Estate Planning or Exit Planning?

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The Exit Planning process should begin by determining your goals and objectives such as:

- The income you and your family will need after you leave the business; and
- Who you wish to transfer the business to — whether it is children, key employees or others.

And, Exit Planning involves the determination of business value and the capability of the business to provide you and your family future cash flow. So, too, does estate planning.

Following the determination of these objectives and valuation, the process usually turns to creating more value within and for your business while implementing your lifetime exit strategy. The second stage, lifetime exiting, often takes many years to fully implement. For that reason, as you begin lifetime exit planning, it is also the perfect time to reassess your business continuity and estate plans. Why?

First you have spent the time, effort and probably money, to determine what it is that you want and need after you leave the business and what it is you have today in the form of business and other assets. Second, if you should be so unfortunate to not survive through the lifetime exit planning process, do you not wish to provide your family with the same income stream and make sure that your business retains its value as previously determined?

For example, your exit strategy will have been based upon an income stream you wish to live on for the rest of your life. If something happens to you today, is it clear that your family will enjoy the same income stream? Or, does your estate plan need to be reexamined to help provide for your family? Also, if your exit strategy involves transferring part of the business to the children, should your estate plan not also reflect that desire? Chances are that it should be reviewed and possibly revised

Third, if you have determined that your family will not be the successor owners of your business, does it not also make sense to provide in your estate planning documents for that same type of succession should you not survive?

Fourthly, part of the Exit Planning process is to help protect your assets from creditor attack during lifetime and to minimize tax consequences upon a transfer of your ownership. Again, should you not survive, does it not make sense to design your estate plan to help minimize creditor risk, not only yours but that of your heirs? This is something that can be arranged and coordinated without significant expense. And, does it not make sense to plan for the transfer of ownership at death with as little tax consequence as possible — just as you would have insisted in any lifetime transfer?

Finally, you can leverage the time and money spent in developing a lifetime Exit Plan into the design of your estate plan.

It is worth repeating that the same analysis given to lifetime transfers (benefiting you) needs to be given to a transfer occurring at your death (benefiting your family). Since both lifetime Exit Planning and Exit Planning at death are based on the same premises (exit objectives and valuation) it can be relatively easy to develop a consistent outcome.

As you do so, you will find that the same steps you take to develop a successful lifetime transfer (developing a good management team, clarifying business strategy, developing good operating systems, focusing on creating more value for your ownership interest) should rightly be captured and incorporated in your estate planning. Exit Planning during lifetime and estate planning at death share common goals, strategies, values and therefore, should be coordinated through the joint efforts of you and your advisor team.

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