5 STEPS IN PLANNING FOR A LIQUIDITY EVENT

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If you are a business owner, you have likely spent most of your time and energy in the lifespan of your business on foundation and growth. As a result, you may feel unprepared when the opportunity arises to sell. In fact, most business owners never achieve the level of success necessary to experience a life changing liquidity event. Therefore, careful planning leading up to the liquidity event is important to successfully manage the substantial wealth generated after the event. Business owners may also hold a predominance of their total net worth in the stock of their company and, consequently, take on significant concentration risk. Once ownership is converted into liquid assets, it is imperative to create a diversified portfolio to reduce the risk of wealth concentration. At Aaron Wealth, we specialize in helping business owners navigate the complex process of selling their business.

STEP 1: ASSEMBLE YOUR TEAM

In the lead up to a liquidity event, the first step you should take is to assemble a team of trusted advisors. We suggest that your team consist of a wealth advisory group, certified public accountant, investment banker, estate planning attorney, and corporate attorney. We also recommend that your wealth advisory group are independent fiduciaries who are required to provide investment advice that is in your best interest. Due to the complexities of selling a business, the assembled team should contain several individuals with distinct areas of expertise.

STEP 2: VALUATE YOUR EQUITY

A key step in planning for a liquidity event is the valuation of your equity which is often dependent upon numerous factors. Therefore, there may be a wide range of possible prices at which the transaction can occur. It is important to utilize various scenario analyses that can help determine this price range by running best-case, base-case, and worst-case valuation. Additionally, for estate planning purposes it is advisable to account for any valuation discounts on your equity ownership. For example, a discount for lack of marketability among privately held businesses can allow you to deduct value from your ownership to account for illiquidity of your stock. You may also include a discount for lack of control to reduce your value due to your inability to exercise control over the company. Each of these discounted valuations are beneficial because they will help minimize estate taxes and reduce the effective tax liability of the sale.will help minimize estate taxes and reduce the effective tax liability of the sale.

STEP 3: ESTABLISH YOUR ESTATE PLAN

Before the liquidity event, the establishment of an estate plan will articulate the long-term objectives for you and your family. An intelligently-designed plan will determine the amount of wealth that will be allocated towards tax payment, retained wealth, family gifts, and philanthropy. In order to safeguard your personal assets, you should consider creating a revocable trust to avoid probate and establish a plan for distribution of your assets. It is also critical to create legal entities to which assets can be transferred in a way that minimizes estate taxes and passes wealth to beneficiaries efficiently. For example, a grantor retained annuity trust (GRAT) allows the owner to transfer assets to future generations in exchange for a stream of payments to the grantor based on the current (and lower) value of the stock. The annuity is payable over a specified period of time, and the remaining value of the trust is passed to the beneficiary free of additional taxes. Overall, an effective estate plan will provide a blueprint for navigating the complexities of your wealth and help preserve it for future generations.[1]

STEP 4: DETERMINE YOUR LONG-TERM FINANCIAL AND PHILANTHROPIC GOALS

You will need to determine your long-term financial goals in order to achieve your desired lifestyle after the liquidity event. The capital you accumulate after the event should be divided into a core and excess capital account. Core capital is the amount of assets needed to live your desired lifestyle and fund your financial goals. Excess capital refers to assets that can be transferred to others for philanthropic and estate planning purposes. Working closely with a wealth advisor who has significant experience in philanthropy is crucial to effectively donating to causes you deem important. For example, a donor advised fund is a great vehicle for donors to make charitable contributions and receive an immediate tax deduction. Additionally, many donor advised funds allow for the contribution of privately held stock, and the donor can recommend grants to their preferred charities. At Aaron Wealth, we align ourselves with clients who are passionate about making an impact on our society by effectively leveraging the power of their wealth – whether through ESG (environmental, social, governance) investing, or diverse philanthropic missions.

STEP 5: FORMULATE YOUR STRATEGIC ASSET ALLOCATION

Many business owners hold a significant portion of their net worth invested in the equity of their company. As a result, it is crucial to create a strategic asset allocation and customized holistic financial plan for the liquid proceeds of the sale. A strategic asset allocation combines capital market expectations with an investor's risk tolerance, return objectives, investment goals, and constraints. The strategic asset allocation will help diversify your net worth and provide a long-term financial plan. We work with business owners to help create a fully integrated, bespoke plan for achieving their overall goals and objectives, rather than focusing on isolated subsets of their broader financial picture. Through this process, Aaron Wealth Advisors seeks to develop a strategic asset allocation that complements, rather than ignores, your total financial profile.

CONCLUSION

A liquidity event is a major milestone in the life cycle of your business and maximizing the outcome of the transaction through early planning is paramount for success. In the preliminary stages, it is important to assemble a team of trusted advisors and valuate your equity ownership within the business appropriately. Next, it is crucial to establish an effective estate plan to help maximize the value from the sale and minimize tax liabilities. The final steps should include formulating your strategic asset allocation and holistic financial plan to help achieve your overall goals. At Aaron Wealth, we specialize in helping business owners through these critical stages of their lives. Ample preparation and a thoughtful strategy are required to potentially increase the likelihood of successful outcomes.

[1] Aaron Wealth does not provide legal, tax, or estate planning advice. The information contained in this paragraph is provided for context and illustrative purposes. Please consult with your legal, tax, and estate advisors before considering any such steps.

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