

ASSET STRATEGY

Helping You Create, Manage, Protect, & Distribute Wealth®

THE OWNER'S GUIDE

Building a More Valuable Business, a More Secure Future, and a Life You Actually Want After the Sale



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An Intro Message From Our Owner-Based Planner



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If you own a business, you have probably been told you need an "*Exit Plan*."

We want to start by saying something different.

You may not be planning to exit any time soon. You may not be planning to exit at all. You may have just had your best year, and the idea of selling feels like a problem for the future.

That's fine. This guide is still for you.

The work that prepares a business for a sale is the same work that makes a business stronger *today*. It builds value. It reduces risk. It creates options. It helps you take a vacation without your phone ringing every twenty minutes. It rewards the people who helped you build the company. It protects your family if something goes wrong. And, when the day comes that you do want to step back, slow down, or sell, the work is already done.

That's why the conversation has shifted. The industry used to call it Exit Planning. Today, more advisors call it "Owner-Based Planning". The change in name is subtle but the change in focus is immensely impactful.

Owner-Based Planning is not about getting you out. It is about helping you run a business that is profitable, transferable, and aligned with the life you actually want.

This guide covers the key concepts for how it's done. How to grow the transferable value of your business. How to keep your best people. How to build wealth outside the company. How to plan your taxes every year. How to protect your business and family if something happens. How to plan a sale one day, whether it's to a strategic buyer, your best employees, or your kids. And the life that starts after the business.

Read it cover to cover or skip to the chapters that matter most right now.

Either way, when you are ready to talk, we are here.

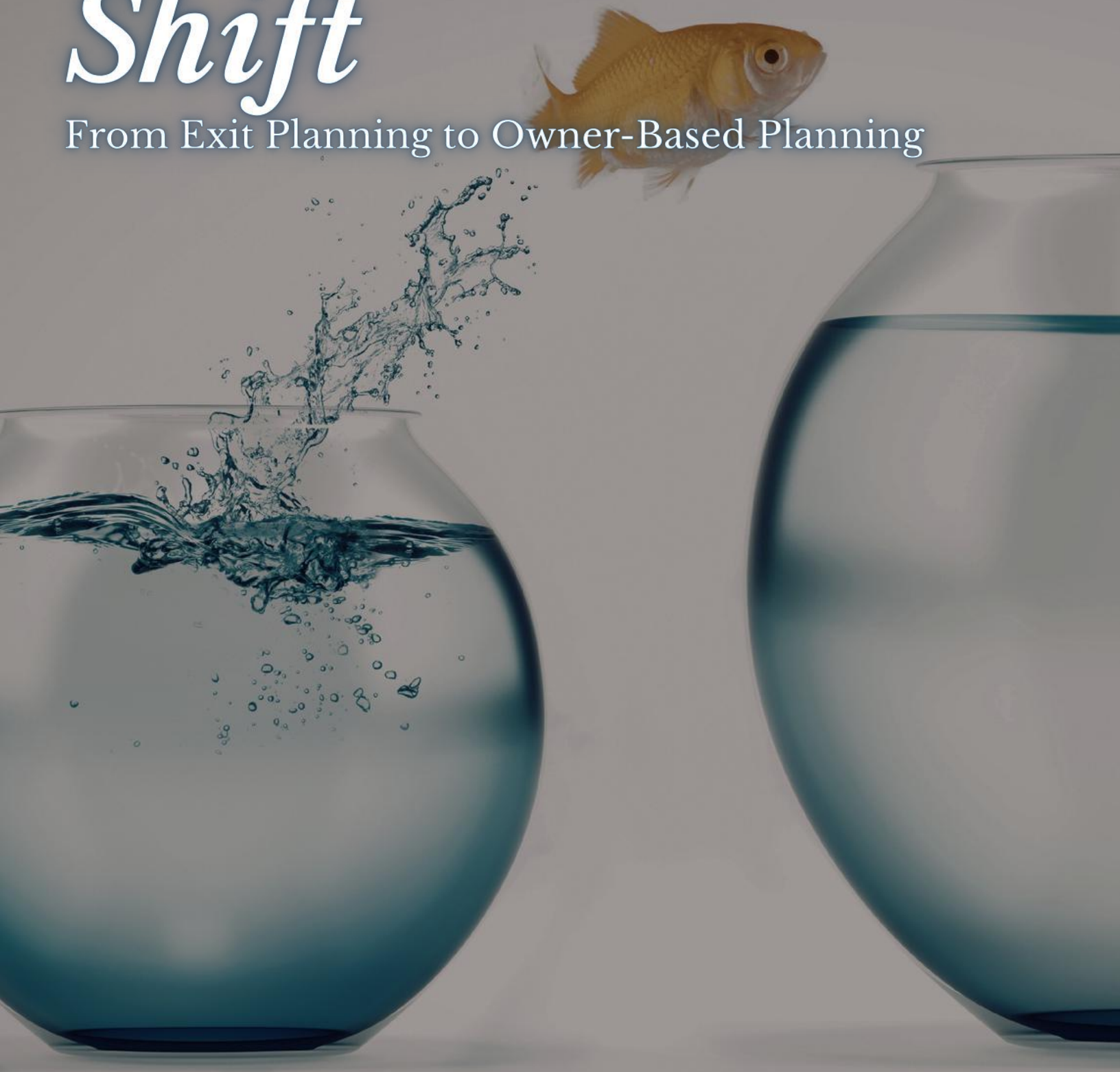
-Peter



Chapter I

Shift

From Exit Planning to Owner-Based Planning



Build a Business Worth Keeping and Ready to Sell

For decades, the conversation with business owners sounded like this...

"When are you going to sell?"

"What's your number?"

"Have you started your exit plan?"

Those are fair questions. They are also the wrong place to start.

Most owners are not sitting at their desk thinking about an exit. They are thinking about hiring, growth, customer issues, a problem with the books, a problem with a key employee, the cost of insurance, and whether they can finally take three weeks off this summer. The exit, if there is one, is years away. Maybe decades.

But the things that make a business sellable later, are the same things that make a business better right now!



A business that runs without the owner is more valuable.

It's also less stressful to own.



A business with strong financial reporting is easier to sell.

It's also easier to grow.



A business with a deep bench of leaders gets a higher multiple.

It's also more fun to lead.



A business with the right insurance, a Buy-Sell Agreement, and a simple succession plan is protected from disaster.

The owner is also more relaxed.



This is the heart of Owner-Based Planning.

- It is **NOT** "are you ready to sell."
- It **IS** "are you running a business that is worth keeping and could be sold for top dollar if you ever decided to?"

If the answer is yes, you have options. If the answer is no, you have work to do, and the work is the same either way.

Two Definitions, Side by Side

Exit Planning

The structured process a business owner uses to plan the eventual transition of ownership of the company. It focuses heavily on the transaction itself: timing, valuation, buyer type, and tax structure. The work usually begins a few years before a sale and ends at the closing table.



Exit Planning answers:

“How do I leave my business, when do I do it... and how do I structure the deal?”

Owner-Based Planning

The ongoing process of building a business that supports the owner's personal goals, family goals, financial goals, and legacy goals, regardless of whether a sale is imminent. It includes every element of exit planning, but starts much earlier and continues whether or not a sale ever occurs.



Owner-Based Planning answers:

“How do I run my business the right way for as long as I run it... and be ready for anything?”

Chapter II

Goals

Three Things Every Owner Is Trying to Solve

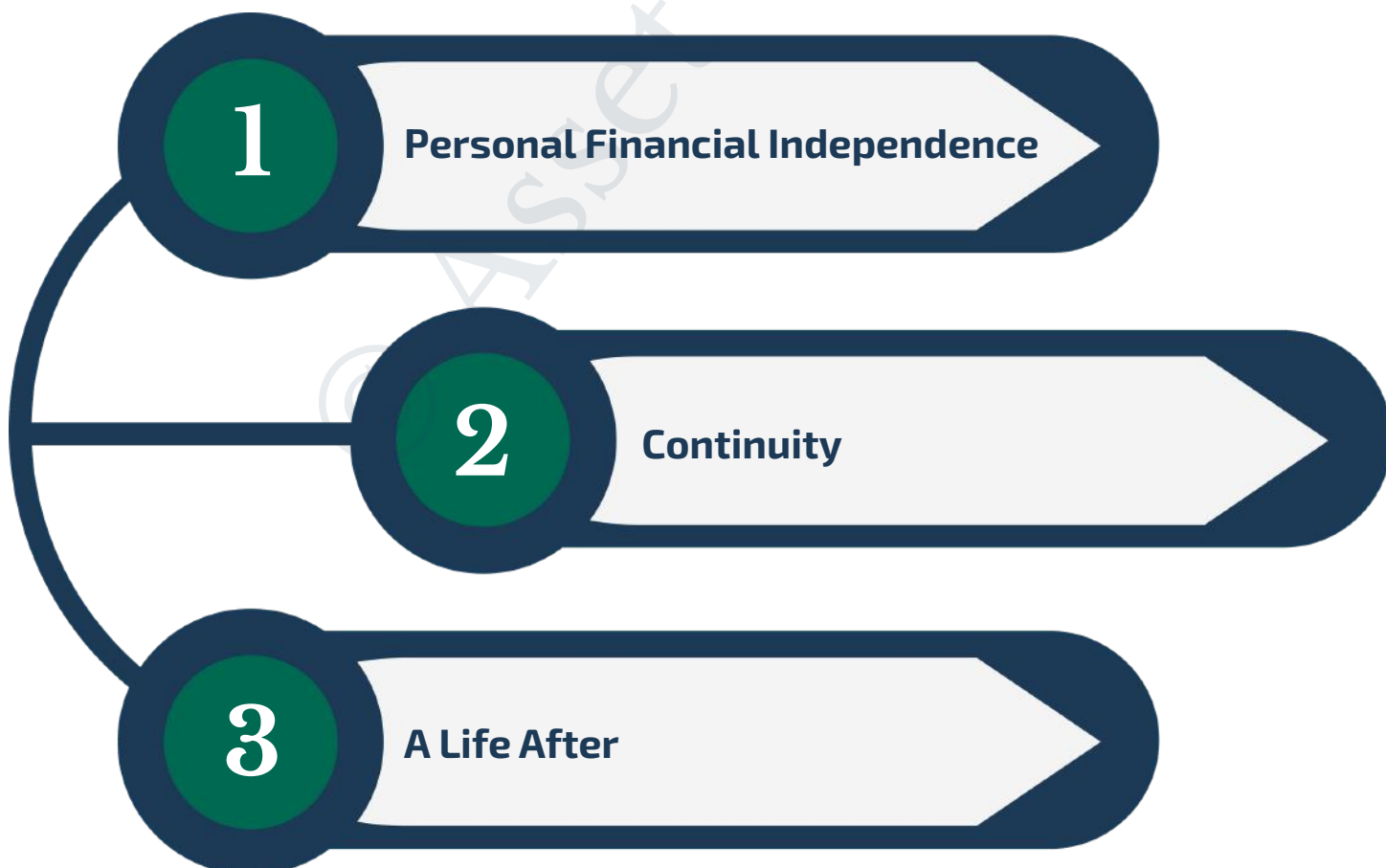


Every Business Owner Wants Something Different

When we sit down with a business owner for the first time, we hear about a hundred different things they want. For example:

- *Higher revenue...*
- *Better employees...*
- *Less stress...*
- *A house on the lake...*
- *A daughter who is ready to take over...*
- *A way to retire without ruining their tax bill...*
- *A way to make sure their spouse is taken care of if something happens...*

Strip it all back, and almost every owner is really solving for three things.



1) Personal Financial Independence

You want to know that, no matter what happens to the business, you and your family are going to be okay. That means understanding two numbers:

The 1st is what you actually need to live the life you want.



The 2nd is what your assets, including the business, can produce.

The gap between those two numbers, if there is one, is the most important number in your financial life. We sometimes call it **The Value Gap**.

The Value Gap is what tells you whether the business *needs* to grow, whether it *needs* to be sold, or whether you are already in great shape and just *need* to protect what you have built!



2) Continuity

You need to know that your business and the people in it are protected if you're not there tomorrow.

- This includes a death. It includes a serious illness. It includes a divorce, a partner dispute, a key employee who quits, a key customer who walks.

Continuity planning is the seatbelt of Owner-Based Planning. Most owners never need to use it. The ones who do are very glad they had it.

3) A Life After

- Owners do *not* just want to walk out the door.
- They want to walk *into* something.

Maybe that's grandchildren. Maybe that's a board seat at a nonprofit. Maybe that's a new venture, a new chapter, a new degree.

This is the part of planning that most advisors skip. It is also the part that, when handled well, makes everything else easier. Owners who know what comes next make better decisions about timing, price, and structure. Owners who don't, often regret the sale within a year of closing.



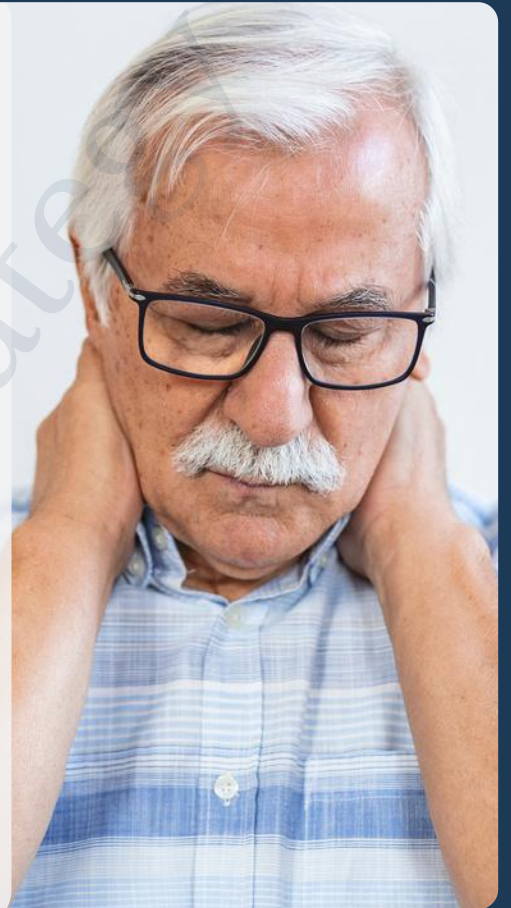
The Statistic That Changes the Conversation

*In our industry, surveys consistently show that roughly **75%** of owners regret their exit within twelve months of selling.¹*

The number one reason is not money.

It is identity.

They sold the business and then realized they had not planned for what comes after.



Owner-Based Planning treats those three goals as one connected system.

Personal independence. Business continuity. A meaningful next chapter.

The plan does not work if any one of them is missing.

¹ <https://blog.exit-planning-institute.org/emotional-considerations-transitions> as of 4.1.2018

Chapter III

Capacity

The Real Engine Behind Business Value



The Owner Is the Business

If we had to name the single biggest reason most businesses sell for less than the owner expects, it would be this:

"The owner is the business."

Buyers, lenders, and insiders all ask the same quiet question. *"What does this company actually do without this person at the top?"* If the answer is *"not much,"* the price drops, the deal terms tighten, and sometimes the deal falls apart entirely!

'**Strategic Capacity**' is a phrase used to describe a business's ability to deliver three things in a predictable way, without the owner doing all the heavy lifting:

A Predictable
Profits and
Cash Flow

B Predictable,
Sustainable
Growth

C Predictable
Transferable
Value



Each of those words matters.

"Predictable" is the most important.

A business that earned a million dollars last year because the owner happened to land one big customer is not the same as a business that earns a million dollars every year through a system that can be repeated.

Buyers do not pay for last year. They pay for next year, and the year after, and the year after that, and the year after that... **Strategic Capacity is the proof that next year will keep happening.**

Capacity, Risk, and Price

How to Recognize Low Strategic Capacity

Most owners can spot it in their own business if they are honest. The signs include:

- A founder who has to be in every meeting.
- A sales pipeline that lives in the founder's head.
- Financials that take a month to close, are full of personal expenses, and have never been audited.
- A team that is talented but undertrained, with no one obvious in line to lead.
- Customer relationships owned by the founder, not the company.
- Processes that are unwritten or inconsistent across people.
- A growth story that depends on the founder working more hours, not better systems.



None of this means your business is bad! It just means there is room to build.



How Strategic Capacity Affects Price

There is a real-world dollar effect to all of this.

Two businesses with the same revenue and the same profit can sell for very different numbers. The difference is risk.

- A buyer will discount what they pay based on the risks they see. The risk of customer concentration. The risk of owner dependence. The risk of weak documentation. Each of those risks gets a number attached to it during due diligence.
- When you build Strategic Capacity, you are systematically REMOVING risk. **Less risk equals a higher multiple, which equals a higher price.**



Hypothetical Example



You don't have to wait for a sale to feel the benefit, either. Higher Strategic Capacity is what allows a business to grow faster, attract better employees, get better loan terms, and survive bad years. It is good for the buyer. It is also good for the owner who never sells.

Chapter IV

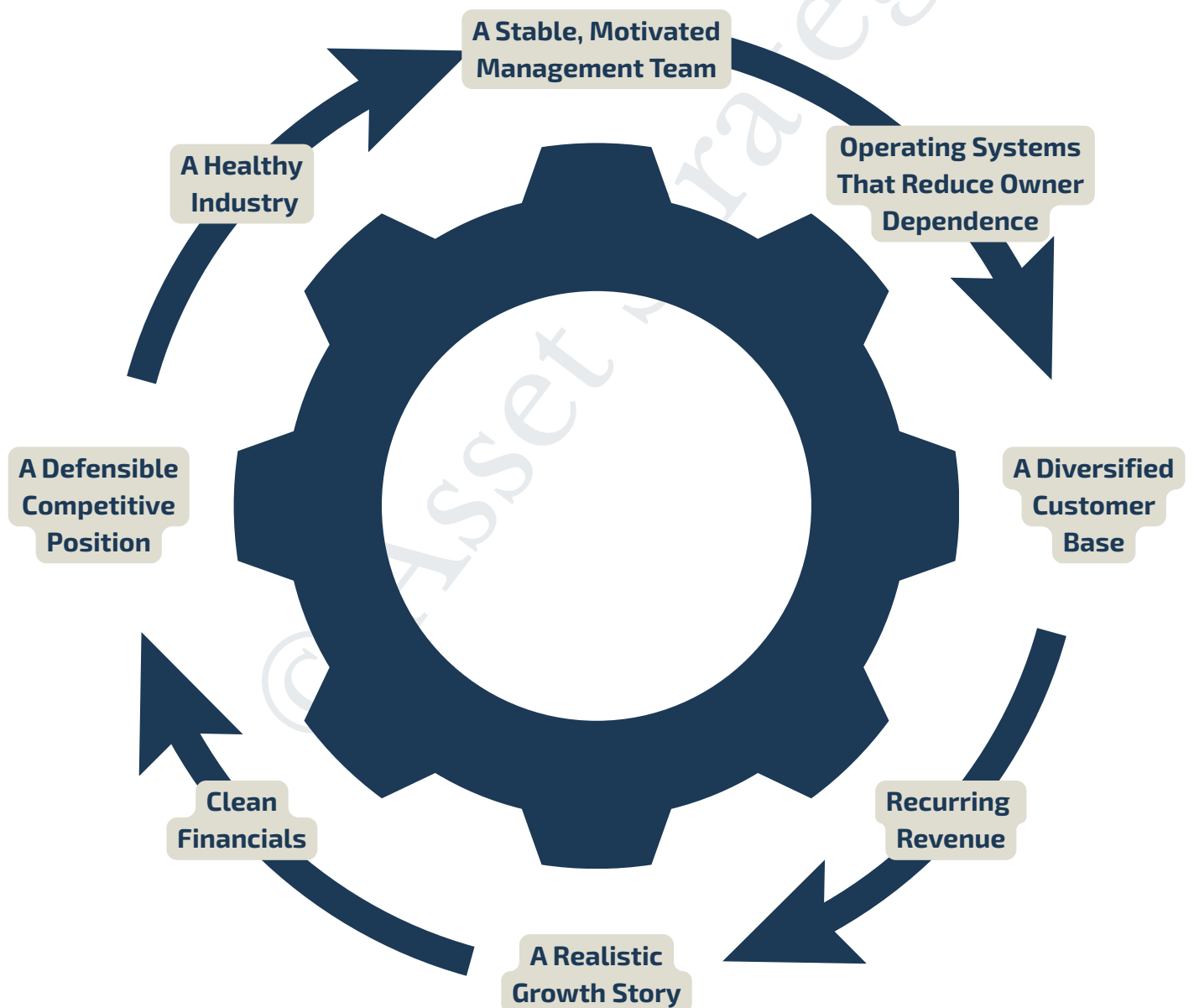
Drivers

What Buyers, Banks, and Insiders Pay For



The Eight Value Drivers You Need to Know

A value driver is anything in your business that, when present and strong, raises the price someone is willing to pay for the company. There are eight value drivers we focus on most.



1) <i>A Stable, Motivated Management Team</i>	The single biggest value driver in most companies. Buyers want to know that the people running daily operations will still be there after the deal closes. So do insider successors. So do banks that finance the deal. We will discuss specific tools for this in the next chapter on incentive compensation.
2) <i>Operating Systems That Reduce Owner Dependence</i>	Documented processes. Software that runs the business, not just sits on a shelf. A real org chart. A management cadence that does not depend on the founder being in the room. The business needs to function on a Tuesday when you are in Italy.
3) <i>A Diversified Customer Base</i>	If one customer is more than fifteen percent of revenue, expect a discount. If one customer is more than thirty percent, expect a serious one. Buyers know that customer loss is the fastest way for a business to lose value, and a single large customer is the fastest path to that loss.
4) <i>Recurring Revenue</i>	Subscription contracts, service agreements, retainers, multi-year deals. Anything that lets a buyer say "we know this revenue is going to repeat." Recurring revenue is worth more, dollar for dollar, than transactional revenue.



5) A Realistic Growth Story	• Buyers pay for the future. Owners often think they are selling the past. • The companies that get the highest multiples are the ones that can show, with real numbers, why the next five years look better than the last five.
6) Clean Financials	• Audited or reviewed statements. A clear chart of accounts. Personal expenses out of the business. A normalized EBITDA calculation that any sophisticated buyer can verify in a week. Financial cleanup, sometimes called a Quality of Earnings analysis, is often a high-impact activity an owner can undertake before a transaction to improve transaction readiness.
7) A Defensible Competitive Position	• Why does the business win? Why do customers choose you? • If the answer is "because of me," that is a problem. If the answer is "because of our process, our brand, our IP, our location, our team," that is an asset.
8) A Healthy Industry	• Some of this is out of your control. But some of it is not. Choosing where to focus, which segments to grow, and which customers to chase can move your business into a more attractive part of the industry over a few years.



How to Use This List

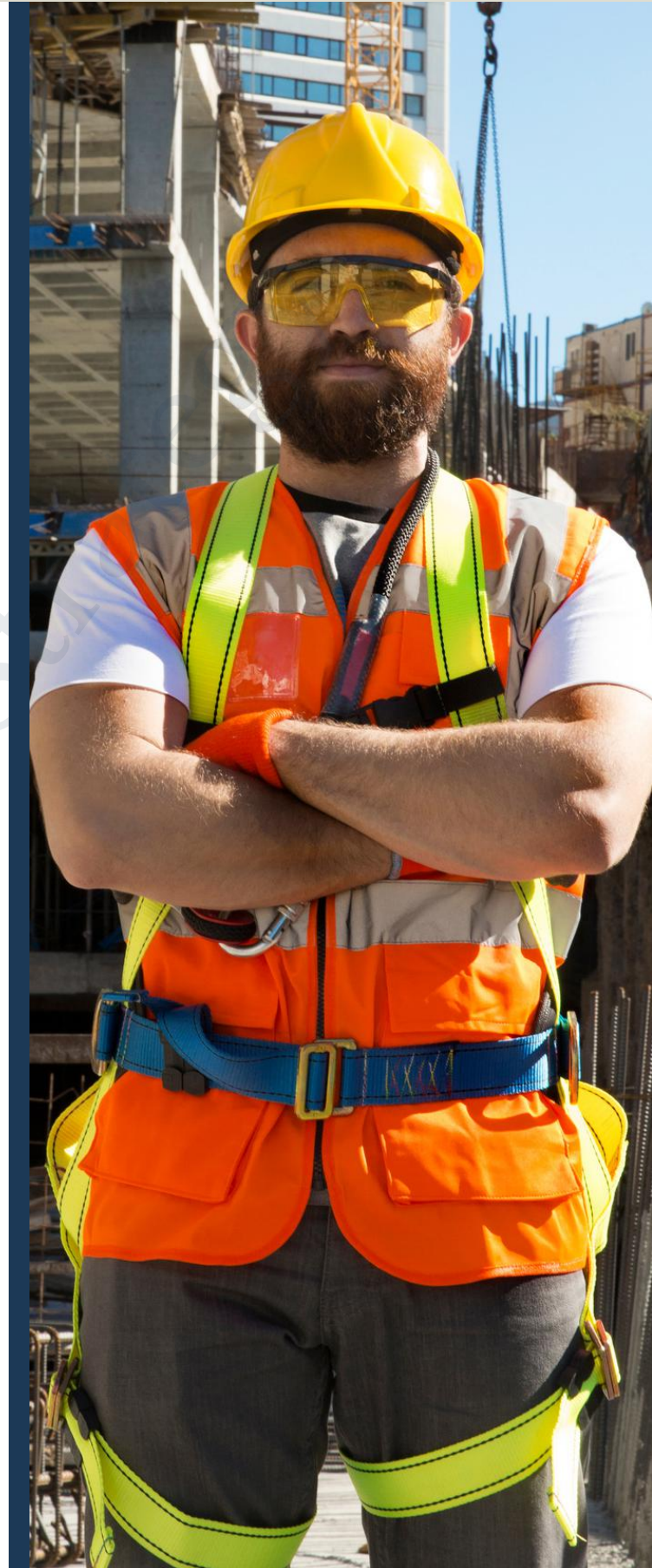
You do not need to fix all eight at once.

In fact, trying to fix all eight at once is often how owners burn out and stall!

We typically pick the two or three with the biggest gap, build a one-year plan around them, and measure progress quarterly.

The goal is *NOT* perfection.

The goal *IS* direction.



Chapter V

Incentives

The Most Underused Tool



Performance, Retention, Valuation

If you only read one chapter in this guide, read this one.

Most owners pay their key people a base salary and an annual bonus, and they hope the people stay. That is it. That is the plan.

The owners who do this differently, the ones who build a real incentive system, end up with **three things their competitors do not have:**



That last point is worth pausing on... **A buyer is buying the future of your business.** The future of your business depends on the people who will run it tomorrow.

If the owner has a real incentive plan in place that locks in those people, the buyer pays more.

If the owner has nothing, the buyer *assumes* the team might leave, and the price goes down.

Five Elements of a Well-Designed Incentive Plan

A good plan has all five. A plan that only has some of them tends to underperform.



Substantial Financial Rewards

A bonus that does not move the needle in someone's life will not change their behavior. The reward needs to be meaningful, ideally tied to a percentage of total compensation that the employee can feel.



Direct Link to Company Value

The metrics should connect to the things that make the business more valuable. If hitting the metric does not move the company forward, why are you paying for it?



Clear Communication

A plan no one understands is a plan no one acts on. The best plans are explained in plain language, with simple math, and reviewed every year.



Specific, Measurable Performance Criteria

Vague goals create vague effort. The plan should be tied to a number the employee can see and influence. Net income. Revenue growth. Gross margin. Customer retention. Whatever drives value in your business.



Deferral and Vesting

Often called golden handcuffs. A portion of the bonus, often the majority, is paid out over a period of years, only if the employee is still there. This is what turns a bonus from a cost into a retention tool.

Cash-Based Plans

The simplest place to start. A cash bonus pool, usually a percentage of pre-tax profit above a baseline, is divided among eligible employees according to a pre-agreed formula.

A common structure looks like this:

- **Performance Criteria:** Net income above a baseline.
- **Sharing Percentage:** A fixed share of the excess goes into the bonus pool.
- **Allocation:** Distributed to employees based on a percentage of salary or a scorecard.
- **Deferral:** A portion (often half or more) is paid in the year earned, and the remainder is paid out over the next three to five years, only if the employee remains employed.

The math is straightforward. The retention effect, in our experience, is profound. Employees who can see real money sitting in their deferred account tend to stay until they see it.



Equity-Based and Synthetic Equity Plans

When cash plans are not enough, owners often look at equity. The challenge is that real equity gives away ownership and usually creates tax and governance complications. **There are alternatives.**

Stock Appreciation Rights (SARs)

A SAR pays the employee the increase in the value of a **share over time, in cash, without giving them an actual share**. The employee benefits from growth in company value without becoming a real owner. The IRS treats SARs as deferred compensation, and they need to be designed carefully to comply with Internal Revenue Code Section 409A.



Phantom Stock

Similar to a SAR, but tracks the **full value of a share, not just appreciation**. The employee receives a cash payment based on a number of "phantom" units at a future date or triggering event.



Profits Interests (LLCs only)

A grant of a **share of future profits**, with no claim on the existing value of the company. Profit interests can offer favorable tax treatment under the right structure and are commonly used in LLCs where the owner wants to give a key employee a real piece of future upside.



Nonqualified Deferred Compensation (NQDC)

NQDC plans are arrangements where an employer agrees to pay an **employee at a future date for services performed today**. They are not "qualified" plans under the federal retirement code, which means they do not have the same tax advantages as a 401(k) but also do not have the same contribution limits.

According to the IRS, deferrals under a NQDC plan must comply with Section 409A or be subject to immediate income inclusion, additional tax, and interest.

What this means for an owner is simple. NQDC is one of the most flexible tools in the toolbox for keeping high-earning executives. There are no contribution caps, the design is highly customizable, and the deferred amount, plus any earnings, is paid out at retirement, separation, or another defined event.

When NQDC Makes Sense

- The executive is already maxing out the 401(k).
- The owner wants to reward a small group of key people without giving everyone the same benefit.
- The owner is trying to retain the executive through a planned future event, like a sale or transition.



A Note on Funding

Because NQDC plans are technically unsecured promises, the deferred amounts are at risk if the company becomes insolvent.

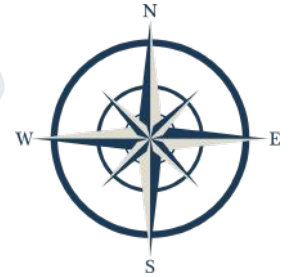
Most well-designed NQDC plans use a "**Rabbi Trust**" and a corporate-owned life insurance (COLI) policy to informally fund the obligation.

The Trust holds the assets, the company keeps them on the balance sheet, and if something happens to the executive, the insurance proceeds fund the benefit.

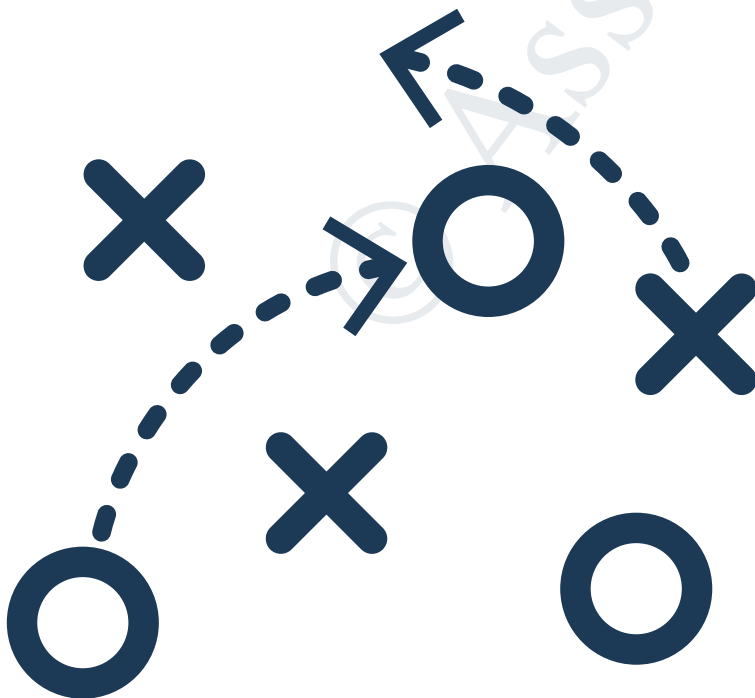
How Asset Strategy Can Help Build These

Designing an incentive plan is not a forms exercise. It is an analysis. We start by looking at:

- Who are the people who actually drive value in the company.
- What do they care about, financially and otherwise.
- What metrics in your business, if improved, would most increase value.
- What can the company afford to share, today and over time.
- What tax and legal structures keep the plan compliant and clean.



We work alongside our partners at Lion Street, an independent platform of insurance, advanced planning, and benefits specialists, to model funding strategies, life insurance design, and the long-term financial impact on the company.



The end product is a **written plan**, a **participant communication packet**, and an **annual review process** so the plan keeps doing its job year after year.

Sample Plan Math

Imagine a company doing **\$10M** in revenue with **\$1.2M** in net income today.

- The owner sets a performance baseline of **\$1.0M**.
- A **40%** sharing pool is created on net income above the baseline.
- Eligible participants split the pool by a pre-agreed allocation formula.
- **70%** of each participant's award is deferred and vests over 5 years, paid only if the employee remains employed.

Now run the math forward. Assume the team executes well and net income grows to **\$1.5M** in Year 1, **\$1.8M** in Year 2, and **\$2.0M** in Year 3.

- **Year 1 pool: 40% of (\$1.5M – \$1.0M) = \$200,000**
- **Year 2 pool: 40% of (\$1.8M – \$1.0M) = \$320,000**
- **Year 3 pool: 40% of (\$2.0M – \$1.0M) = \$400,000**

Across three years, **\$920,000** has been allocated to the pool. With **70% deferred**, the top three participants are each sitting on six-figure deferred balances that vest over time.

None of them are looking around.

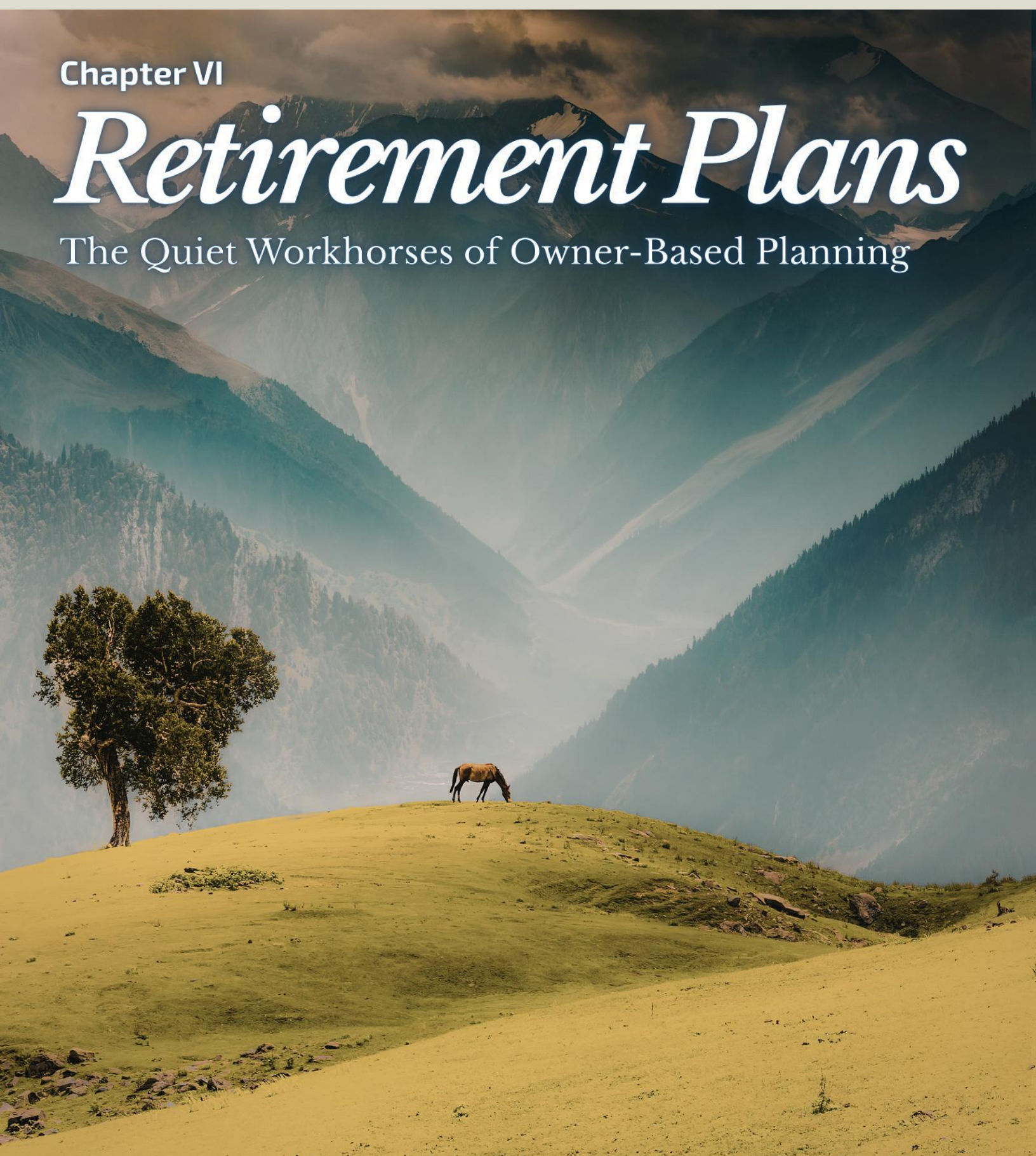
The math is straightforward. The retention effect, in our experience, is profound. Employees who can see real money accruing in their deferred account tend to stay until it pays out.



Chapter VI

Retirement Plans

The Quiet Workhorses of Owner-Based Planning



Top Three Things to Know About a Retirement Plan

Retirement plans do not usually make the cover of a magazine.

They quietly do three of the most important jobs in a business at the same time:

**They reduce
the
company's
tax bill.**

**They build
personal
wealth for the
owner outside
of the business.**

**They make the
company more
attractive to
current and
future
employees.**

- Used together with an incentive comp plan, the right benefits stack can drive real, durable value.
- Used poorly, or skipped entirely, they leave money on the table every year.

Plans

401(k) Plans

A 401(k) is a defined contribution retirement plan that lets employees defer a portion of their paycheck, on a pre-tax or Roth basis, into an investment account. The basic employee deferral limit is updated each year. Employers can match contributions, make a non-elective contribution, or add a profit-sharing contribution on top.

For most small to mid-sized businesses, the 401(k) is the foundation of the benefits package. It is portable for employees, flexible for the company, and well understood by everyone involved.

Design Choices That Matter Most

- **The Match Formula:** A simple match, like 100% of the first 4% deferred, is easy to communicate and almost always cost-effective.
- **The Vesting Schedule:** A graded or cliff vesting schedule on the employer match keeps employees engaged longer.
- **Whether to Add a Safe Harbor Design:** Safe Harbor plans avoid certain testing requirements and let the owner contribute the maximum each year without worrying about being capped by employee participation rates.
- **Whether to Layer in Profit Sharing:** Profit sharing contributions allow the company to reward employees in good years without committing to it permanently.



Defined Benefit Plans (Including Cash Balance Plans)

A defined benefit (DB) plan promises a specific benefit at retirement, usually based on a formula tied to compensation and years of service. A cash balance plan is a kind of DB plan that expresses the benefit as a hypothetical account balance, which makes it easier for participants to understand.

For owners over the age of 45 with strong, stable cash flow, a DB or cash balance plan can be one of the most powerful tax-deferral tools in the entire tax code. Contribution limits are based on actuarial calculations, and for older owners, the annual deductible contribution can substantially exceed the limits available in a 401(k).

A Common Use Case

- *A 55-year-old owner of a profitable services firm is already contributing the full annual amount to her 401(k) and profit-sharing plan.*
- *She is still well behind on retirement savings because she reinvested most of her early profits in the business.*
- ***By layering a cash balance plan on top of her 401(k), she may be able to deduct an additional six-figure contribution each year, all of which goes into her own retirement account.***

- Cash balance plans require an actuary, ongoing administration, and a multi-year commitment.
- **They are not for every business.**
- **But, for the right owner, they can transfer millions of dollars of pre-tax income into a personal retirement account over five to ten years.**



Nonqualified Deferred Compensation, Revisited

We covered **NQDC** in the incentive compensation chapter, but it deserves a second mention here.

For owners who are personally maxing out their qualified plans and want to defer additional income, a properly designed NQDC plan can be a useful complement.

It can also be a way to give a small handful of senior employees a benefit they cannot get anywhere else.



Group Insurance and Voluntary Benefits

Outside of retirement, the right group benefits package supports the same three goals: lower taxes, stronger team, more attractive company. This includes group health, dental, and vision; group life and disability; HSA-friendly health plan design; and voluntary benefits like supplemental life, accident, and critical illness coverage.

The right design depends on the workforce, the location, and the cost structure. The wrong design, or no design at all, leaves both the company and the employees worse off.

How Asset Strategy Approaches Benefits

We can layer a 401(k), a cash balance plan, a NQDC plan, and a properly designed group insurance and corporate-owned life insurance program into a **single, coordinated package, with one set of advisors making sure the parts work together.** *When that happens, the:*



**Company
saves on
taxes**



**Owner accelerates
personal
wealth building**



**Employees see a
meaningful
benefits upgrade**

All three goals get pulled in the same direction.

Chapter VII

Active

Tax Planning While You Are Still Running the Business



The Years in Between

When most owners hear “tax planning,” they think of one of two things:

1. **The annual scramble in March to send numbers to the CPA**
2. **The big tax bill at the sale of the business, years from now**

Both of those moments matter.

But the most valuable tax planning, by a wide margin, happens in the years in between.

Every year you actively run your business is a year you can:

- **Lower your taxes**
- **Build personal wealth outside the company**
- **Protect what you have built**

Owners who plan ahead, year after year, may pay **substantially less** in lifetime taxes than owners who only think about taxes once a year. Actual savings depend on factors such as income level, entity type, state tax rules, and the planning strategies used; individual results will vary.

This chapter walks through the strategies most often overlooked while the owner is still active.

Please note that in this guide, we will not give specific advice for your situation. Every strategy here has rules, limits, and tradeoffs that need to be reviewed with your CPA, your attorney, and your financial advisor. Think of this as a map of the territory.

Why Active-Owner Tax Planning Is Different

Once you sell the business, your menu of tax options shrinks dramatically.

While you are still operating, you have access to a much wider set of tools.

The business itself is a vehicle for deductions, deferrals, and credits that simply do not exist in personal finance alone. A few things change once you stop being an active owner:

You lose access to most qualified retirement plan contributions.

You lose the ability to compensate yourself, family members, and key employees in tax-favored ways.

You lose the ability to deduct ordinary business expenses against business income.

You lose the flexibility to time income, expenses, and deductions across years.

You lose access to many state and federal credits that require active operations.

Most of those tools are **time-bound**. They only work **while** you are working. That makes the years you spend as an active owner some of the most important tax-planning years of your life.

The Five Goals of Active-Owner Tax Planning

When we sit down with an owner to design a multi-year tax plan, we are usually working toward five goals at once.

1 Lower the Current Year Tax Bill

The most obvious goal. Pay less this year, legally, by using every available deduction, credit, and contribution.

2 Build Personal Wealth Outside the Business

Most owners have too much net worth tied up in the business. Smart tax planning, especially through retirement plans and insurance, moves wealth out of the company and into the owner's personal balance sheet, tax-efficiently.

3 Shift Income Across Years and Generations

Some years will be high-income years. Others will be lower. The tax code rewards owners who plan ahead by shifting income, deductions, or gains into the years where they cost the least.

4 Protect What You Have Built

Tax planning is also asset protection. Properly structured entities, retirement plans, and trusts shield wealth from creditors, lawsuits, and divorce.

5 Set Up the Future Sale

Every move you make today affects the tax picture at sale. Structuring the business well now means more after-tax dollars later.

The Big Categories of Active-Owner Tax Strategy

The strategies fall into seven BIG categories. We have laid them out on the next page so you can see the full landscape in one place.

Entity Structure Planning

The legal form of the business affects how income is taxed and how much can be sheltered.

Retirement Plan Strategies

Qualified plans are often the single biggest tax-deferral lever for active owners.

Insurance-Based Strategies

Properly structured life and disability insurance, including corporate-owned policies, can both protect the business and create tax-advantaged personal wealth.

Income Shifting and Family Employment

Paying family members for real work, gifting interests, and using trusts can lower the family's total tax bill.

Real Estate and Depreciation Strategies

If your business owns or leases real estate, there is a layer of tax planning that exists nowhere else.

Credits and Incentives

Federal and state programs reward specific activities. R&D, hiring, energy, location-based credits, and more.

Charitable Strategies

Owners with charitable intent can lower current taxes and build legacy at the same time.

Two Reminders Before You Read the Table

1) Every strategy listed has limits and rules. Most have specific eligibility tests, contribution caps, or timing requirements. None of this is do-it-yourself work. **2) The right combination of strategies depends entirely on your business structure, your income level, your stage of life, your family, and your future plans.** The point of the table is to show you the menu, not to pick what is on your plate.

Examples of Active-Owner Tax Strategies

CATEGORY	STRATEGY	WHAT IT DOES	BEST FIT FOR
<i>Entity Structure</i>	S-Corp Election	Splits owner income into salary and distributions, reducing self-employment tax.	Profitable LLCs and sole proprietors.
<i>Entity Structure</i>	C-Corp Conversion	Allows access to flat corporate tax rate, broader fringe benefits, and Section 1202 QSBS treatment on a future sale.	Growth-stage businesses planning to scale or sell within 5+ years.
<i>Entity Structure</i>	Holding Company / Multi-Entity	Separates assets, IP, and operating risk. Allows targeted tax planning by entity.	Owners with real estate, IP, or multiple lines of business.
<i>Retirement Plans</i>	401(k) + Profit Sharing	Defers up to the annual IRS limit per participant, plus employer contributions.	Nearly every business with 1+ employees.
<i>Retirement Plans</i>	Safe Harbor 401(k)	Avoids nondiscrimination testing so owners can max out deferrals.	Owners limited by employee participation.
<i>Retirement Plans</i>	Cash Balance / Defined Benefit	Allows large additional pre-tax contributions, often six figures per year for older owners.	Owners 45+ with strong, stable cash flow.
<i>Retirement Plans</i>	Nonqualified Deferred Comp (NQDC)	Defers income for owners and key executives above qualified plan limits. Subject to IRC 409A.	High-income owners and executives maxed out elsewhere.
<i>Retirement Plans</i>	SEP-IRA / SIMPLE IRA	Simpler retirement plan structures with lower administrative cost.	Solo owners and very small businesses.

Examples of Active-Owner Tax Strategies

CATEGORY	STRATEGY	WHAT IT DOES	BEST FIT FOR
<i>Insurance</i>	Corporate-Owned Life Insurance (COLI)	Funds NQDC, key person coverage, or buy-sell agreements with tax-deferred cash value growth.	Owners building deferred comp or buy-sell funding.
<i>Insurance</i>	Section 162 Executive Bonus Plans	Company-paid life insurance premiums deductible to the company, taxable to the executive, with tax-favored cash value for the executive.	Owners rewarding key employees outside qualified plans.
<i>Insurance</i>	Split-Dollar Arrangements	Shares the costs and benefits of a life insurance policy between owner and company, with flexible tax treatment.	Advanced executive and family wealth transfer planning.
<i>Insurance</i>	Disability and Buy-Sell Insurance	Pays out tax-free benefits on death or disability, funds business continuity.	Every active owner.
<i>Income Shifting</i>	Family Employment	Pay family members for real work performed; shifts income to lower brackets.	Owners with adult children or a working spouse.
<i>Income Shifting</i>	Gifting Business Interests	Transfers future appreciation out of the owner's estate using the annual exclusion and lifetime exemption.	Owners with growing companies and estate exposure.
<i>Income Shifting</i>	Grantor Trusts (IDGTs, GRATs, SLATs)	Moves business interests and growth out of the estate while owner pays the income tax, leveraging the gift.	Owners with significant wealth and long time horizons.

Examples of Active-Owner Tax Strategies

CATEGORY	STRATEGY	WHAT IT DOES	BEST FIT FOR
<i>Real Estate</i>	Own the Building Personally, Lease to the Business	Creates a personal stream of rental income, depreciation deductions, and a separable asset for a future sale.	Owners whose business occupies real estate.
<i>Real Estate</i>	Cost Segregation Study	Accelerates depreciation on commercial real estate by reclassifying components into shorter-life categories.	Owners of commercial real estate, especially after major renovations.
<i>Real Estate</i>	1031 Exchange (for owned property)	Defers capital gains tax on sale of investment real estate when reinvested in like-kind property.	Owners trading up or repositioning real estate holdings.
<i>Real Estate</i>	Delaware Statutory Trust (DST)	Qualifies as 1031 replacement property without active management.	Owners exiting landlord role while deferring tax.
<i>Credits & Incentives</i>	R&D Tax Credit	Federal credit for qualified research activities, including software, process, and product development.	Tech, manufacturing, engineering, and product-design firms.
<i>Credits & Incentives</i>	Work Opportunity Tax Credit (WOTC)	Federal credit for hiring from targeted groups, including veterans.	Businesses with consistent hiring activity.
<i>Credits & Incentives</i>	Energy Credits (179D, ITC)	Deductions and credits for energy-efficient property improvements and solar installations.	Owners investing in facilities and infrastructure.
<i>Credits & Incentives</i>	State-Specific Credits	Massachusetts and many other states offer credits for jobs, training, investment, and film/media activity.	Any operating business; varies by state.
<i>Charitable</i>	Donor-Advised Fund (DAF)	Bunches multi-year charitable giving into one high-income year for maximum deduction.	Owners with variable income and ongoing charitable intent.
<i>Charitable</i>	Charitable Remainder Trust (CRT)	Donates appreciated assets, sells inside the trust tax-free, pays lifetime income to the owner.	Owners with appreciated business or real estate interests.
<i>Charitable</i>	Gifts of Appreciated Stock	Donates the asset directly to avoid capital gains and receive the full fair-market deduction.	Owners with appreciated publicly traded stock or business interests.

How Asset Strategy Builds the Plan

Reading a table is not a tax plan.

A real plan starts with three things:

1. **Your current numbers**
2. **Your future goals**
3. **Multi-year projection that shows how each strategy interacts with the others**

Here at Asset Strategy, we:

- **Work** alongside CPAs and tax attorneys to build that projection
- **Model** the impact of different combinations of strategies across the next 5-10 years
- **Identify** the years where specific moves create the most leverage
- **Coordinate** the implementation across your retirement plans, insurance, entity structure, and family balance sheet so each piece supports the others

The goal is not to find *ONE* big tax-saving idea. The goal is to make **smart, coordinated** decisions every year so that, over a decade of active ownership, your total tax bill is materially lower and your personal wealth has grown faster than it ever would have inside the company alone.



Chapter VIII

Continuity

If Something Happens to You



Three Documents That Keep a Business Alive

- Most owners we meet have a **will**.
- Many have a **Trust**.
- Some have a **Buy-Sell Agreement**.

Very few have all three documents synced up so they actually work together.

This is the part of planning where doing it badly is almost as risky as not doing it at all.

Three legal documents that contradict each other can paralyze a business and a family for years!

So, in this chapter we walk through the three most important continuity documents, what each one does, and how they connect.

1) The Buy-Sell Agreement

A Buy-Sell Agreement is a contract among business owners, or between owners and the company, that controls what happens to ownership interests when a triggering event occurs. The most common triggers are:

Death

Disability

Departure

Disagreement

Divorce

Retirement

Without one, the business can end up owned by an unintended party.

- A surviving spouse who never wanted to be in the business
- The estate of a former partner
- A divorcing partner's ex
- A creditor

Think of it this way...

What happens if your co-founder's spouse suddenly becomes your business partner!?

What Could Happen Without Proper Buy/Sell Life Insurance?



Ownership Disputes



Financial Strain



Business Instability



Forced Sale or Liquidation



Tax Complications

Benefits of a Proper Buy/Sell Agreement



Smooth Transition and Business Continuity



Financial Protection for Owners and Their Families



Enhanced Business Valuation



Prevent Future Conflicts

Three Common Structures of a Buy-Sell Agreement

1 Cross-Purchase Agreement

- The remaining owners buy the departing owner's shares directly.
- Each owner typically holds a life insurance policy on the others, and the insurance proceeds fund the purchase.

2 Entity-Purchase (Redemption) Agreement

- The company itself buys back the departing owner's shares.
- The company holds the life insurance and uses the proceeds to fund the redemption.

3 Hybrid Agreement

- A combination of the two, often giving the company a first option and the remaining owners a backup option.

Each structure has different tax, accounting, and legal consequences.

- A cross-purchase agreement can offer a better step-up in basis for the surviving owners, but gets complicated with more than three or four owners.
- An entity-purchase agreement is simpler administratively, but the **Supreme Court's 2024 Connelly decision** changed how these are valued for estate tax purposes, making them less efficient than they used to be. **Any entity-purchase agreement signed before 2024 should be reviewed.**

It depends on the specific business, the number of owners, and the tax position of each.

A Newer Option: The Buy-Sell Insurance LLC

For single-owner businesses, or for situations where life insurance ownership creates issues with Internal Revenue Code Section 101(j) (*the "transfer for value" rule and employer-owned life insurance reporting requirements*), a separately formed LLC can hold the life insurance policy and serve as the buy-sell vehicle.

This structure, sometimes called a **Buy-Sell Insurance LLC**, can offer several advantages:

- **Creditor Protection**
- **Business Continuity**
- **Flexibility in Structuring Who Owns the Policy and Who Pays the Premiums**
- **Potential Estate Tax Benefits**

The LLC owns the policy, the death benefit flows to the LLC, and the LLC then funds the purchase of the deceased owner's shares from their estate.

The remaining shareholders or key employees can be members of the LLC and receive their interests in proportion to their planned ownership of the business.

This is more complex than a standard buy-sell, and it requires careful coordination with legal and tax advisors. Used correctly, it solves real problems.



2) The Management Succession Plan (MSP)

A Buy-Sell Agreement controls who owns the business after a triggering event. A Management Succession Plan controls who runs the business in the meantime.



The two documents are often confused. They should not be.

What a Good MSP Defines

What "incapacity" means.

Is it a doctor's certification? A board determination? A specified period of absence? Without a definition, no one knows when the plan kicks in.

Who has decision-making authority during the period of incapacity.

Often a designated executive or a small management committee.

How daily operations are handled.

Who signs payroll? Who approves spending? Who deals with the bank? Who calls the customers?

How key personnel are compensated and protected during the transition.

Whether and how to keep operating versus pivot to a sale.

Whether the business is required to be sold under the buy-sell, or can be retained.

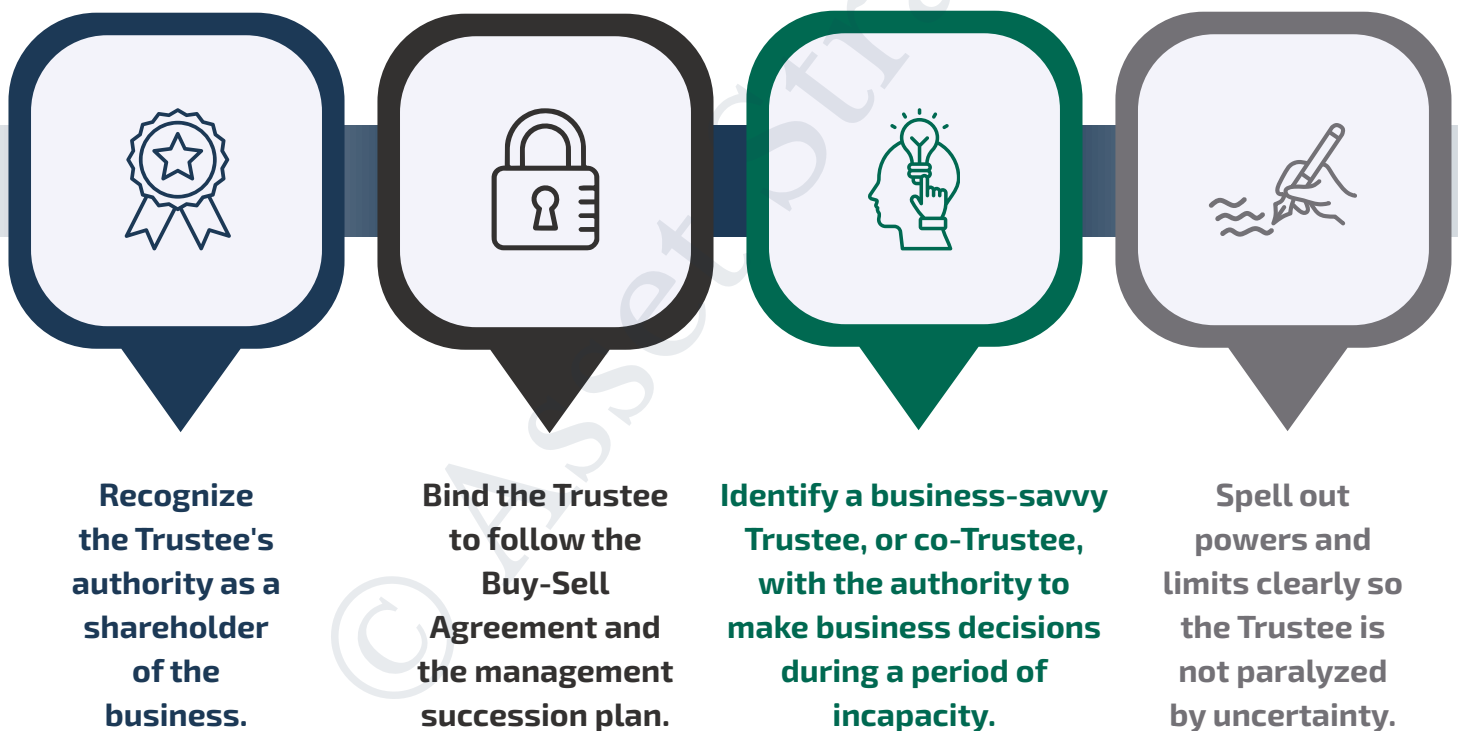
The MSP is the document that prevents a business from collapsing during the worst three months of an owner's life or family's life.

3) The Revocable Trust *(and Its Connection to the Business)*

A **Revocable Living Trust** is an estate planning document that holds your assets, including business interests, during your lifetime and directs how they are managed and distributed if you die or become incapacitated.

It allows your business interests to avoid probate and pass according to your instructions without delay.

For business owners, the Trust needs to do more than hold the shares. It needs to:



The most common failure mode we see is a Trust that is **silent on business matters**. It holds the shares, but provides **no guidance on what to do with them**. A surviving spouse, a sibling, or an institutional Trustee is suddenly thrust into the role of business owner with no instructions.

Tying Them Together

The documents only work if they are designed together. Here is how the linking should work:

Who Owns the Shares

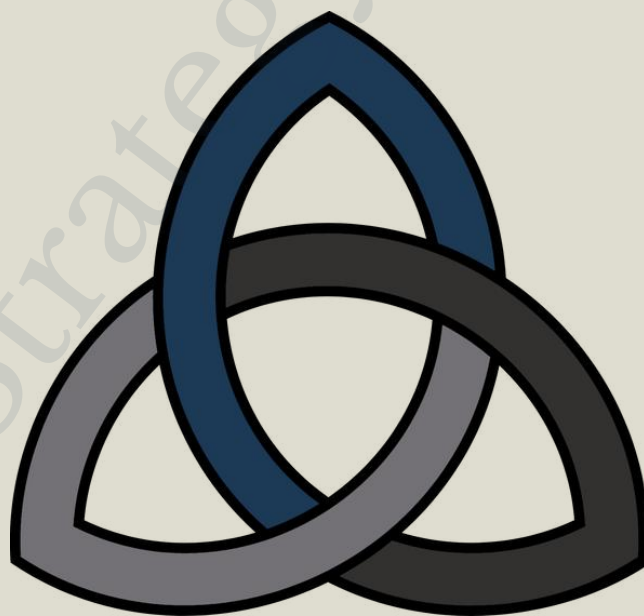
The revocable trust holds the shares and binds the trustee to the buy-sell agreement and the management succession plan.

What Happens to the Shares

The buy-sell agreement defines what happens to the shares on a triggering event. It is funded by life insurance, often held in a separate Buy-Sell Insurance LLC.

Who Runs the Business

The management succession plan designates who runs the business and how.



Each document references the others. A change to one is reviewed against the others.

When done correctly, the result is a system. A triggering event sets off a defined sequence:

- The Trustee follows the Trust.
- The Trust follows the Buy-Sell Agreement.
- The Buy-Sell Agreement triggers the insurance.
- The insurance funds the purchase.
- Daily operations continue under the MSP.
- The family is supported. The business survives.

When done poorly, the same triggering event sets off a legal fight that takes years and destroys what the owner spent decades building.

Chapter IX

Family

When Business and Family Are One Story



99% and 1%

If you're a business owner, there's a pretty solid chance you own a family business, whether you call it that or not. The author Michael Gerber once wrote:

"Every business is a family business. To ignore this truth is to court disaster."²

We agree with this statement.

- Even a business with no family members on the payroll is a family business in the sense that decisions made at work shape the family at home, and decisions made at home shape the business at work.
- For owners who employ family members or who plan to transfer the business to family members, the family layer is impossible to ignore. It is also the layer most planning frameworks pretend does not exist. This chapter is for those owners.

The Two Businesses You Are Actually Running

Family business owners are running two businesses at once, even if they do not know it.

- 1) **The family business itself**, the operating company that makes money.
- 2) **The "business of the family,"** the much harder, less defined work of helping a family stay aligned across generations, branches, marriages, and decades.

Most owners spend 99% of their time on the first and 1% on the second.

That ratio works fine until the founder decides to step back, sell, or pass the business to the next generation. At that point, the second business becomes the deciding factor. Families that have invested in the business of the family transition smoothly. Families that have not, often blow up.



² <https://www.inc.com/michael-gerber/why-every-business-is-a-family-business.html> as of 3.16.2016

Ten Shifts That Make a Family Enterprise Work

Owner-Based Planning, applied to a family business, asks the family to make a series of mindset shifts. Each one is a small change in framing that leads to a large change in outcome.

1) From Owner to Family

The business is not just the owner's project. It is a shared platform that the family is steward of, even if not every family member works in it.



2) From Transaction to Generation

The plan is not built around a single sale. It is built around what the family wants to be true twenty, thirty, fifty years from now.



3) From Business-Only to Multi-Capital

The family has more than financial capital. It has human capital, intellectual capital, social capital, and what we sometimes call "fun capital," the shared experiences and traditions that hold a family together. A real plan grows all of them.



4) From Succession Risk to Leadership Pipeline

Instead of hoping a successor emerges, the family develops one (or several) on purpose, with training, mentoring, and real responsibility.



5) From Siloed Advisors to a Trusted Advisor Team

The Asset Strategy Financial Advisor, the lawyer, the CPA, the insurance specialist, and the banker should be talking to each other. A real Owner-Based Plan creates a coordinated advisor team that meets together, not separately.



6) From Patchwork Management to Real Governance

The business gets a real board. The family gets a family council. The two are connected. Decisions get made through structures, not at Thanksgiving dinner.



7) From Family Conflict to Shared Vision

The family writes down what it stands for, what it values, and what it wants. Most families have never done this. The act of doing it solves more conflict than any number of meetings can.



8) From Wealth Erosion to Wealth Multiplication

The old saying is "*shirtsleeves to shirtsleeves in three generations*." The data backs it up. Research commonly finds that a substantial portion of family wealth does not persist beyond the third generation.³ A real Owner-Based Plan protects against that, through education, governance, and structure.



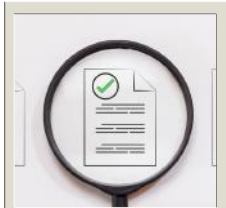
9) From Elite Model to Accessible Tools

Family enterprise planning used to be reserved for the largest dynastic fortunes. Today, the same tools and structures can be deployed for businesses worth two million dollars, twenty million dollars, or two hundred million.



10) From Many Plans to One Coordinated Plan

Most owners have a stack of binders. An estate plan binder, a tax binder, a 401(k) binder, a buy-sell binder. The Owner-Based Plan is one document that pulls all of those together and shows how they work as a system.



³ <https://www.cfainstitute.org/insights/articles/third-generation-wealth-curse-advisor-solutions> as of 2.6.2025



What "The Business of the Family" Actually Looks Like

When we work with family businesses, we often help build out three structures that handle the second business.

- **A family enterprise council**, where the family meets on a defined cadence to discuss long-term direction, values, and the family's relationship with the business and with each other.
- **A board of directors or board of advisors**, where the operating business is governed and held accountable, separately from family dynamics.
- **A trusted advisor team**, where the legal, tax, financial, and insurance professionals meet together to coordinate the plan.

You do **NOT** need all three to start.

You do not need the whole family to start. Some families begin with just the founder generation. Others begin with the founder and one or two adult children.

The point **IS** to start.



The Three D's

A useful mindset for the founder generation is what we call the three D's.

Discover

If we keep doing exactly what we are doing today, what is the most likely outcome ten years from now?

Decide

What is missing right now whose presence would change that outcome?

Deploy

What do we need to do this year to put it in place?

If you can answer those three questions clearly, you are well ahead of most family business owners.

Chapter X

Boards

That Build Value, and the Ones That Don't



A Real Board, Used Correctly

Most private business boards are not really boards.

They are quarterly meetings where someone reads the financials, the owner says everything is fine, and lunch is served.

A real board, used correctly, can be one of the most powerful value-creation tools an owner has.

It can be the difference between a business that grows steadily for ten years and one that gets stuck.

This chapter is about the difference.



The Three Common Failure Patterns



Underused...

- The board has talented members, but is treated like a rubber stamp. Strategic decisions are made before the board sees them. The board approves what is already done.



Underperforming...

- The board members do not prepare, do not engage, and do not push back. Meetings are polite. Nothing changes.



Underwhelming...

- The board is made up of friends and family who lack the experience, skills, or independence to push the business forward.

The signs are easy to spot. Low attendance. No real preparation. No conflict, ever. No strategic plan that the board is actually accountable for. No financial oversight beyond a quick review of the P&L. No discussion of customers, competitors, talent, or market shifts. Just an update meeting.

If any of that sounds familiar, the board is not earning its seat.



The Three Roles a Real Board Plays

A high-performing board does three things, and does them all well.



1) Legal and Financial Oversight

The board reviews financial statements, audits, and compliance. It understands liability and stakeholder responsibilities. It is the line of defense against fraud, ethics violations, and conflicts of interest.

The board does not run the company. It sets and tests direction. It oversees market positioning. It reads cues the management team may not see. It tests assumptions.



2) Strategic Planning



3) Partnership With Leadership

The board is the executive team's most thoughtful peer group. It manages expectations, holds leaders accountable, and helps build effective decision-making processes.

Strategic, Operational, or Family Board?

Different owners need different boards. The first decision is what kind of board you want. Many owners benefit from a layered structure: a family council, a strategic board, and a small operating committee, each with a defined role.



- Focuses on direction, market, and value creation. Most external members are senior executives or industry experts. Meetings are quarterly and prepared in advance.



- Focuses on the inner workings of the company. Members tend to be functional experts: finance, operations, sales. Meetings are more frequent and tactical.



- Includes family members and is typically used in family enterprises to align ownership decisions. The family board often coordinates with a separate strategic board.

How to Recruit Members Who Actually Add Value

A simple framework. List the competencies your business needs over the next three to five years. Industry experience. Marketing. Finance. M&A. Technology. Leadership development. International expansion. Whatever applies.

Now look at your prospective board members. For each one, ask:

- Do they have entrepreneurial experience?
- Do they have direct experience in our industry, or an adjacent one?
- Do they bring a functional skill we lack on the management team?
- Do they have the behavioral traits of a great director?
 - (Engaged, prepared, courageous, ethical, curious, willing to disagree respectfully.)



The best boards are built deliberately, not assembled out of friends.

The right test is not "would I want to have dinner with this person." It is "will this person make our company better five years from now."

*"What
gets
measured,
gets
done."*

Boards That Ask, Do Better

Great boards ask hard questions. *Are we serving the right customers? Do we have the right people in the right seats? Are we testing our assumptions about the market? Are we preparing the next generation of leadership? Are our values still aligned with how we operate?*

The boards that ask these questions, and create space for **honest** answers, consistently produce better results than the boards that do not.

A simple, regular self-assessment is one of the easiest tools to install. Every member rates the board on a short list of attributes (experience, structure, engagement, performance, governance). **The results are reviewed openly. Areas for improvement are identified. The board commits to specific changes for the next year.**

Chapter XI

Steps

The Seven Steps of a Real Exit Plan



Every Owner Faces the Question of Transition

Owner-Based Planning is broader than exit planning, but eventually, every owner faces the question of transition.

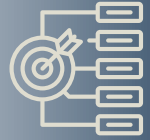
Sale to a third party. Sale to insiders. Transfer to family. ESOP. Wind-down...

There are many paths, but the planning framework is the same. We use a seven-step framework. We will walk through each step.



Step 1) Set Exit Objectives and Goals

- Before you ask "how should I sell," ask "**what do I actually want.**"
- Define the three most important things.
 - **The amount of after-tax proceeds you need.**
 - **The kind of buyer or successor you want.**
 - **The timing.**
- Be specific. "I want to retire someday with enough money" is **NOT** a goal. "I want to be fully out of the business in four years, sold to a strategic buyer who will keep the team in place, with at least eight million dollars net of tax" **IS** a goal. The first cannot be planned. The second can.



Step 2) Quantify Available Resources

- You have three sources of wealth: **the business, your investments outside the business, and your home and other personal assets.**
 - The first job is to know what each is worth, today, in honest dollars.
- That includes a real business valuation, not a number you have in your head, and a personal financial gap analysis comparing what you have to what you need to fund the life you want.
- The math from this step is what tells you whether you have a value gap, and how big it is.



Step 3) Focus on Business Value

- **Most owners are surprised when the valuation comes back lower than they expected. The good news is that business value is something you can move.**
- This is the longest step in the plan, sometimes lasting years. It is the work of building Strategic Capacity. Improving value drivers. Cleaning financials. Reducing owner dependence. Diversifying the customer base. Installing real systems. Putting in place an incentive comp plan to lock in the team.
- **Owners who skip this step may leave material value on the table when selling their business. Outcomes vary by company and market conditions.** On a business with \$3M dollars of EBITDA, that can be three to \$9M dollars.



Step 4) Sale to a Third Party

- If your goal is a sale to an outside buyer, this step is where the actual transaction work lives. **Quality of Earnings analysis.** Selecting and engaging an investment banker. Marketing the business. Receiving Indications of Interest. Narrowing to Letters of Intent. Negotiating definitive agreements. Closing.
- Most third-party sales take twelve to twenty-four months from "we are starting" to "the wire hits." A good investment banker, brought in at the right time, often pays for themselves multiple times over by creating competition among buyers and improving deal terms.



Step 5) Transfer to Insiders

- If your goal is to transfer the business to family members, key employees, or all employees through an ESOP, the **timeline** is different and the planning is different.
- Inside transfers are often done over three to seven years. The owner sells in tranches, with the buyer (the family member, the management team, or the ESOP) financing the purchase out of company cash flow. Tax treatment is different. The level of operational disruption is different. The level of personal emotional involvement is much higher.
- Inside transfers also tend to produce a different financial profile. The total dollars over time can be similar, but the cash at close is usually lower, with the rest paid over years.



Step 6) Develop a Contingency Plan for the *Business*

- This is the **continuity** work we covered in Chapter VII. The buy-sell agreement. The management succession plan. The revocable trust. The life insurance.
 - **All of it lives here.**
- **Even if you are five years from a sale, you need this in place today.**
- You do not get to choose when something unexpected happens.



Step 7) Develop a Contingency Plan for the *Owner's Family*

- The mirror image of Step 6. If something happens to you, your family needs to be financially secure regardless of what happens to the business.
- **This is where personal life insurance, estate planning documents, beneficiary designations, and liquidity planning come together.**
- The goal is simple. Your spouse and children should not have to make a single financial decision in the first year after a worst-case scenario.



Pulling It Together

Every step overlaps with the others.

None of them are done in a vacuum.

A good Owner-Based Plan keeps all seven moving in parallel, reviewed and refreshed at least once a year, with the timeline adjusted as your goals and the business evolve.

Chapter XII

Options

Your Transition Paths, Side by Side



Major Exit Paths

Most owners can list the names of the major exit paths but have no idea how they actually compare. This chapter compares the four most common, head to head, on the dimensions that matter.



Sale to a Strategic Buyer

A strategic buyer is another company in your industry, or an adjacent one, that wants your business for what it adds to theirs. Customers. Capabilities. Geography. Talent.

Pros

Often the highest sale price. Cash at close. Clean break. Buyer has resources to grow the business.

Cons

Cultural risk to the team. Often results in layoffs or rebranding. Rigorous due diligence. Loss of identity for the company.

Best Fit

Owners whose top goal is maximum after-tax proceeds and are at peace with the company being absorbed.

Sale to a Private Equity Firm

A private equity (PE) buyer is a financial buyer that buys businesses, holds them for a defined period (often three to seven years), grows them, and sells them again.

Pros

Strong valuations, especially for businesses with recurring revenue and strong management. Owner often stays involved for one to three years and rolls some equity into the new entity, creating a "second bite at the apple" if the PE firm sells later.

Cons

New reporting requirements. New leverage. Owner often stays longer than expected. Cultural changes. Aggressive growth targets.

Best Fit

Owners with strong management teams who want partial liquidity now and upside later.

Sale to Insiders (Management Team or Family)

The owner sells, in stages, to a group of key employees or to family members. The buyer typically uses company cash flow, plus seller financing, plus sometimes outside debt, to fund the purchase.

Pros

Continuity of culture. Continuity of brand. Rewards the people who built the business with the owner. Owner has more control over the timing and terms.

Cons

Lower cash at close. Years of seller financing risk. Requires skilled successors who are willing and able to take on ownership. Can stretch family or team relationships.

Best Fit

Owners who care more about legacy than maximizing dollars, and who have a successor who is ready.

Sale to an Employee Stock Ownership Plan

An "ESOP" is a type of inside transfer to all employees through a qualified retirement trust. We cover this in detail in the next chapter.

Pros

Significant tax advantages, including potentially tax-free sale under IRC Section 1042 for C corporations and federal income tax exemption for 100% S corporation ESOPs. Continuity of culture. Rewards every employee.

Cons

Complex transaction. Significant ongoing administration. Requires a healthy, mature business and a strong management team to operate without the founder.

Best Fit

Owners with strong cash flow, a deep team, and a desire to reward all employees while accessing meaningful tax savings.

A Side-By-Side Snapshot

Path	Cash at Close	Speed	Cultural Continuity	Tax Efficiency
Strategic Sale	High	Fastest	Low	Standard
Private Equity	High	Fast	Medium	Standard
Insider Sale	Low to Medium	Slow	High	Variable
ESOP	Medium	Slow	Very High	Often Highest

These are general patterns, not rules.

We have seen strategic sales preserve culture beautifully, and we have seen ESOPs go sideways.

The right answer depends on your specific business, your specific goals, and the specific market for businesses like yours at the time you go to sell.



Chapter XIII

ESOP

How an Employee Sale Actually Works



What Is an ESOP?

The Employee Stock Ownership Plan (ESOP) is one of the most misunderstood transition options. Most owners have heard of one. Few understand how the structure actually works.

This chapter explains it in plain language.

An '**ESOP**' is a qualified defined contribution employee benefit plan designed to invest primarily in the stock of the sponsoring employer. Since 1974, ESOPs have been governed by the Employee Retirement Income Security Act (ERISA) and the Internal Revenue Code, with specific tax provisions designed to encourage broad-based employee ownership.

- **In simple terms, an ESOP is a retirement plan that owns stock in the company.**
- **Employees who participate receive shares of the company over time.**
- **As the company grows, so do the value of their accounts.**



What an ESOP Actually Does

An ESOP can be three things at once.

1. **A buyer for the owner's stock, at fair market value (FMV).**
2. **A way to defer or eliminate capital gains tax on the owner's sale, under the right structure.**
3. **A broad-based ownership plan that gives every eligible employee a real stake in the future of the business.**

That last point is more than feel-good. According to the National Center for Employee Ownership, ESOP companies are roughly half as likely as non-ESOP firms to fail, demonstrate stronger productivity gains in the year an ESOP is adopted, and attract and retain key employees more effectively than non-ESOP competitors.

The Two Big Tax Stories

There are two tax provisions that make an ESOP financially powerful for both the owner and the company.

U.S. Code § 1042

Under specific rules, a C corporation owner who sells at least **30%** of the company to an ESOP, and reinvests the proceeds into qualified replacement property within a defined window may be able to defer or eliminate capital gains tax on the sale. **For an owner with significant built-in gain in their stock, this provision alone can be worth millions.**

S Corporation ESOP Tax Treatment

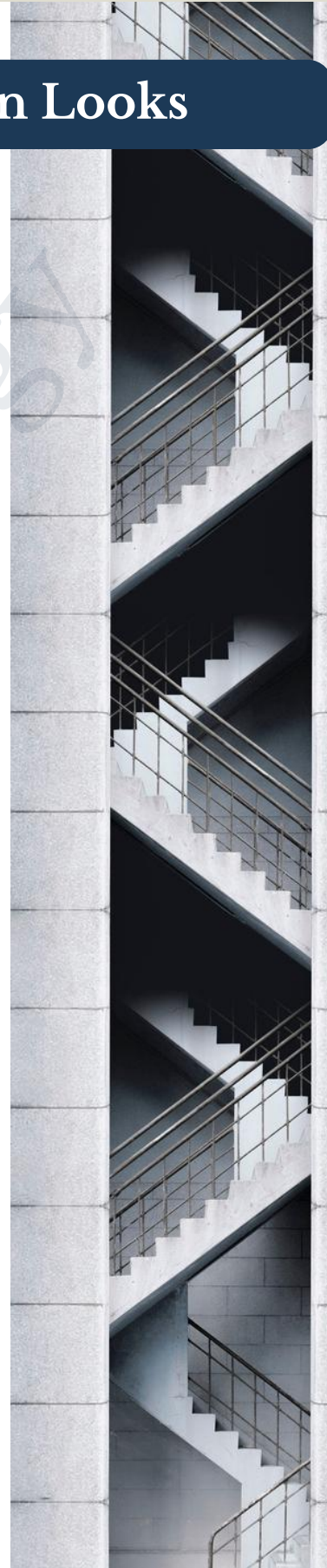
A **100%** S corporation ESOP is generally exempt from federal income tax and from most state income tax. The earnings of the company flow through to the ESOP trust, which is itself a tax-exempt retirement trust. **This creates a significant ongoing tax shield, often used to accelerate repayment of the seller's note.**



How a Typical ESOP Transaction Looks

A simplified version of a 100% ESOP transaction goes like this.

- **1) The company is restructured**, often into a holding company.
- **2) The ESOP trust is created and funded with debt:** a portion from a bank, the remainder as a seller-financed note.
- **3) The ESOP trust uses the loan proceeds to buy 100% of the owner's shares at a fair-market valuation** determined by an independent valuation firm engaged by the ESOP trustee.
- **4) The owner walks away from closing with cash plus a long-term seller note that pays interest.** Often, additional warrants that capture future upside.
- **5) The company, now ESOP-owned, generates strong cash flow** (now without federal income tax) and uses that cash flow to pay down the bank debt and seller note over the following five to ten years.
- **6) Over time, employees vest into shares.** When they retire or leave, they receive the value of their shares, paid out from the company.



What the Owner Should Watch For

ESOPs are powerful, but they are not for every business. They tend to work best when:

- 
- The company has strong, predictable cash flow.
 - The management team is deep and capable of running the business without the founder.
 - The owner is willing to accept a fair-market valuation rather than chase a strategic-buyer premium.
 - The owner's tax position would benefit from Section 1042 or S-corp ESOP treatment.
 - The company's industry is suitable (some industries are easier to ESOP than others, given customer relationships and bonding requirements).

Designing an ESOP is a multi-month process involving an investment bank, an ESOP trustee, valuation firms, ERISA counsel, lenders, and the company's existing CPA and attorney.

Done well, it can produce one of the most tax-efficient transitions available to a business owner.
Done poorly, it can saddle the company with unmanageable debt or governance problems.

Where Asset Strategy Fits

An ESOP transaction is not something a wealth advisor handles alone.

We work alongside specialized **investment banks**, **ESOP trustees**, and **ERISA counsel** to make sure the deal makes sense.

Where Asset Strategy adds the most value is what happens to the proceeds!

- The § 1042 rollover, for example, requires the owner to reinvest into "*qualified replacement property*" within a specific timeframe to defer capital gains tax.
- The selection of those replacement assets, including the strategy for diversification, income, and long-term tax position, is core to what we do every day for our clients.



Chapter XIV

Taxes

Careful Tax Planning to Protect Sale Proceeds



“It’s Not What You Make, It’s What You Keep.”



A common saying among business owners who have sold once and learned the hard way: “It’s Not What You Make, It’s What You Keep.”

- A \$10M sale taxed at 50% leaves you with \$5M.
- The same \$10M sale with even moderately good tax planning might leave you with \$7M, or \$8M... depending on your situation.

The planning happens before the deal closes. After the wire hits, most of your options are gone.

This chapter walks through the tax categories that matter most. None of this is tax advice for your specific situation. **It is a map of the territory.** The actual planning needs to be done by your CPA, tax attorney, and financial advisors working together in advance.

Capital Gains, Ordinary Income, and Allocation

Not every dollar of your sale price is taxed the same way. The portion allocated to certain assets (*like equipment, recapture of depreciation, or non-compete agreements*) is often taxed as ordinary income.

The portion allocated to goodwill or stock is generally taxed at the lower long-term capital gains rate. The allocation is negotiated as part of the deal. It is one of the most important, and most often ignored, parts of the negotiation.

Buyers usually want to allocate more to assets they can depreciate. Sellers usually want to allocate more to capital gains-treated categories. Pre-deal planning gives you a defensible position to negotiate from.

§ 1031 Like-Kind Exchanges (Real Estate)

If the business owns real estate, or if the owner owns real estate that is leased to the business, IRC Section 1031 allows the owner to **defer capital gains tax** on the sale of that real estate by reinvesting the proceeds in "like-kind" replacement property.

A 1031 exchange has strict rules and tight timelines. The replacement property must be identified within 45 days of the sale, and the exchange must close within 180 days. The exchange must be done through a Qualified Intermediary. The replacement property must be of equal or greater value, with equal or greater debt, to fully defer gain.

Many business owners assume a 1031 exchange means buying another physical building they have to manage. *It does not...* A Delaware Statutory Trust (DST), a structure that allows multiple investors to hold fractional ownership in institutional-quality real estate, qualifies as like-kind replacement property under IRS Revenue Ruling 2004-86. For owners who want to **defer the tax but get out of the landlord business, DSTs are often the right answer.**

DSTs are one of Asset Strategy's core specialty areas. They allow a selling owner to roll real estate proceeds into professionally managed, passive, diversified property exposure, deferring gain and stepping out of active management at the same time.



Qualified Opportunity Zones (QOZs)

For owners with capital gains from any source, including the sale of a business, IRC Sections 1400Z-1 and 1400Z-2 allow those gains to be deferred and potentially partially reduced by investing them in a **Qualified Opportunity Fund (QOF)** within 180 days of the sale.

The benefits include deferral of the original gain, a potential basis adjustment if held for the required period, and elimination of tax on appreciation of the Opportunity Zone (OZone) investment if held for at least ten years.

OZone rules have been updated by federal legislation since the program was first enacted, so owners should confirm the current rules with their tax advisors at the time of investment.

QOZs are not the right fit for every situation. They require a long holding period and the right kind of underlying investment. For owners with large capital gains and a long time horizon, they can be one of the most powerful tax tools available.



Charitable Planning

For those with charitable intent, there are a series of strategies that can convert a tax problem into a tax win:

- **Charitable Remainder Trusts (CRTs):** A CRT lets an owner donate appreciated stock or business interests to a trust, sell the asset inside the trust at no immediate tax cost, and receive an income stream from the trust for life or a term of years. The remainder eventually passes to charity. The owner gets an immediate income tax deduction, defers the capital gain, and creates lifetime income.
- **Donor-Advised Funds (DAFs):** A DAF lets an owner make a large charitable contribution in a single year (often the year of the sale, when income is highest), receive the full charitable deduction in that year, and then recommend grants to charities over time.
- **Direct Gifts of Appreciated Stock or Business Interests:** Gifting the asset before the sale, rather than gifting cash after the sale, allows the owner to avoid capital gains on the gifted portion entirely.
- **Conservation Easements:** For owners with significant land, donating a conservation easement to a qualified land trust can preserve the property and produce a substantial charitable deduction.
- **Charitable Lead Trusts (CLTs):** The reverse of a CRT. The trust pays a charity for a term of years, then distributes the remainder to family members. Useful for owners who want to support charity now and pass wealth efficiently to the next generation.



Estate Planning at the Sale

A liquidity event can blow up an estate plan that was designed for a less liquid balance sheet.

After the sale, the owner often has more transferable wealth than they have ever had at one time.

The estate planning tools that matter most usually include:

- A **Revocable Living Trust** to control how assets are managed during life and distributed at death.
- **Irrevocable Trusts** (such as *Spousal Lifetime Access Trusts*, *Grantor Retained Annuity Trusts*, and *Intentionally Defective Grantor Trusts*) to move assets out of the taxable estate while retaining flexibility.
- **Annual exclusion gifting** and lifetime exemption planning, in coordination with current federal estate and gift tax law.
- **Life insurance** held in an **Irrevocable Life Insurance Trust (ILIT)** to provide liquidity for any remaining estate tax exposure.

The right tools, layered correctly, can save millions of dollars over a generation.
The wrong tools, or the right tools done late, can cost the same.



How Asset Strategy Approaches the Tax Side

Tax planning at a sale is not a one-time event. It is a coordinated, multi-year strategy that touches every part of the owner's financial life.

We work alongside the owner's CPA and tax attorney to:

- **Model the after-tax outcome of different sale structures, well before any deal is signed.**
- **Identify and execute pre-sale planning opportunities that can only be done before the deal closes.**
- **Coordinate the use of 1031 exchanges, DSTs, Opportunity Zones, and charitable structures to optimize after-tax proceeds.**
- **Update the estate plan to reflect post-sale liquidity, and to take full advantage of available exemptions and exclusions.**

The outcome is not just a higher net number. It is a financial picture that aligns with the life the owner actually wants to live after the sale.



Chapter XV

Afterward

Life Beyond the Business



Letting Go of Control

Most exit planning conversations end at the closing table. **We think they should start there.**

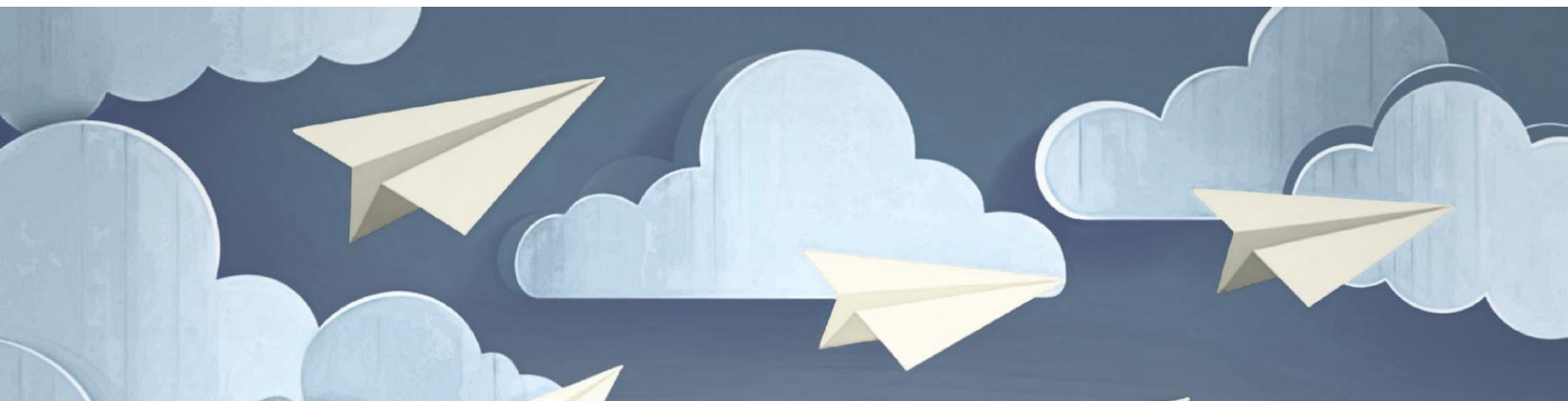
The hardest part of selling a business, for many owners, is not the deal. It is the day *AFTER* the deal.

For decades, you have known what your job is.

- The phone rings. You answer.
- The decision needs to be made. You make it.
- Your identity, your schedule, your sense of purpose, your friendships, and your stress are all wrapped up in the same building.

Then it is gone.

The phone stops ringing. The decisions are someone else's. The schedule is open... For some owners, this is the best season of their life. For others, it is the worst. The difference is almost always whether they planned for it.



What "Life After" Actually Includes

A real post-sale plan touches at least five areas.

Identity

Who are you when you are no longer "*the owner of [Company Name]*"? What do you tell people at a dinner party? More importantly, what do you tell yourself in the mirror? Owners who can answer these questions land softly. Owners who cannot, often look for the next business to throw themselves into within two or three years, sometimes losing significant money in the process!

Time

A typical owner spent fifty to seventy hours a week running the business. After the sale, those hours have to go somewhere. Family. Health. Travel. Hobbies. New ventures. Volunteer work. The structure of your week needs to be designed deliberately, not left to drift.

Purpose

What is the work, paid or unpaid, that makes you feel like you contributed something this week? Mentoring. Teaching. Board service. A nonprofit. A new creative project. A new business at a different scale. The owners who thrive after a sale almost always find a form of work they love. The work is just unrecognizable from what they did before.

Money

The biggest financial risk after a sale is not running out. It is overspending in the first three years out of relief and disorientation, before settling into a sustainable lifestyle. A clear, written income and spending plan, reviewed annually, prevents the most common post-sale mistakes.

Relationships

Many owners discover they spent fewer hours with their spouse and children than they realized. Suddenly being home all day can be a wonderful thing or a very hard thing, depending on the relationships. The transition is easier when the planning starts a year or two before the sale, not after.

The Most Important Question

We sometimes ask owners the question:

"What's your beach?"

It does not have to be a literal beach.

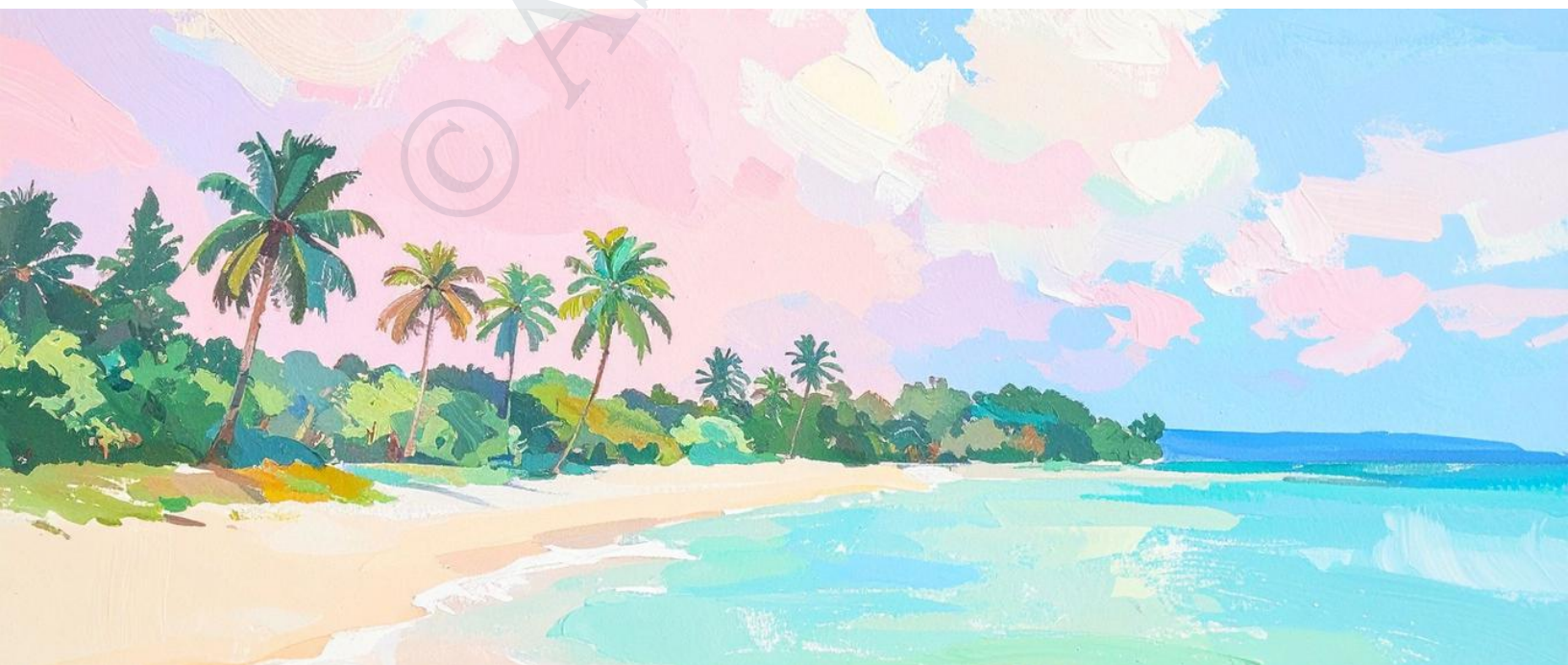
It is whatever the owner is **moving toward**, not just what they are leaving.

...A grandchild they want to coach... A book they want to write... A mountain they want to climb... A school they want to fund... A new chapter they have been imagining for years...

When an owner can answer "what's my beach" clearly, the rest of the planning falls into place.

The number they need from the sale gets clearer. The timing gets clearer. The structure gets clearer. The work after gets clearer.

When they cannot answer, we slow down and work on that part first.



Chapter XVI

Glossary

Plain Language for Common Terms



Quick Vocabulary Check!

Buy-Sell Agreement

A contract among business owners that controls what happens to ownership interests when an owner dies, becomes disabled, divorces, retires, departs, or otherwise needs to be bought out.

Cash Balance Plan

A defined benefit retirement plan that expresses the participant's benefit as a hypothetical account balance. Often used to allow large tax-deductible contributions for owners over the age of 45.

Continuity Plan

A written set of instructions that defines how the business is run, owned, and supported in the event of an owner's death, disability, or other unexpected absence.

Defined Benefit Plan

A qualified retirement plan that promises a specific benefit at retirement, typically based on a formula tied to compensation and service.

Delaware Statutory Trust (DST)

A legal entity used to hold investment real estate, allowing multiple investors to own fractional interests. Qualifies as like-kind replacement property for IRC Section 1031 exchanges under IRS Revenue Ruling 2004-86.

EBITDA

Earnings Before Interest, Taxes, Depreciation, and Amortization. A common measure of operating profitability used in business valuations.

Employee Stock Ownership Plan (ESOP)

A qualified retirement plan designed primarily to invest in the stock of the sponsoring employer. Provides tax benefits to the seller and the company under specific Internal Revenue Code provisions.

Family Enterprise

A platform for managing a family's combined assets, leadership development, and decision-making across generations, beyond the operating business itself.

Golden Handcuffs

Compensation structures (often deferred bonuses) designed to incentivize key employees to remain with the company through a vesting period.

IRC Section 1031

Provision of the Internal Revenue Code allowing the deferral of capital gains tax on the sale of investment real estate when the proceeds are reinvested in like-kind replacement property within defined timelines.

IRC Section 1042

Provision allowing the seller of stock in a C corporation to defer capital gains tax on a sale to an ESOP, subject to specific reinvestment requirements.

Management Succession Plan (MSP)

A document defining who runs the business, and how, in the event of an owner's incapacity or death.

Nonqualified Deferred Compensation (NQDC)

An employer's promise to pay an employee compensation at a future date, outside the rules of qualified retirement plans. Subject to IRC Section 409A.

Opportunity Zone

A federally designated area where investors can defer and potentially reduce capital gains tax by investing in a Qualified Opportunity Fund. Established under IRC Sections 1400Z-1 and 1400Z-2.

Owner-Based Planning

A comprehensive, ongoing process of building a business that supports the owner's personal, family, financial, and legacy goals, regardless of whether a sale is imminent.

Quality of Earnings (Q of E)

A detailed financial analysis, typically prepared by an accounting firm, that examines and adjusts a company's reported earnings to reflect their true sustainable level. A common buyer requirement in third-party sales.

Stock Appreciation Right (SAR)

A right to receive the increase in the value of a share of company stock over a defined period, paid in cash or stock, without the recipient becoming a real shareholder.

Strategic Capacity

The ability of a business to deliver predictable profits and cash flow, predictable sustainable growth, and predictable transferable value without depending on the owner's daily involvement.

Transferable Value

The portion of a business's value that can survive a transfer of ownership and continue to be delivered by the next owner.

Value Driver

Any feature of a business that, when present and strong, increases the price a buyer or successor is willing to pay.

Value Gap

The difference between the wealth an owner needs to fund their desired post-business lifestyle and the wealth they currently have available, including the realistic value of the business.

Chapter XVII

Action

Where to Begin



One-Stop-Shop

We are Asset Strategy. We are a Wealth Management and Tax Strategy firm working with business owners, families, and retirees across the country. We have built a one-stop-shop of services that are hard to find under one roof.

Individuals & Families

Investment Management

- Managed Accounts
- Portfolio Construction
- Risk Assessment
- Monitoring/Reporting
- Fiduciary Advisor
- Alternative Investments

Financial Planning

- Emergency Savings Accounts (ESA)
- Budget/Goals
- Debt Management
- Insurance
- Investments

Protection-Individual & Family Insurance

- Life Insurance-Term/Permanent
- Disability/Long-Term Care
- Insurance Reviews
- Irrevocable Life Insurance Trusts
- Independent Brokers

Tax Planning

- Landlord Exit Strategies (1031, OZone)
- Charitable Planning (CRT, Foundations, DAF)
- Capital Gains Tax Solutions
- Income Tax Reduction
- Cost Segregation

Estate Planning & Trusts

- Legacy Planning
- Legal Reviews
- Charitable Gifting Strategies

Retirement Income Planning

- Goal Setting
- Diversifying Income Sources
- Longevity Planning
- Inflation Protection

Business & Non-Profit

Retirement Plan Consulting

- Fiduciary Risk Management/Outsourcing
- Qualified Plan Consulting
- Investment Management
- Plan Optimization
- Participant Success
- Employee Education
- Financial Wellness

Business Valuation & Exit Plan

- Valuation Services
- Exit Strategy
- Succession Planning
- Tax Implications
- Legal and Financial Preparedness

Business Insurance

- Buy/Sell Agreements
- Executive Disability
- Long-Term Care
- Corporate Owned Life Insurance (COLI)
- Independent Brokers

Business Tax Planning

- Entity Optimization & Compliance
- Business Tax Credits
- Corporate Transparency Act (CTA)
- Tax Reduction Strategies
- Non-Qualified Deferred Compensation

Business Cash Management

- Money Market Strategies
- Integration with Banking Partners

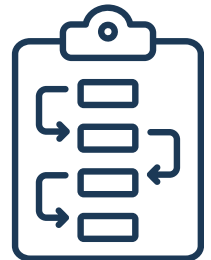
Executive Benefits

- Deferred Compensation Plans
- Supplemental Executive Retirement Plans (SERPs)
- Executive Bonus Plans
- Education and Training
- Employee Stock Purchase Plans (ESPPs)
- Workplace Giving

Your Quarterback

Owner-Based Planning is a team sport. No single firm has every specialty in-house, and any firm that says it does should be questioned. Our team typically coordinates with:

- Your existing CPA, or one we recommend if you do not have one we can work with.
- Your existing business attorney and estate attorney, with introductions if needed.
- An investment banker or M&A advisor, if you are heading toward a third-party sale.
- An ESOP trustee and ERISA counsel, if an ESOP is part of the plan.
- A valuation firm, for both ongoing benchmark valuations and any deal-related work.
- A retirement plan administrator.
- An advanced insurance and benefits specialist.



The strength of the plan comes from how well these people coordinate. Asset Strategy serves as the quarterback, making sure everyone is reading from the same playbook.



Next Steps

You can do three things with this guide:

- 1. You can read it once, set it on a shelf, and feel a little better informed. That is fine.**
- 2. You can use it to ask better questions of the advisors you already work with. That is better.**
- 3. Or you can take fifteen minutes and call us. That is best.**

There is no cost. There is no commitment. We will not ask you to switch advisors. We will not pitch you a product. We will listen, ask a few questions, and tell you honestly whether we can help.

The owners who win at this do not win because they figured it out alone. They win because they built a team, gave them real time to do the work, and made decisions early instead of late.

When you are ready, we are here.

Disclosures

Because investor situations and objectives vary this information is not intended to indicate suitability for any individual investor.

Advisory Services offered through Asset Strategy Advisors, LLC (ASA), a SEC Registered Investment Advisor. Securities offered through Concorde Investment Services, LLC. (CIS), member FINRA/SIPC. Insurance Services offered through Asset Strategy Financial Group, Inc. (ASFG). ASA, CIS and ASFG are separate companies.

Tax or legal advice should not be construed from this material. If you have questions regarding your specific situation, discuss them with your tax and legal advisors.

Sponsoring real estate investment companies, receive management fees from DST structures. While these fees are thoroughly disclosed upfront, they can have an adverse effect on cash flow levels.

Getting potential DST investors fully acquainted with the DST structure and being comfortable with it, is one of our main objectives. We will present all DST properties to clients with a private placement memorandum in addition to our educational materials and conversations. The full disclosure document includes detailed information about all relevant aspects of the DST, including disclosures of risks. We welcome any questions you have along the way by calling 855-676-1031 when considering ownership of a beneficial interest in a DST.

DST 1031 properties are only available to Accredited Investors (typically defined as having a \$1 million net worth excluding primary residence or \$200,000 income individually/\$300,000 jointly of the last three years; or have an active Series 7, Series 82, or Series 65. Individuals holding only a Series 66 registration may not automatically qualify; verify your status with your CPA and Attorney. If you are unsure if you are an Accredited Investor and/or an accredited entity, please verify with your CPA and Attorney.

There are material risks associated with investing in DST properties and real estate securities including liquidity, tenant vacancies, general market conditions and competition, lack of operating history, interest rate risks, the risk of new supply coming to market and softening rental rates, general risks of owning/operating commercial and multifamily properties, short term leases associated with multi-family properties, financing risks, potentially adverse tax consequences, general economic risks, development risks, long hold periods and potential loss of the entire investment principal.

Current offerings are not represented by the photos. Future offerings will differ from those shown and may look significantly different.

IRC Section 1031, IRC Section 1033, and IRC Section 721 are complex tax concepts, therefore you should consult your legal or tax professional regarding the specifics of your particular situation.

Charitable Remainder Trusts (CRT) is irrevocable and typically requires a donation of substantial assets. Legally, individuals no longer have control of the assets in the trust. Distributions from the CRT to the income beneficiaries might be taxable as ordinary income. Depending on the amount of assets donated, individuals may not be able to take the full tax deduction in the same year as the donation, however, it can be spread out over a five-year period.

Unlike a Charitable Remainder Trust, a Charitable Lead Trust is not tax-exempt. Trust income is taxed like the income of any other complex or grantor trust. CLT requires legal setup and likely ongoing maintenance costs, requires careful planning to ensure the trust can make its required payments during the trust term, and is irrevocable.

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If you have any questions,
feel free to reach out to our team.

Set up a 15-Minute Discovery Call at:
www.assetstrategy.com/contact



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