PLANNING TO RETIRE? CONSIDER TRANSFERRING YOUR BUSINESS TO YOUR EMPLOYEES

Even the most dedicated small business owners eventually want to retire. But succession planning can be tricky. If a transfer to an outside party isn't feasible, an alternative is to consider selling your business to your employees. How?

One common approach is to transfer shares through an employee stock ownership plan (ESOP), a type of employee benefit program that's similar to a qualified retirement plan and governed by the same law. The costs and complexities of establishing and administering ESOPs may make them impractical for the smallest employers, however, and in such cases a direct buy-out may be a better option.

What if your employees lack the funds or the borrowing capacity to buy your company outright? Decide if you're willing to accept a long-term installment agreement. If so, you and your employees will work to reach an agreement about the value of the business, preferably based on a professional appraisal. Then the employees will execute a promissory note at a mutually acceptable interest rate to pay the agreed-upon price in installments over a fixed number of years. The note may be reduced by a down payment, and is secured by the assets and stock of the business, along with the buyers' personal guarantees and outside collateral.

You can also structure the sale on a piecemeal basis, where the buyers purchase specified percentages over time and you remain involved in the business throughout all or most of the transition period. Your involvement during the transition period is generally advisable, and you'll want to make sure the buyers are capable of running the business once your involvement is over.

A business succession plan can encompass many types of payment methods, entity structures, and tax planning opportunities. For details tailored to your specific situation, contact us.

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