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The Owner's Guide to Selling a Business:

7 Wealth Strategies Most Owners Overlook

Most guides about selling a business focus on valuations and deal terms. But the owners who preserve and grow their wealth focus on something else entirely: **what happens to the capital after the sale is finalized?**

This guide covers the personal wealth strategies that separate owners who merely sell from owners who build lasting financial legacies.

Key Takeaways

1. Wealth planning should begin **before the Letter of Intent**, not after closing.
2. **The difference between an asset sale and a stock sale** can mean hundreds of thousands of dollars in taxes.
3. **Sudden liquidity creates risks** such as divorce and creditor claims.
4. Your estate plan must be rebuilt once your largest asset is **converted to cash.**
5. Owners who plan for the **identity shift** alongside the financial shift tend to fare better on both fronts.

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1. Start Your Personal Financial Plan Before the Sale

Here is a truth that catches too many business owners off guard: **the most powerful wealth preservation strategies have expiration dates.** Once a Letter of Intent is signed and the IRS considers the value of your business "known," several tax and estate planning doors can close permanently.

The Exit Planning Institute's 2023 National State of Owner Readiness Report found that **fewer than 30% of business owners have a formal transition plan in place**. That means the vast majority are walking into the biggest financial event of their lives without a strategy.

This is when you can:

- Establish trusts
- Restructure ownership
- Implement gifting strategies
- Position assets to reduce tax exposure

After the sale, you're managing a fixed number. Before the sale, you're shaping what that number becomes.

Think of it this way: if your business is worth $10 million, the difference between thoughtful pre-sale planning and no planning at all could easily exceed $1 million in preserved wealth (savings may be lower/higher; outcomes depend on individual circumstances and tax law changes). That is not a rounding error. That is your family's financial future.

The planning window most advisors recommend? **18 to 24 months before the anticipated sale**. Some strategies may require more or less lead time and should be assessed case-by-case.

Find out if your plan is truly a strategy before the sale.

2. Get Comfortable With the Tax Landscape

For many owners, selling a business is one of the most complex tax events they encounter.

Federal **capital gains tax** rates are 0%, 15%, or 20%, depending on your taxable income, but that is only the starting point. High earners also face the **3.8% Net Investment Income Tax (NIIT),** which can push the effective rate to 23.8% on long-term gains. Short-term gains are taxed as ordinary income, which can reach 37%.

The structure of your sale matters enormously. Here is a comparison that every business owner should know:

Asset Sale vs. Stock Sale: Tax Implications

Factor	Asset Sale	Stock Sale
What's sold	Individual assets (equipment, inventory, physical capital)	Ownership shares of the entity
Tax treatment for seller	Mixed: some assets taxed as ordinary income, some as capital gains	Generally all capital gains
Depreciation recapture	Yes, on previously depreciated assets (taxed as ordinary income)	Typically avoided
Buyer preference	Buyers often prefer this structure because they get a “step-up” in asset value, which reduces their future taxes.	Less attractive to buyers because they inherit your company’s existing tax history and basis.
Seller preference	Often less favorable because some of the sale proceeds may be taxed at higher ordinary income rates.	Generally more favorable for sellers because proceeds are generally taxed at lower long-term capital gains rates.
Availability	Available to any entity type (LLC, partnership, corporation)	Typically C-corps and S-corps only

Advanced Tax Strategies Worth Exploring

- **Qualified Small Business Stock (Section 1202)** – Potential exclusion of up to $10M in federal capital gains (if qualified C-corp stock held 5+ years). (Eligibility is complex, many businesses do not qualify, and state treatment varies.)
- **Installment Sales (IRC 453)** – Spread tax liability across years instead of recognizing it all at once.
- **Charitable Remainder Trusts (CRTs)** – Convert appreciated business interests into income streams while deferring capital gains and generating a charitable deduction.

The key lesson: **structure and timing decisions made before closing day determine how much of the sale price you actually keep.**

3. Protect Your Wealth from the Threats You Don't See Coming

You have spent years building your business in a relatively illiquid form. That illiquidity, frustrating as it sometimes felt, actually served as a kind of **natural asset protection that cash does not.**

A sudden liquidity event paints a target on your wealth.
Divorce is often one of the most financially significant risks to consider. If you are selling your business and your marriage is anything less than rock-solid, the timing of the sale relative to any marital claims matters enormously. Updating a prenuptial or postnuptial agreement before closing is prudent.

Lawsuits and creditor claims become more attractive to plaintiffs when they know you have liquid assets. Asset protection trusts, particularly those established in favorable jurisdictions like Nevada, South Dakota, or Delaware, can shield wealth from future creditors while allowing you to remain a beneficiary. The critical word here is "future": these trusts must be established before any claim arises to be effective.

Note:

Other protective layers worth discussing with your advisory team include **umbrella insurance policies** (often inexpensive relative to the coverage), **LLC structures for real estate holdings**, and strategic titling of accounts between spouses. None of these are complex, though they are frequently overlooked.

Review the risks your plan may be missing.

4. Build an Investment Strategy for Your "New Money"

Rule #1: Do Not Rush

Many advisors recommend what might be called the "six-month principle." Park the proceeds in something lower-volatility (Treasury bills, money market funds) and give yourself time to make thoughtful decisions.

The worst investment mistakes after a business sale come from the urgency to "put the money to work" before you have a real plan.

Rule #2: Diversify Intentionally

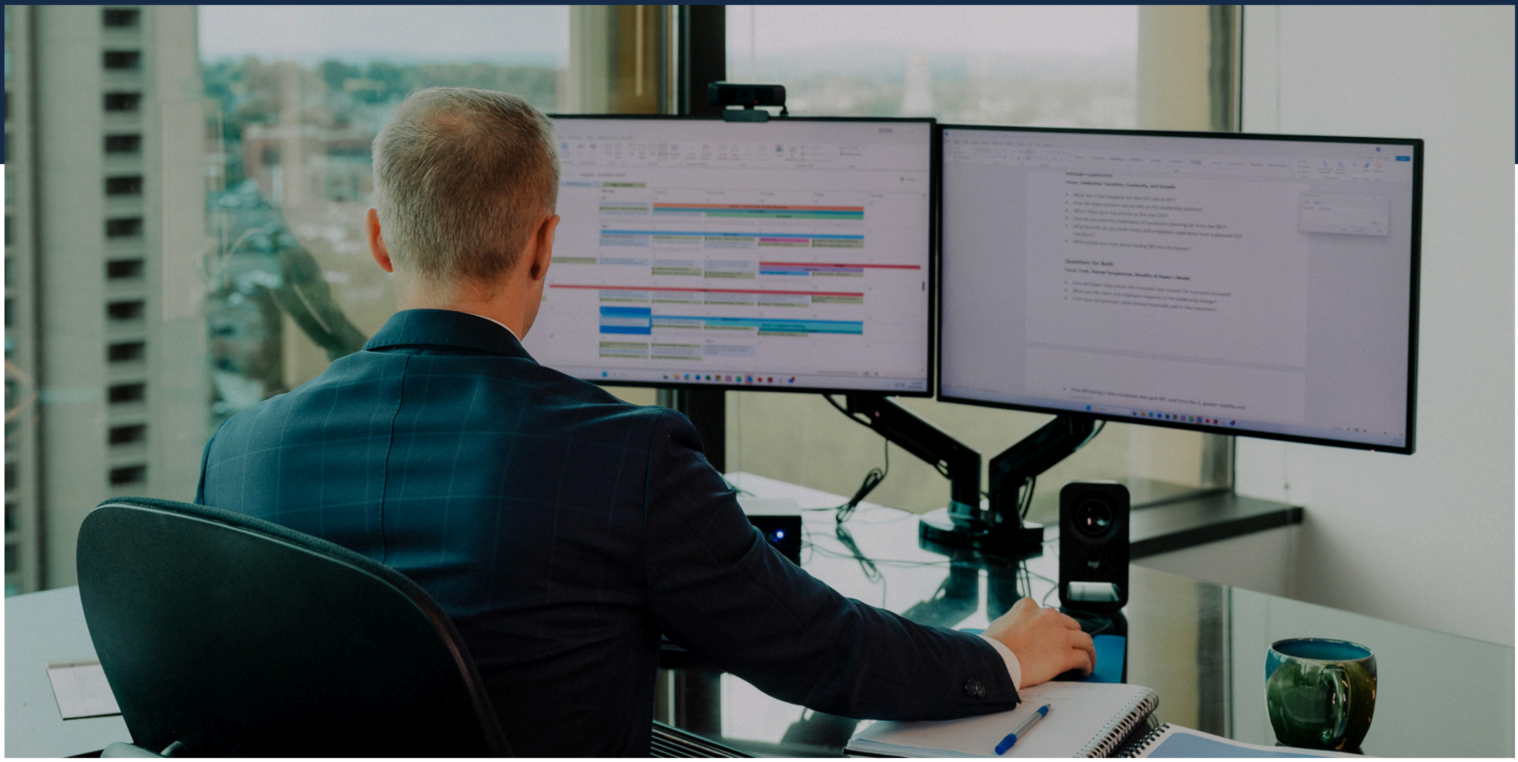
When you are ready, **diversification is your new best friend.** Your wealth was concentrated in one business, in one industry, in one geography. Now you have the opportunity to spread risk across asset classes:

- Equities
- Fixed income
- Real estate
- Alternative investments.

Separately managed accounts (SMAs) deserve a close look for post-sale wealth. Unlike mutual funds or pooled vehicles, they may offer:

- Direct ownership of securities
- Tax-loss harvesting flexibility
- Customization around values or concentrated positions

A research-driven, direct investing approach allows your advisor to tailor a portfolio to your specific tax situation, income needs, and risk tolerance rather than fitting you into a model.



Tip:

Be especially cautious about the temptation to immediately reinvest in another business. Some owners do this brilliantly. Many do it because they are uncomfortable with the unfamiliar feeling of not "running something." Those are very different motivations, and they lead to very different outcomes

5. Redesign Your Estate Plan Around Your New Reality

Does your estate plan reflect your new liquidity?

Start with the basics:

- **Update beneficiary designations**
- **Review retirement accounts**
- **Revisit life insurance**
- **Confirm powers of attorney**

Then look at the bigger structural questions. Effective January 1, 2026, the current **federal estate tax exemption sits at $15 million per individual** (exemptions change with law and inflation and may sunset/adjust, and estate/inheritance taxes may apply). If your post-sale wealth puts you anywhere near that threshold, proactive planning is essential.

Smart Estate Planning Strategies

Grantor Retained Annuity Trusts (GRATs) can be particularly effective in the post-sale environment (results are not guaranteed). A GRAT allows you to transfer appreciating assets to your heirs while retaining an annuity stream, potentially passing significant value with minimal or zero gift tax. The key is setting up the GRAT when asset values are relatively low or when you expect significant appreciation.

Generation-skipping trusts protect wealth not just for your children but for grandchildren and beyond, bypassing a layer of estate taxation. **Family LLCs** can provide centralized management of family investments while offering valuation discounts for gift and estate tax purposes in some cases.

Do not forget the practical documents: **updated powers of attorney, healthcare proxies, and living wills**. When your financial picture changes dramatically, the people and instructions governing your affairs should change too.

Multi-generational planning is not just about minimizing taxes. It is about ensuring that the wealth you spent a career building actually reaches the people and causes you care about, in the way you intend.

6. Plan for Income Replacement and Lifestyle Continuity

When you sell your business, your salary stops. So do the health insurance, the retirement plan contributions, the company car, and every other benefit that flowed through the business. Before closing, map out exactly what your business currently provides in total compensation and benefits. Then build a plan to replace each piece:

Income replacement is the foundation.

If you are not yet at traditional retirement age, you need a strategy to generate a reliable cash flow from your invested proceeds. A well-designed portfolio can produce income through dividends, interest, and systematic withdrawals, but the withdrawal rate matters enormously. **Drawing down too aggressively in the early years** can permanently impair your portfolio's ability to sustain you for decades.

Healthcare is a critical gap for those who sell before 65 (Medicare eligibility).

COBRA coverage from your business (if applicable) is temporary. ACA marketplace plans, private insurance, or health-sharing arrangements all have different costs and coverage profiles. Budget for this explicitly; it is one of the most frequently underestimated post-sale expenses.

Bridge strategies.

If you have retirement accounts that you cannot access without penalty until age 59½, you need taxable investment accounts or other sources to cover the gap years.

Roth conversions.

When executed in lower-income years after the sale, these can also create future tax-free income, though the upfront tax cost must be weighed carefully.

The goal is continuity. Your lifestyle should not depend on the next deal or the next market cycle. It should be built on a sustainable financial foundation that your advisory team has stress-tested against realistic assumptions.

7. Plan for the Identity Shift (The Part Nobody Talks About)

This may be the most important section in this entire guide, and it has nothing to do with money. **For many business owners, the company is not just what they do. It is who they are.** It provides structure, purpose, community, status, and daily meaning. When that disappears, even voluntarily, the psychological impact can be profound.

Post-sale depression is more common than most people realize. Owners describe feeling adrift, purposeless, and disconnected from the identity that defined them for years or decades. The people who navigate this transition most successfully share one trait: **they planned for purpose, not just for money.**

That might mean:

- Board roles
- Advisory work
- Mentorship
- Philanthropy
- Education
- Or simply space to explore

If you have a spouse or partner, this transition affects them too. The rhythms of your household are about to change. Having honest conversations about expectations, fears, and hopes before the sale is a necessity.

Bonus: Three Strategies for Maximizing Your Post-Sale Wealth

Charitable Giving Structures That Make Your Wealth Work Harder

If philanthropy matters to you, a business sale creates a unique window for tax-efficient giving.

1. **Donor-Advised Funds (DAFs)** allow you to make a large charitable contribution in the year of the sale (capturing the deduction when your income is highest), then distribute grants to charities over time. You receive the tax benefit immediately while maintaining control over how and when the funds are deployed.

2. **Private foundations** offer more control and family involvement but come with higher administrative costs and stricter rules. For many owners, a DAF provides significant benefit at a fraction of the complexity.

3. And as mentioned earlier, **Charitable Remainder Trusts (CRTs)** combine income generation with philanthropic impact, making them one of the most elegant structures available for owners selling appreciated businesses.

The Advisor Team You Actually Need

Selling a business is not a one-advisor event. You need a coordinated team: a **CPA who understands business sale taxation**, an e**state attorney who can implement complex trust structures**, a **wealth advisor who will manage and protect the proceeds**, and an **insurance specialist** who can address risk gaps.

The critical word is "coordinated." These professionals need to be talking to each other, not working in silos. This is where working with a firm that takes a comprehensive view of your financial life, integrating tax strategy, investment management, and estate planning, can reduce coordination gaps.

Frequently Asked Questions

How does selling a business affect my Social Security benefits?

The sale proceeds themselves are not earned income, so they do not directly affect your Social Security benefit calculation. However, if you stop working after the sale and have not yet reached your full retirement age, your future benefits may be lower than projected because the Social Security Administration uses your highest 35 years of earnings.

Can I roll business sale proceeds into a retirement account to defer taxes?

Generally, no. Business sale proceeds are not "eligible rollover distributions" and cannot be placed directly into an IRA or 401(k). However, if part of the sale involves distributions from a qualified retirement plan within the business, those specific amounts may be eligible for rollover. The distinction matters, and it is worth discussing with your CPA before closing.

What if I sell my business and want to move to a different state?

State taxes on the sale can vary dramatically. Some states (like Connecticut) tax capital gains as ordinary income, while others (like Florida, Texas, and Nevada) have no state income tax at all. However, simply moving after the sale does not necessarily avoid your former state's tax claim. **Most states look at where you were domiciled when the gain was realized.**

Should I pay off my mortgage with the sale proceeds?

It depends on the interest rate, your tax situation, and your emotional comfort with debt. If your mortgage rate is below what you can reasonably earn on a diversified portfolio, the math may favor keeping the mortgage and investing the proceeds. But math is not the only factor. Many owners find deep psychological value in being debt-free after a sale, and that peace of mind has real worth. There is no universally right answer here.

How do I talk to my kids about the sale and our family's wealth?

This is one of the most important and most overlooked conversations. Financial therapists and family governance consultants recommend starting with values rather than numbers. What does this wealth mean for our family? What responsibilities come with it? What are your hopes and concerns? These conversations are easier to have with a framework, and many wealth advisory firms can help facilitate them as part of a broader family planning process.

The Sale Is Just the Beginning

Selling your business isn't the finish line. It's the beginning of a new chapter: one where your wealth works for you.

The owners who navigate this transition most successfully are the ones who plan early, assemble the right team, and permit themselves to think about more than just the money. They think about legacy, about purpose, about what comes next.

If you are considering selling your business, or **if you have already started the process, the most valuable thing you can do right now is start a conversation with someone who understands both the financial and personal dimensions of this journey**.

Book a complimentary Exit Readiness Review with SKY Investment Group and uncover the wealth strategies available to you before the LOI is signed. Call (860) 761-9700 to schedule your review.

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