WHICH COMES FIRST? ESTATE PLANNING OR EXIT PLANNING?

A successful business Exit Plan achieves three important owner goals:

1. Financial Security: The business sale or transfer provides the amount of income the owner and owner's family need after the owner's exit.
2. The Right Person: The owner chooses his or her successor (children, key employees, co-owners, or a third party).
3. Income Tax Minimization: The owner minimizes the amount of cash the government takes out of his or her pocket.

A successful estate plan achieves three important personal goals:

1. Financial Security: For the decedent's heirs.
2. The Right Person: The decedent (rather than the state) chooses who receives his or her estate assets.
3. Estate Tax Minimization: Reduces the government's bite, leaving more funds for the decedent's heirs.

Once owners see that the two processes share the same goals, they can appreciate how to leverage the time and money they spend developing their Exit Plans into the design of their estate plans.

For example, when owners engage in Exit Planning, they most likely determine their objectives and secure an estimate of value on their businesses before they start working to create greater business value. In securing an estimate of value, owners possess a piece of information that's critical to both their business continuity plans and estate plans.

Thinking of Exit Planning and estate planning in tandem allows you to ask relevant questions to bring your entire picture into focus:

- If you do not exit the business on the planned business-exit date, how will you provide your family with the same income stream your family would have enjoyed if you had?
- How can you make sure that your business retains its previously determined value?
- Regardless of whether your Exit Plan involves transferring part of the business to your children, does your estate plan reflect and implement your wishes if you do not survive?
- If you die before exiting the business, can you be certain that your family will still receive the full value of the business? (This question is especially important to answer for sole owners. Sole owners are unlikely to have a Buy-Sell Agreement because there are no remaining co-owners to purchase and/or continue the business.)

While estate plans can manage these issues, owners must determine whether their estate plans address these issues.

Another goal of The BEI Seven Step Exit Planning Process™ is to protect assets from creditor attack during an owner's lifetime and minimize tax consequences upon a transfer of ownership. You must ask yourself the following: Does my estate plan work to minimize creditor risk for both me and my heirs? It is possible to achieve these goals through both Exit and estate plans.

It is worth repeating that owners must devote the same energy and analysis to lifetime transfers (benefiting themselves) as they do to a transfer occurring at their death (benefiting their families). Since planning exits from both business and life are based on the same premises, it can be relatively easy to develop a consistent outcome.

The following two facts may help you determine which plan to undertake first:

1. Estate taxes are easier to avoid than income taxes.
2. Estate Planning techniques often involve funding from life insurance proceeds (which pay in cash upon death), whereas Exit Planning techniques often involve the owner's own funds (accumulated over decades).

There isn't one categorically correct answer to the "Estate or Exit Planning?" question. In the end, you must act on both fronts, since a failure to act in either case creates lasting problems not only for you but also for your business and family.

We can help you decide which plan to approach first. Contact us today to get started.

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