

Getting Maximum Value from Your Business

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There are well over 100 different tools, techniques, strategies, tactics and combinations thereof to enable high net-worth individuals and successful business owners to manage their wealth in accord with their values and goals in life. Discovering the appropriate combination must begin with clarity about the wealth holder's values, goals, people and causes they hold in highest esteem. Discussing specific strategies or tools is futile unless it is done in the context of exactly what the wealth holder desires to accomplish as the end game. The importance of this clarity cannot be overstated since many of the tools, techniques, strategies and tactics involve irrevocable decisions. You would not want to make an irrevocable decision only to find out later that it will prohibit you from accomplishing what you really want to accomplish. This article discusses ONE such tool that will be of extreme value to some successful business owners, *but not all!*

You have worked long and hard to build your business. You have a nice home that you love and accumulated most of the toys you want to play with and enjoy your prosperity. You are now somewhere between the second half and fourth quarter of life and you realize that before too much longer you would like to be separated from your business and be able to move on to other things. You have one major concern: most of your wealth is tied up in the business and you don't want to reduce your lifestyle after leaving the business. How do you maximize the after tax value of your ownership in the business and make it liquid so you can continue with your lifestyle uninterrupted?

You recognize that your employees have been major contributors to the success of the business and consequently to your prosperity. You want them to be rewarded appropriately. You are in no giant hurry to leave the business, but you do want to put a plan in place that will allow you to do that in the next 3 to 5 years. The business, for the past several years, has produced over \$2 million before EBITDA. You want this business to continue on for generations beyond yourself. Do you recognize yourself in this picture? If so, then *just maybe* this tool is for you.

One interesting feature here is that you don't have to go out and find a buyer and risk loss of confidentiality about your plans to leave the business. You CREATE your own buyer. This is known as a 100% ESOP Buy-Out. So how does this work?

In over simplified terms, you create a Qualified Retirement Plan for your corporate employees known as an Employee Stock Ownership Plan. Right now, you own the stock in your company. The company borrows the money from a banking institution, loans it to the ESOP which in turn purchases your stock from you at a value established by an outside valuation firm (probably a higher value than a negotiated price with an outside buyer). Now you do not own the stock, but you control it by being in charge of the ESOP which controls the shares. It may be possible to defer the capital gains tax on the sale of your shares until death when they will receive a step up in basis to ultimately avoid all capital gains taxes. This is sort of a "have your cake and eat it too" scenario where you avoid capital gains taxes but get the use the money.

The company loan and the ESOP loan must be paid back. Over the next 3 to 5 years the company funds the ESOP with cash contributions on behalf of your employees which contributions are used to repay the loans. You continue to run the company profitably during the debt reduction time so the risk of someone else running your company and failing is eliminated.

You have now extracted the maximum value from your company and rewarded loyal employees with an ownership stake in the company. If you have family in the business, you may arrange for them to have greater ownership and control of the business going forward. This is an ERISA regulated plan so you can't do just anything you want. There are regulations that must be followed and you will want to have true ESOP experts as part of your Wealth Management Team to make sure it is done properly.

This is one of the more than 100 different tools, techniques, strategies and tactics and combinations thereof that you can tap into as part of your wealth management plan. Is it right for you to consider? Maybe, but first you must have clarity regarding your values, goals, people and causes you hold in highest esteem. At

Capital Financial Advisors, LLC, we begin the wealth management process with an extensive discovery process to establish that clarity. Give me a call and we can talk about our wealth management process and how it can benefit you.

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