

With You, Every Step of the Way



Baby Boomer Exit Planning

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What is Exit Planning?

- **Exit Planning** – preparing for the owner to exit the company while maximizing the value
- 3 Parts
 - **Succession Planning** – process for identifying and developing new leaders
 - **Securing the Business Value** – maximizing the value of the company through the transition
 - **Ownership Transfer** – transferring ownership of the company to a family member or third party



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The Potential

- Only 40% of Business Owners have a Succession Plan¹
- Only 10% expect to pass on the business to a family member¹
- Many boomers will be selling their business during the same period of time. Companies that aren't positioned for a sale will sell at a discount.
- Owners need to prepare in advance to be emotionally ready for the sale

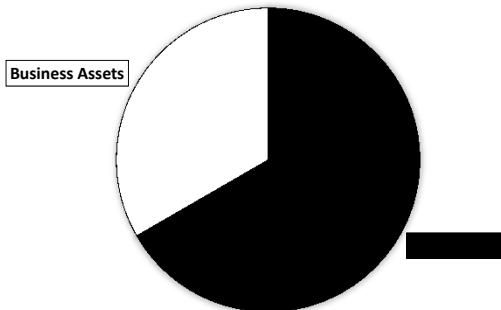
1- According to the 2015 U.S. Trust Wealth and Worth[®] Survey.



The Great Wealth Transfer


- Estimated \$30 Trillion of assets expected to transfer in the next 30 years.²

ASSETS TRANSFERRED




2 - <https://www.cnbc.com/2017/02/16/promises-problems-on-horizon-as-30t-wealth-transfer-looms.html>





Ideal Timeline


- 5+ Years**
 - Focus on what drives company value
 - Identify leaders & consider golden handcuff strategies
 - Begin transitioning relationships
 - Consider regular valuations
- 3 Years**
 - Prioritize free cash flow to owner over tax minimization planning
 - Prepare audited financial statements annually
 - “Trial run” for future leaders and build their skill sets with training
 - Improve documentation of business transactions
 - Update family wealth plan
- 1 year**
 - Market the company for sale
 - Due diligence
 - Structure the deal to maximize value to owner



Reality


- After a triggering event**
 - Identify leaders & convince them to stick around
 - Begin transitioning relationships
 - No valuations
 - Scrambling to clean up the books
 - Audits for the prior 3 years
 - Asking customers for contracts
 - No family wealth plan in place
 - 1 offer on the table but no marketing
 - Consolidated due diligence period
 - Structure the deal based on the offer made





Succession Planning Mistakes

1. Procrastination
2. Failing to prepare emotionally for the transition
3. Failing to assemble your team and not appointing a quarterback
4. Confusing production for potential
5. Having the wrong players on the team

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1 - Procrastination



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#2 – Emotional Readiness

1. What is their reason for selling the business?
2. Are they ready to move from being a business owner to an investor?
3. What do they want to accomplish with the next phase of their life?

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#3 - Coordination Among the Team

Attorney

I-Banker / Broker

Client

Insurance

Banker

CPA

Wealth Advisor

Succession Planning Consultant

Quarterback?

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4 - Production vs. Potential

PRODUCTION

≠

POTENTIAL

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#5 – Wrong Players



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2 Big Opportunities

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Social Security Planning

- Bipartisan Budget Act of 2015 eliminated file and suspend strategy (Fully expired 4/30/2016)
- There are still claiming strategies available for clients who turned 62 **before** 1/2/2016
- Other claiming opportunities for divorced spouses and widows.

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Basis Step-Up

- 2017 lifetime exclusion = \$5.45mm (\$10.9mm for a married couple)
- Current law allows assets to be stepped up from their current basis to a basis equal to fair market value.
- 0.2% of individuals who died in 2013 filed an estate tax return with a taxable estate.
 - Data from <http://www.taxpolicycenter.org/briefing-book/how-many-people-pay-estate-tax>

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Basis Step Up Benefits

- Allows for a sale in the near future with minimal tax consequences
- A property owner can restart the depreciation clock on assets that have already been partially or fully depreciated.
- Not just for businesses with hard assets
 - Reg 1.197- 2(h)(12)(viii) allows for a partnership to receive a step up on it's goodwill.

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Thank You

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- Presented by Someone

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