



Six Things Business Owners Should Know Before Selling a Business

A Whitepaper by Daan Mutsaers, CFP®, CEPA®
Partner
Wealth Manager

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For many business owners, selling a company will be the largest financial event of their lives. It may also be one of the most personal.

The sale price matters, but it is only one part of a successful exit. Taxes, deal terms, family goals, the owner's responsibilities after closing and the future of the company may be just as important.

Unfortunately, many of the decisions that most affect the outcome must be made well before a buyer makes an offer. Once a letter of intent is signed and a transaction begins taking shape, some of the best planning opportunities may already be gone.

Preparing early does not mean you must sell. It gives you the ability to act when the right opportunity appears—and to complete the transaction on your terms.

Here are six areas every business owner should consider before selling.

1. Define What a Successful Exit Means to You

Before discussing valuation or potential buyers, begin with a more basic question:

What would make the sale successful for you?

The answer is not always receiving the highest possible price.

One owner may want to sell completely and retire. Another may want to take some money off the table while retaining equity in the company. Some owners care deeply about protecting employees, preserving the company's culture or keeping the business in their community. Others want to transfer wealth to their family, support charitable causes or create the freedom to start something new.

You should also determine how much you need to receive after taxes, debt repayment, transaction expenses and any proceeds that remain tied to future performance. A \$50 million purchase price does not mean the owner receives \$50 million in cash at closing.

A personal financial plan can help determine your true walk-away number and answer questions such as:

- How much do you need to maintain your lifestyle?
- What do you want to provide for your family?
- How much of the offer is guaranteed?
- What will you do with your time after the sale?

Knowing what you want allows the transaction to support your goals rather than allowing the transaction to define them.

2. Build the Right Team (and QB)

A business sale usually requires an M&A attorney, a trust and estate attorney, an accountant, an investment banker or M&A advisor, and a wealth advisor experienced in business exits.

Hiring talented professionals is important. Making sure they work together is just as important.

Each professional views the transaction through a different lens. The attorney focuses on legal protections and deal terms. The accountant evaluates tax treatment. The investment banker negotiates valuation and buyer interest. The estate-planning attorney considers gifting and wealth transfer.

Someone should be responsible for connecting those conversations and keeping the plan moving in one direction.

The team should help you understand more than the purchase price. Important issues may include:

- Whether the buyer is purchasing assets or stock
- How working capital will be calculated
- Whether proceeds are tied to an earnout
- Whether you must reinvest through rollover equity
- How long you are expected to remain with the company
- What liabilities or guarantees survive the closing

The best time to build this team is before a buyer controls the timeline. Once a letter of intent is signed, the owner may have less negotiating leverage and fewer planning options.

3. Consider Giving With a Warm Hand Rather Than a Cold One

For owners with a valuable and growing business, gifting shares before a sale can move future appreciation outside the taxable estate and allow children, grandchildren or trusts for their benefit to participate in the company's growth.

The federal estate and gift tax basic exclusion amount is \$15 million per individual in 2026. A married couple may potentially use a combined \$30 million with proper planning.

For example, assume an owner transfers shares worth \$5 million to a trust. If those shares later grow to \$12 million, the original gift may use \$5 million of the owner's exemption while the additional \$7 million of appreciation may occur outside the owner's estate.

Timing matters. A gift made before a sale is being negotiated may have a lower appraised value than one made after a firm offer establishes what the business is worth. Waiting until the transaction is effectively certain may also create tax concerns over who actually earned the sale proceeds.

There is a personal benefit as well. Sometimes it is better to give with a warm hand than a cold one. Lifetime giving allows you to see the gift make a difference. You can help the next generation learn to manage wealth, support meaningful goals and understand the values that created it. A trust can provide oversight and protection without requiring beneficiaries to receive the assets outright.

Gifting still involves tradeoffs. The owner must remain financially secure and comfortable giving up access to the assets. Gifted property also generally retains the donor's tax basis, while certain property held until death may receive an adjustment in basis.

The goal is not to give away as much as possible. It is to transfer the right amount, at the right time, in a structure that supports both the owner and the family.

4. Explore State Tax Savings Without Necessarily Relocating

A large business sale can create a substantial state income-tax bill in addition to federal taxes.

Moving to a state without an individual income tax may reduce that cost, but many owners have no desire to leave their family, community or home simply to complete a transaction.

Depending on the owner's state of residence, the company's operations and the expected deal structure, certain trust strategies may provide another option.

An owner may be able to transfer shares to a properly designed nongrantor trust established and administered in a state that does not tax the relevant gain. In the right circumstances, the trust—not the owner individually—may be treated as the taxpayer when the shares are sold.

Some versions of this planning are known as incomplete-gift nongrantor trusts, or ING trusts. For example, a trust established under Nevada law may be referred to as a NING.

This does not make the gain disappear. Under the federal trust rules, income is ultimately taxable to the trust, a beneficiary or the person treated as the owner. The potential benefit comes from changing which taxpayer recognizes the gain and then applying the relevant state's rules.

Whether the strategy works may depend on:

- Where the owner and beneficiaries live
- Where the company operates
- Whether the gain is considered income sourced to the owner's state
- Who serves as trustee and where the trust is administered
- Which powers or rights the owner retains
- Whether the trust was established before the sale became certain

Creating a trust in Nevada or South Dakota does not automatically eliminate state income tax. Some states may tax the trust based on the grantor, beneficiaries, business location, source of the income or other connections.

When appropriate and implemented early, trust planning may produce meaningful state tax savings without requiring the owner to relocate. When implemented poorly or too late, it may provide little or no benefit.

5. Understand Your Business Structure (and QSBS)

How a business is structured can significantly affect the amount an owner keeps after a sale. An asset sale and a stock sale may produce very different tax results, and buyers and sellers often have competing preferences.

Owners of qualifying C corporations should also determine whether their shares may qualify as Qualified Small Business Stock, or QSBS.

Section 1202 may allow an eligible shareholder to exclude a substantial amount of federal gain when qualifying shares are sold. Eligibility is not automatic. The shares generally must be acquired at original issuance, the corporation must satisfy an asset-size test when the shares are issued, and the company must operate an eligible active business during substantially all of the required holding period. Certain professional services, financial businesses, hotels, restaurants and other industries are excluded.

For many qualifying shares acquired after September 27, 2010, and on or before July 4, 2025, eligible gain may be fully excluded after the shares have been held for more than five years. The limit is generally the greater of \$10 million or 10 times the shareholder's qualifying basis.

For qualifying shares acquired after July 4, 2025, the law provides a phased exclusion of 50% after three years, 75% after four years and 100% after five years. The fixed-dollar limitation increased to \$15 million, and the qualifying corporation's gross-asset ceiling increased to \$75 million for newly issued shares.

Owners should also understand two advanced QSBS strategies commonly called **stacking** and **packing**.

QSBS Stacking

The fixed-dollar QSBS limitation generally applies per taxpayer, per issuing company. Stacking involves transferring qualifying shares to other legitimate taxpayers—often family members or separate nongrantor trusts—before a sale.

A qualifying gift generally allows the recipient to inherit the original owner's manner of acquisition and holding period for QSBS purposes. If the recipient or trust is respected as a separate taxpayer, it may potentially have its own exclusion limitation.

For example, an owner may retain some shares and transfer other shares to separate trusts for different children or family branches. The owner and each valid separate taxpayer may then potentially use a separate QSBS limitation.

This does not mean an owner can create an unlimited number of identical trusts immediately before a sale. The transfers must be genuine, and the trusts should have real estate-planning purposes, meaningful differences and economic substance. Federal regulations permit multiple trusts to be aggregated when they have substantially the same grantor and beneficiaries and a principal purpose is avoiding federal income tax.

Stacking is strongest when it is completed early and supports legitimate family and estate-planning goals beyond simply multiplying exclusions.

QSBS Packing

Packing focuses on the alternative QSBS limitation of 10 times the shareholder's qualifying basis.

When property other than cash or stock is contributed to a qualifying C corporation in exchange for newly issued shares, Section 1202 generally treats the basis of the new shares as no less than the property's fair market value for purposes of its special basis rules.

For example, contributing qualifying business property worth \$10 million could potentially create a \$10 million basis for the 10-times calculation, producing a possible limitation of up to \$100 million.

The strategy comes with major limitations. The contributed property's fair market value counts toward the company's gross-asset ceiling, and the QSBS holding period generally begins when the new shares are issued. Packing also does not automatically eliminate the gain that had already built up before the property was contributed.

QSBS can be extraordinarily valuable, but qualification depends on the history of the company and the shares. Owners should review and document potential eligibility well before a buyer begins due diligence.

6. Being Ready to Sell Today Does Not Mean Leaving Tomorrow

Even if a company is ready to go to market today, completing a transaction may still take 12 to 24 months.

The owner must continue running the business throughout the process. A decline in earnings, the loss of a major customer or a weak quarter can reduce the purchase price or cause the buyer to walk away. In many cases, the period between deciding to sell and closing the transaction is one of the most demanding stages of ownership.

Closing may not end the owner's involvement either.

An **earnout** makes part of the purchase price dependent on future revenue, profit or other performance targets. The owner may need to remain involved to help achieve those results, and the contingent payment should not be viewed the same as cash received at closing.

A **rollover equity** requirement asks the owner to reinvest part of the proceeds in the buyer's new ownership structure. This may create an opportunity for another financial outcome when the company is sold again, but it also leaves part of the owner's wealth invested and at risk.

The owner may also be subject to an employment agreement, consulting period, seller note or other continuing obligation.

These terms are not necessarily bad. An earnout or equity rollover may increase the total value received. Remaining involved may also help protect customer relationships, culture and the company's transition.

The important question is whether the terms align with what the owner wants.

An owner seeking complete freedom after closing may prefer a lower all-cash offer over a larger offer that depends on several more years of work. Another owner may welcome the opportunity to remain involved and participate in the company's next stage of growth.

Do not assume that selling means immediately walking away. Understand how much you will receive at closing, how much remains at risk and how long your financial and professional future may remain tied to the business.

Prepare Before the Buyer Sets the Timeline

The best time to prepare for a sale is before you feel pressure to complete one.

Early planning gives you time to strengthen the company, understand its value, organize its financial records, evaluate tax strategies and determine what you want from the next chapter of your life.

It also gives you choices.

You may eventually sell to a strategic buyer, partner with private equity, transfer ownership internally or decide to continue operating the company. Preparing for a transaction does not force you to sell. It places you in a position to act when the right opportunity appears.

A successful exit is not simply the day the money arrives. It is reaching the other side confident that you understood your choices, prepared thoughtfully and sold the business on your terms.

Important Information

This material is provided for educational purposes only and is not intended as legal, accounting, investment or tax advice. Tax strategies and their results depend on individual circumstances, transaction timing and applicable federal and state law. Business owners should consult qualified legal and tax professionals before implementing any strategy.

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Daan Mutsaers, CFP®, CEPA®

Partner

Wealth Manager

daan@bespokecap.com

www.bespokecap.com