Exit Planning and Your Legacy

November 2023

Jennifer Kreischer, Director, Audit & Accounting
Brian Kitchen, Director, Tax Strategies

Kreischer Miller
Center for Private Company Excellence

Agenda

1. What is exit planning, why is it important and how does it drive your legacy?
2. How does early exit planning optimize value and drive growth?
3. What are the key tax planning strategies that add value, increase flexibility and maximize an owner's legacy?

Polling Question

What is Exit Planning?

Exit Planning

Strategizing and laying out the steps required to achieve your business and personal goals associated with transitioning your ownership of a business.

Keys to successful plans:

1. What are your goals?
2. What kinds of transactions are available?
3. What kind of planning can you do?

What is Exit Planning - Goals

Examples of Goals

- Generate enough money to live in retirement at your required standard of living
- Leave a financial legacy to family, charities, etc.
- Maximize the value you harvest from the business
- Ensure the business continues to operate into the future
- Provide for your key employees – with retirement and/or jobs after you retire
- Continue to serve your customers/clients
- Pass along a viable business to future generations

What is Exit Planning - Transactions

Examples of Transactions

- Shut the business down
- Retire and pass along 100% of the ownership directly to family and/or employees
- Retire and sell your ownership interests to family and/or employees either in one transaction or over time
- Sell a minority stake in the business to finance one of the above options
- Sell 100% of the business to a strategic buyer (someone who will continue to operate in the same field) or a financial buyer (private equity, etc.)
- Sell one or more product lines or service offerings

What is Exit Planning - Plans

1. Financial – will you earn enough from the business to support you in retirement and leave the financial legacy you envision?
2. Succession planning – have you developed the people, processes and systems needed to stay competitive after you retire?
3. Tax planning – we’ll cover in detail later
4. Structure planning – consider the most efficient way to achieve the transactions that are options

Polling Question

Early Exit Planning

How does early exit planning optimize value and drive growth in your business?

1. Keeping goals in mind can provide focus
    - Businesses face many decisions, and the goals can provide a framework to choose
2. Focus on value drivers delivers value in the meanwhile, too
3. Maximizing value keeps options open

Early Exit Planning

Focus on value drivers delivers value in the meanwhile

- How is value determined?
  - Discounted cash flow
  - Multiple of earnings
- What increases value?
  - Increase in revenue
  - Decrease in costs
  - Improve business so a higher multiple or lower discount range is used
- Any of the improvements delivers cash flow currently and you reap more benefit by starting earlier

Early Exit Planning

Revenue example:

- Start by understanding current revenue base. Consider how to make the analysis repeatable.
- Identify what has driven profit and growth.
- Consider new trends that may impact future growth.
- What areas have most promise for future?
- What barriers to growth exist?
- Put a specific plan in place for growth and track progress.

Early Exit Planning

Maximizing value keeps options open

- More cash flow may allow you to prepare for retirement without outside financing
- Transitioning business to next generation may not result in cash to current generation without planning
- As you focus on value drivers, your priorities may shift

Polling Question

Key Tax Planning Strategies

3 Key Aspects to Successful Exit Tax Planning

1. Evaluate entity structure and business assets
2. Conduct state and local health check
3. Determine net-after tax proceeds and consider implementing residency, estate and charitable planning strategies

Planning well in advance is key to maximizing after-tax net proceeds

Key Tax Planning Strategies – Tax Structure

Items to consider

- Current structure and appeal to a potential buyer
    - Asset sale
    - Stock sale
- Current assets and where they reside
    - Real estate
    - Intangibles
    - Client / customer lists
    - Tangible personal property

Key Tax Planning SALT Health Check

State/Local Health Check	Action Item
Entity Structure	Evaluation of assets - moved as part of a restructuring
Legal Domicile	Confirm legal domicile and how state will tax a stock/asset transaction
State/Local Income Tax Nexus	Evaluate and confirm nexus exposure for income and non-income (gross receipt, net worth, etc.…) based taxes
State/Local – Apportionment Formula	Fully understand historical apportionment formula and methodology
State/Local Payroll	Evaluate Payroll tax compliance, including income and unemployment tax
State/Local Sales Tax	Evaluate sales and use tax compliance and consider voluntary disclosure programs
Residency	Consider residency of owners of company

Key Aspects to Net Proceeds

1. Residency planning
2. Estate/charitable gift planning
3. Net after-tax proceeds, taking into consideration tax structure, residency, estate and charitable

Polling Question

Residency Planning

Key Item	Follow-up
Legal Domicile	Where is business owner legally domiciled
Business Relationship	How strong are business relationships in non-resident states
Voting/Car/License	Confirm administrative items are taken care of for home state
Days in/ Days out	Fully Monitor days ins/out as using a log
Doctors/Worship/Death	Evaluate utilization of local physicians, religious organizations and place of burial
Cell Phone/EZ Pass	Manage use of cell phone and EZ pass for confirmation of residency

Estate/Gift/Charitable/Legacy Planning

- Estate/Gift Tax Planning
  - 2023 Estate Tax Exemption: $12.3M per donor
  - Valuation discount for private company stock
  - 1/1/2026 – ~$5M estate/gift tax exemption
  - Implementation of trusts
  - Family Limited Partnerships
- Charitable Gift Tax Planning
  - Donor Advised Fund
  - Direct Contributions
  - CRATs/CRUTs
  - Private Foundation

Net After-Tax Proceeds Analysis

Transaction Type	Residency / Domicile	Tax	Follow-up
Stock Transaction	Evaluate and Confirm Residency Standards and Requirements	Federal Capital Gains/Resident State/ Estate/ Charitable	State/Local
Asset Sale	Domicile of assets more important; evaluation of non-resident taxes on sale	Federal **Ordinary**/Capital/ **Non-resident State**/Resident State / Estate/ Charitable	Federal/State/Local

Current Tax Rates:
Federal Ordinary (including Recapture) – 37%
Federal Capital Gains – 20%
Federal Net Investment Income Tax – 3.8%
State Income – 0% - 13.3%
***Federal Tax Rates through 12/31/2025**

Contact the Presenter

Jennifer Kreischer, CPA

DIRECTOR, AUDIT AND ACCOUNTING

jlkreischer@kmco.com

Jen has over 35 years of experience advising on a variety of complex transactions, including cross border, carve-outs, recapitalizations, initial public offerings, and rollups.

Her industry experience is broad, including asset management, power and utilities, industrial products, healthcare, service businesses, and industry consolidations/roll-ups.

Jen provides due diligence, accounting and advisory services to clients contemplating complex transactions, including investments, sales and mergers.

Contact the Presenter

Brian D. Kitchen, CPA, MT

DIRECTOR, TAX STRATEGIES

bkitchen@kmco.com

Brian is a Director in Kreischer Miller's Tax Strategies group. He has a wide range of experience providing domestic and international tax planning and compliance services to a variety of middle market companies and entrepreneurial businesses. Brian has also assisted companies with business transactions, including mergers, acquisitions and transition planning. He has significant experience in federal, state, and local tax audits, settlements, and appeals.

Brian provides tax services to companies in the manufacturing, distribution, media, real estate, investment, financial, and professional services industries.

Resources for Privately-Held Companies

To further demonstrate our commitment to private companies, we founded the **Center for Private Company Excellence**, which provides owners and executives with access to peers and other subject-matter experts. Learn more at kmco.com/cpce.

Company Lifecycle

Organize	Manage	Prepare to Exit
Governance & Leadership	Business Strategy	Tax Strategy
Family Business Structure	Growth & Performance	Succession
	Finance & Valuation	Transfer & Exit

Kreischer Miller
Center for Private Company Excellence

About
Kreischer Miller

Kreischer Miller is an advisory, audit and accounting, and tax firm serving the Greater Philadelphia and Lehigh Valley areas. We take an advisory approach in everything we do, working diligently to understand what your business needs to move ahead and providing the tools and guidance to help you get there.

Learn more at **www.kmco.com**