

Reaping the Rewards of a Life's Work

Converting Your Business into Cash – Business Exit Planning

According to the U.S. Census Bureau, there were 23 million small businesses in 2003, and that represents 99.7% of all employers ⁽¹⁾. Employing over half of all private sector workers and creating most of the new jobs, small businesses fuel today's economy. Although recent

Business Entity	
Sole proprietorship	72.6%
Partnership	5.9%
C corporation	11.5%
S corporation	9.5%
Other	0.5%

continued to dominate small business structures. Given these statistics, the Small Business Administration (SBA) estimates that at any given time, "40% of U.S. businesses are facing a transfer of ownership issue."

Type Business (most common)	
Services industry	42.7%
Retail trade	14.0%
Construction	11.2%
Finance, insurance, real estate	10.8%

will be limited to family, key employees, partners or co-owners who will wind up with the business. If this survey is correct, with only 5% of the market offering a straight cash buyout, there are definite reasons an owner would need to prepare wisely for the sale of a closely held business. Since most of these insider purchasers are going to have ability and determination, but little cash, the business generally winds up purchasing itself through cash flow.

To that end, the small business owner needs to set up a few goals:

1. Transfer the business in a tax efficient manner that benefits both the buyer and seller. Since most of the buyers have limited ready cash, it is important to structure the sale so there is not a double tax.
2. Present a business with strong capacity for growth and a consistent cash flow to finance the transaction.
3. Train or prepare the potential purchasers so they have every opportunity to succeed. Few insider business purchases occur overnight; so take the time to develop a formal succession plan and find a competent team of experienced financial and

tax advisors, who can provide guidance on this process.

"The primary cause for failure...is lack of planning."

There are many reasons that businesses remain successful, e.g., adequate capital, a firm large enough to have employee stability, the owner's education level, and the owner's reason for starting the firm are significant factors. Unfortunately, most business owners have avoided any plans for death, disability, retirement or continuity. Since the majority of business entities offer no provision for succession or operation beyond the death or incapacity of the owner, procedures need to be in place. Owners, especially sole proprietors, must create a written plan detailing his/her wishes about the business and its future. Start with these action items:

1. List the key employees with the experience and responsibility to continue the business operations, make financial decisions, and provide administration services.
2. Identify the advisors to consult during the ownership transfer process.
3. If the owner wants the business sold, provide a list of contacts or businesses that would be suitable in acquiring the owner's business

At some point, every owner leaves his or her business - voluntarily or otherwise. At that time, every owner wants to receive the maximum amount of money in order to accomplish personal, financial, and estate planning goals. It's important to remember the principal commandment of business exit planning : "CHOICES – You make them or someone makes them for you."

⁽¹⁾ **The Small Business Economy, 2002-2003**, a Report to the President, Office of Advocacy, SBA, Washington, DC, 2004.

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