

Navigating a Business Transition

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Business owners spend decades establishing, growing, and maintaining a successful business, but often overlook the need to prepare in advance for transition. The integration of owner readiness and business readiness is critical to achieving personal goals, maximizing business value, minimizing tax liability, and creating your personal legacy. The purpose of this article is to address questions raised during the 2023 AOA conference session hosted by Choreo Advisors: *Navigating a Business Transition: From the Owner's View*. The four questions outlined here were consolidated from over a dozen questions and themes received during the session.

How to mitigate taxes through creative transition planning?

Tax mitigation planning requires detailed analysis performed by your team of professional advisors. Everyone wants to minimize the amount paid in estate and income taxes, however even the best tax mitigation planning ideas may not be a solution that fits your personal circumstances. Beyond the numbers, this process begins with an understanding of your individual goals and what a successful transition looks like for you. With these objectives in mind, an analysis of techniques can be completed that aligns with your personal and financial goals. Advance financial planning allows the greatest opportunity for tax mitigation. There are opportunities to reduce tax in multiple ways. These include, but are not limited to, deal structure (i.e. installment sale, retained equity in new company, etc.), state residency, charitable giving, tax-managed investing and like-kind real estate exchange, among others. The more time you and your advisors have to evaluate available options the higher the likelihood of reducing tax liability.

How to transition wealth to younger generations?

Transitioning wealth to future generations takes careful planning. Handing wealth outright to younger generations, while simplest, is also often the least successful in the long run. Frequently the recipients do not have experience managing significant sums of money and the funds are spent within a short period of time. A better method is to utilize trusts to transfer wealth. A trust is a legal document that enables you to establish provisions under which the next generation can access the funds of the trust.

Some common provisions include funding for higher education, home purchase and/or establishing/acquiring a business. Other provisions include defining a percentage of funds to be distributed at a beneficiary's specific age. For example, 25% at age 30, 25% at age 35, 25% at age 40 & 25% at age 45. A significant additional benefit of a trust is that they can provide a layer of liability protection, whether from bankruptcy, divorce or legal claim to the assets in the trust. Beyond the creation of a trust, consider planning targeted to a specific purpose, such as education funding via a 529 college savings plan. In addition, direct gifts up to the annual exclusion amount of \$17,000 (for 2023) per beneficiary per year can be made without filing a gift tax return. Wealth transfer planning is rarely a single solution exercise, but rather one that uses a combination of techniques to achieve your legacy objectives, while not limiting your ability to enjoy a sustainable lifestyle during retirement years.

How can an owner prepare for transition without an advisor?

The most important element to a successful transition is time. The sooner you begin, the better, as time allows for adjustments to be made when circumstances change or the unexpected occurs. Next, it is critical to quantify your personal lifestyle expenses, separate from the business itself. Doing so unlocks business value, and helps you keep track of your own personal expenditures, before and after the transition. Take time to calculate various expenses, many of which have been embedded in the business for years for things like food, lodging, fuel, etc. Create a budget and consider the impact of inflation on different expense categories. Plan for how you will spend your time, once the business transition is complete. Consider what brings meaning to your life and motivates you each day, and then prepare to approach these endeavors with the same passion as you did in growing your outdoor recreation business. Lastly, do not overlook the importance of your own estate plan, regardless of your age. The foundation of an estate plan is a will, the document that defines how you would like your property and assets to be distributed upon your passing. If you already have a will, conduct a review to ensure it still aligns with your goals, especially if has not been updated recently.

How are Financial Advisors compensated for services provided?

A summary of advisor compensation is included within the “Business Transition Planning: Key Questions to Consider” file available for download. Financial Advisors who specialize in comprehensive financial planning are compensated on an hourly, flat-fee, or on a percentage of investment assets under management (AUM) basis. Which pricing method employed depends upon client preference, scope, and the level of complexity involved in the client’s financial life. Hourly and flat-fee pricing models are often a project-based agreement where a diagnosis, or diagnosis and analysis is completed, based on a clearly defined set of objectives. Where there is a client preference for investment management and financial planning, these services are usually combined under one pricing method (AUM), where the services provided continue on an ongoing basis. Regardless of compensation method, having a clearly defined statement of work and contract for services provided that is signed by all parties helps to ensure mutual satisfaction between the client and the Financial Advisor.

Final Thoughts

As the owner of an outdoor recreation business, your life’s work is dedicated to your passion and the resources required to make that dream a reality. As you approach an ownership transition, it is important to recognize that the planning required is not a one-time event, but rather a continual process that incorporates business transition readiness, and owner transition readiness. Take time to prepare in advance for this transition, on your own terms, ensuring that your personal goals and objectives can be achieved.