



Business Transition Advisory Services

Key Considerations Before Exiting Your Business

March 4, 2024 | Part One of a Two-Part Series

The best time to begin planning for the transition of your business was when you founded your business, but the second-best time is now. All business owners will eventually transition their business, whether by choice or necessity and whether they have planned for the transition or not. It is extremely common for business owners to spend so much of their time building and then running their business that little time and thought is given to the considerations around a transition plan, or the personal wealth plan that should be put in place prior to such a transition. The most successful transitions are those where the owner started planning sooner rather than later and treated planning as a business strategy rather than an ending event. Regardless of where you're at in this process, below are key considerations for your personal wealth plan.



Build Your Advisory Team

You know your business inside and out, but it is imperative to surround yourself early on with the right team of advisors who specialize in the various components of succession and wealth planning. No single advisor has all the necessary expertise to guide you down the right path, but the appropriate team of experts can identify and map out the complexities of your transition plan and bring objectivity to what can be personally and emotionally challenging decisions. This team often consists of the following specialists:

- ✓ Investment Banker
- ✓ Wealth Advisor
- ✓ Commercial Banker
- ✓ CPA
- ✓ Business/M&A Attorney
- ✓ Estate Planning Attorney
- ✓ Valuation Expert
- ✓ Insurance Advisor



Tax Planning

There are two main types of taxes for a business owner to consider:

Income Taxes

These taxes include such things as ordinary income tax and capital gains tax. How a potential transaction is structured (for example, as a stock sale versus an asset sale) can dramatically affect the amount of tax paid upon a sale, and this should be taken into consideration when thinking through possible sale options.

Gift and Estate Taxes

- ✓ In 2024, the gift and estate tax exemption amount is **\$13.61 million per individual** (or double that amount for a married couple). In general, transfers of wealth, whether made during your lifetime or upon your death, that exceed your exemption amount will be taxed at 40%.
- ✓ Many business owners consider using some or all their gift and estate tax exemption amount to transfer ownership interests in their business to family through the use of specialized trusts and valuation discounts, which can result in a significant increase in the amount of wealth that ultimately passes to family members and others.
- ✓ Timing is a key consideration.
 - **First, under current law, the gift and estate tax exemption amount is slated to decrease to about \$7 million per individual** at the end of 2025. A business owner who wishes to make a transfer in excess of that amount should consider taking action before the end of 2025.
 - **Second, if all goes well, the value of the business will increase over time.** To make more efficient use of your exemption amount, it is better to make gifts of ownership interests while the value of the business is lower. Obtaining a valuation from a qualified independent business appraiser allows you to substantiate the current value of the business for gift tax purposes. Also, as an added benefit, the appraiser typically will apply discounts for “lack of control” and “lack of marketability,” which have the effect of allowing you to transfer a larger ownership interest in the business without exceeding your gift and estate tax exemption amount.





Estate Planning

- ✓ **With your focus on the daily operations of running your business, you may have completed very little estate planning** or, conversely, completed extensive estate planning, but have you considered how your business interest factored into your plan? Do you intend to transition the business or wealth to the next generation (and, if so, is the next generation ready and willing to run the business)? Or would it make more sense to sell the business and ultimately pass liquidity to your loved ones?
- ✓ **Understanding the options you have as a business owner to utilize estate planning techniques** (including various trusts and through the use of valuation discounts discussed above) **can optimize the financial outcome for your family**, especially if done well in advance of transitioning the business.
- ✓ **Your estate planning wishes can evolve over time as your business grows, your family develops, and laws change.** It is important to review your estate planning documents periodically (at least every three to five years) to make sure they continue to carry out your wishes in an efficient and effective manner.





Family Governance

- ✓ For an owner with family members working in the business, having conversations around goals and expectations well in advance of a transition will be a key planning component.
- ✓ Many business owners also express a concern with coming into liquidity and how their children and future generations will handle such wealth. Through proactive personal planning and next-generation education, this wealth can be managed through the use of family trusts and other planning vehicles that not only provide potential tax advantages but also protect such liquidity from spendthrift children and their creditors.



Philanthropic Planning

In the year of a business sale, there will be a higher-than-usual income tax liability. If you are charitably inclined, this is a key time to consider larger charitable giving to maximize the tax advantages associated with such donations. This can be accomplished through donor advised funds, private foundations, and charitable trusts. Each charitable vehicle has different timing and complexity, and offers different tax advantages, so each option should be carefully considered and discussed to optimize the outcome for your family and the charity.

BTAT Can Help Prepare You for the Sale of Your Business

Navigating a business transition or liquidity event is complex, both financially and emotionally. Whether you're selling the business or passing it down to family, Fifth Third's Business Transition Advisory Team can work alongside you and your outside advisors to help optimize your financial and business outcomes. We have extensive experience working with teams of professionals during business transitions and taking the lead as the liaison among these advisors and between you and your team. We encourage our clients to take their time making decisions and to rely on the expertise of their team. The Business Transition Advisory Team is there to offer support throughout the entire process. We would welcome the opportunity to assist you and your family in reaching your goals through a successful transition.

For additional considerations, part two of this series focuses on maximizing the value of your business, thinking through the type and timing of your business transition, and planning for life after exit.

Please reach out to your Fifth Third Private Bank Advisor if you would like to discuss whether you might benefit from planning ahead in anticipation of any potential business transition.



Email us at
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About Fifth Third's Business Transition Advisory Team

Fifth Third's Business Transition Advisory Team (BTAT) is a Private Bank Team solely dedicated to financially and personally preparing business owners for their business transition. Collectively, we have provided deep education and expert advice to hundreds of business owners through significant transition events benefiting generations to come.

*Data as of December 31, 2023.

About Fifth Third Private Bank

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