold a business. Each business owner has at least one employee and \$1M in annual revenue. Survey was conducted from April 12- 20, 2023. "Wind in Your Sales," *UBS Investor Watch*, July 2023, <https://www.ubs.com/us/en/wealth-management/who-we-serve/specialized-advice/business-owners/planning-a-business-sale.html>.

Readying the business for sale

With the help of relevant advisors, the business owner can take numerous steps in advance of the sale to position the business to maximize the value on sale. Such steps include reducing costs, diversifying the customer base and developing a professional management team.

Importance of financial planning

Typically done by the financial advisor team, the business owner should engage in comprehensive financial planning in advance of the sale. The financial planning process, by estimating after-tax proceeds, can illustrate the impact of selling at different exit values versus continuing to operate the business. Important considerations include whether there will be adequate assets to invest after the sale to achieve the business owner's personal goals (core capital) and whether there are additional assets that can be used for gifts to family members or charity.

Wealth transfer planning

If the financial plan shows that there is excess capital, the business owner may wish to gift shares of the business to family using an irrevocable trust, taking advantage of the \$13.61 million exemption from federal gift, estate, and generation skipping transfer taxes (in 2024).² In order to accomplish this, the business owner will need to obtain a qualified appraisal for the shares which may provide valuation discounts for gifts of a minority interest. Once in the trust, all future appreciation will not be included in the business owner's estate for estate tax purposes.

Income tax planning

Working with the business owner's CPA and perhaps a tax attorney, it is crucial that the business owner analyze the structure of the transaction to ensure that the deal is efficient from an income tax perspective. This includes both federal and state income tax planning considerations. In addition, certain equity interests in businesses structured as C corporations may be eligible for up to \$10 million (or sometimes more) of federal capital gains avoidance as qualified small business stock.

Charitable planning

Many business owners are philanthropic and may want to consider a charitable gift in connection with the sale. In addition to philanthropic benefits, the charitable contribution may entitle the business owner to an income tax deduction for the fair market value of the charitable gift which, if made in the same calendar year as the sale, may offset some of the capital gains on the sale. Charitable planning is typically done after the sale with cash from the sale. It may, however, be possible to gift shares to charity prior to the sale and get a bigger deduction.

Additional reading

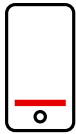
For a more in-depth discussion of the considerations and strategies for planning for the sale of a closely held business, see David Leibell, *Planning for the Sale of a Closely Held Business* (a publication of the UBS Advanced Planning Group and UBS Family Office Solutions). For a discussion of qualified small business stock, see David Leibell, Brian Hans, and Brian Schimpf, *Personal Planning for Startup Founders* (a publication of the UBS Advanced Planning Group and UBS Family Office Solutions).

² This assumes the individual is a US person for gift and estate tax purposes. For a US person, the gift and estate tax exemption is indexed annually for inflation and currently includes a temporary increase. This increase expires after 2025, at which time the exemption will be cut roughly in half.

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