HERITAGE

Unique Retirement Planning Strategies When Selling Your Business

For many business owner's, the sale of their company is the culmination of their life's work. It usually also represents one of the largest assets they own and the resulting sale may trigger significant tax consequences. While a windfall in one respect, the accompanying tax bill associated with the sale will reduce the net benefit to the former business owner. One unique strategy for single-owner practices is structuring the sale of the business in a manner that allows them to deduct a substantial portion of the proceeds.

In a typical sale of a small business, the purchaser will pay for the business in a single lump sum payment. Depending on the capital gains, net basis for cost and ordinary income tax rates, this could decimate the net amount received by the recipient anywhere from 25% to 55%. There are some deductions to be had with this sale, but for many businesses owners- the ordinary deductions associated with the sale are paltry.

One manner that can be employed would be the establishment of a qualified retirement plan. Contributions are 100% tax-deductible and grow tax-deferred. Unfortunately- ERISA sponsored plans must be created with permanency i.e. they must be set up with the intention of being funded over a period of years- not just one single year. That stipulation often precludes business owners from setting up a plan for the deduction when the proceeds of the sale are taken in a single year. However, one strategy that could be employed would be structuring the sale of the business over a period of three to five years. In this scenario, the business owner may take a sizable payment in year one of the sale followed by an additional two to four annual payments. For example, if the total sale of the business is estimated to be $2,000,000- the initial payment may be for $800,000 with four additional payments of $300,000. When structured properly by the clients CPA, that income can be qualified for pension plan contributions. For a 55-year-old, over the course of that five-year payment plan, the client could contribute and 100% deduct up to $1,000,000 of the $2,000,000 total payment.

Proper planning for significant life events should always be reviewed and analyzed prior to the event to ensure all options are explored. Selling one's business or practice is no different. With appropriate communication between the financial advisor, CPA, client and third party administrator- a well-designed exit strategy for the business owner may result in significant tax savings.

References to IRS Codes can be found at: https://www.irs.gov/tax-professionals/tax-code-regulations-and-official-guidance

Matthew A. Grieb, CFP® | Financial Advisor

Raymond James | 1717 Pennsylvania Ave NW, Suite 1050, Washington, DC 20006 | 202-872-5960 | Matt.Grieb@RaymondJames.com