

Financial, Legal & Tax Advisory

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Succession Planning: Preparing to Sell Your Business

Small business owners listen up. Do you know what happens to your business if something were to unexpectedly happen to you? If you answered, "I don't know," then you are one of many business owners with this response. Most business owners have no form of succession planning in place. Without a good succession plan, your family or other heirs might be forced to sell the company under duress and be shortchanged on the value of the business you have built. If there is no clear plan in place for who's in charge of the company, your business might end up directionless and at risk for failure. First, you should prepare your financials. This would include profit and loss statements (P&L), cash flow statements, balance sheets (BS), and tax returns. The P&L statements show the results of the operating activities of your business.

Having these prepared gives any buyers a good idea of your company's ability to generate profits. It is crucial that these financials are re-casted and consist of any add-backs. When preparing the balance sheet, it is important to keep everything current to determine the working capital in the company. Next, you should have your business valued. Having a valuation that is properly prepared and comprehensive can be critical if you were to sell your business. The main purpose of a valuation is to provide you with a fair-market value for your business. Any good business valuation should be using several different methodologies for privately held companies.

Once the company is properly valued, you should then look into the tax aspects of the sale. This can be done with a Tax Minimization Analysis™ (TMA). The goal of a TMA is to understand the after-tax net cash perspective. This will show you what you will walk away with when the Succession Plan is completed. This is typically a working document that will evolve as the deal progresses. After you receive a valuation of your business along with a Tax Minimization Analysis™, it is time to start finding someone to assist you in facilitating the sale of your business.

It is very important to retain legal counsel to represent you during the selling process. There are several different benefits to doing so, such as reviewing letters of intent (LOI), overseeing due diligence, negotiating deal terms, and much more. Along with having strong legal representation, working with a group of accountants/CPAs offer you many advantages as well. For example, they will be able to provide the valuation and TMA as well as help avoid any common mistakes that may trigger audits. Accountants/CPAs will also be there to ensure that the post-closing tax returns are filed in accordance with how the deal was structured. Finally, it is time to prepare yourself and your team for the selling process. You would first want to obtain an LOI, which is a signed binding agreement between a buyer and seller.

Intentions to enter negotiations are laid out and first-time essential terms are established that will carry over into the purchase agreement. Once the LOI is signed, the due diligence process begins. During this period, the buyer usually requests documents such as financials, legal documents, administrative documents, and any other documents that will give them a complete picture of your company. It is important you have your team represent you during this process and narrow some of the buyer's requests. Once the due diligence is completed and the buyers are pleased, you will move on to the purchase agreements. This binding, legal document, governs the sale of your business.

These should be thoroughly reviewed by your team and determine the fairness/unfairness of the terms. This document should reflect how the deal is structured, so it must be properly drafted. For business owners, it may be difficult to let go of a business that you built on hard work and determination. Unfortunately, we cannot live forever and must have a succession plan in place for our business to be in good hands when the time comes. For any questions about selling your business, or succession planning in general, please do not hesitate to reach out to the professionals at The Center for Financial, Legal, and Tax Planning, Inc at our website, www.taxplanning.com or by phone at (618) 997-3436.

Basi, Basi & Associates at The Center for Financial, Legal & Tax Planning, Inc.

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