

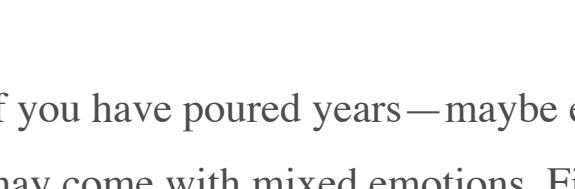


WEALTH MANAGEMENT

Financial Planning for Life After Selling a Business

April 15, 2025

Selling your business can mean big changes for your life, both personally and financially. Know how to make the most of your windfall.



Key Takeaways

- For many founders, life after the sale of a business includes enjoying the wealth you've earned.
- As you enjoy the rewards of your hard work, consider tailoring your insurance coverage to include new assets, like a vacation home or car.
- If you continue to hold a significant portion of the company's stock, consider ways to diversify the concentrated holding.
- Now that you've sold your business, consider updating your estate plan to ensure your legacy is distributed in a tax-efficient way.

If you have poured years—maybe even decades—of your life into building a business, the time to sell may come with mixed emotions. Figuring out what comes after this significant milestone can seem daunting.

For many founders, that includes enjoying the wealth you've earned, helping family or supporting meaningful causes. But seven in 10 business owners say that they will rely on the proceeds of the business sale to support their post-exit lifestyle.¹



Having a clear financial plan can help ensure the best outcome for founders, families and businesses.

Having a clear financial plan can help ensure the best outcome for founders, families and businesses. "Threading the needle of personal, financial and business planning leads to a better post-sale outcome," says Matthew Lang, a Certified Financial Planner and Private Wealth Advisor at Morgan Stanley.

1. Investment strategy:

Your finances will likely look different after you sell your business. Such a significant windfall means you may have more cash at your disposal to invest. Additionally, you may have continued personal financial exposure to your business, such as receiving payments based on the company's future performance or investing some proceeds back into the business.

You may also continue to own stock in the business. If your shares amount to a significant portion of your overall portfolio, you may need to consider ways to mitigate the **concentration risk** that comes with it. Strategies can include diversification, strategic selling, gifting shares to family or an equity exchange fund. A Private Wealth Advisor can help you decide the right strategy for you and factor any new exposures in your investment plan.

2. Risk management:

As you enjoy the rewards of your hard work, whether it's purchasing a new boat, car or vacation home, it's important to consider how to protect your wealth. This may include **tailoring your insurance coverage** to better reflect your newfound circumstances, including personal liability insurance and property and casualty insurance.

Additionally, as you experience a significant potential increase in your liquid net worth, you and your family could become targets for lawsuits. A well-qualified personal risk advisor can work with your Private Wealth Advisor on strategies to help mitigate new risks, such as acquiring an umbrella insurance policy and strategically organizing your assets. For example, folding assets into a trust could make them off-limits to future creditors.

"You want to protect your wealth, and having a major judgment against you as a result of a lawsuit can be incredibly disruptive," Lang says. "A number of tactics—including the ownership structure of your assets, where they are held, the use of trusts and a strategic insurance program—can help insulate you from outsized risks."

3. Estate planning:

It may be a difficult topic to think about, but planning for what happens after you're gone is an important step in protecting your legacy, ensuring that your wishes are respected and minimizing future stress placed on your family. Now that you've sold your business and may be reaping a windfall, consider creating or updating your estate plan, which may include:

A durable financial power of attorney, which allows you to elect an "agent" who can act on your behalf to ensure financial matters are taken care of in the event you should have a medical emergency or otherwise be unable to act, which helps to ease stress your family members would feel should you be unable to act.

A last will and testament to help ensure your wealth is distributed according to your wishes once you've passed. In your will, you would name an executor, who will distribute assets to your beneficiaries, pay off your debts and file your last tax return.

A trust to help you further dictate how you want your wealth to be handled. Items in a trust are not subject to a judicial process known as probate, a fact that can help your beneficiaries avoid unnecessary court costs or delays and to maintain privacy.

4. Giving to loved ones:

Once you've sold your business, you may wish to use some of the windfall to make gifts or increase your financial support for family members or close friends. Just remember that there can be important tax considerations in making such gifts. In 2024, federal law allows you to make tax-free annual gifts of up to \$18,000 per recipient (\$36,000 if you are married) without having to file a federal gift tax return.

If your gift to any one person exceeds the annual exclusion amount, the excess would be applied to reduce your lifetime gift and estate tax exemption, which in 2024 is \$13.61 million for individuals, \$27.22 million for married couples. In this case, you will need to file a gift tax return (Form 709), but won't be required to pay gift taxes.²

5. Philanthropy planning:

The sale of a business is often an opportunity to take steps toward realizing your philanthropic goals. In addition, it can have the added benefit of providing an opportunity to engage your children or grandchildren in conversations about the family's shared set of values. There are several giving strategies to co

Donor Advised Funds, such as the **Morgan Stanley Global Impact Funding Trust** (MS GIFT), are a tax-efficient way to donate stock, mutual funds or other assets, allowing them to potentially grow tax-free until you recommend a charity to receive a donation. You can claim a federal income tax deduction in the year the donation is made to the donor advised fund.

Charitable Remainder Annuity Trusts (CRATs) allow you to put assets in an irrevocable trust for the ultimate benefit of a charity but continue to receive (or designate someone else to receive) distributions from the trust. CRATs allow the donor to receive an income tax charitable deduction for the year the donation is made.

Private foundations allow for tax-deductible contributions, with the ability to have more control over where the donations go and how they are used.³ While private foundations would generally require more time and money to set up, you can use the funds to make grants to people or causes that align with the foundation's mission.

The sale of a business is often an opportunity to take steps toward realizing your philanthropic goals.

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Footnotes:

¹ 2023 National State of Owner Readiness Report, Exit Planning Institute. <https://exit-planning-institute.com>

² See the 2023 National State of Owner Readiness Report, Exit Planning Institute.

³ See the 2023 National State of Owner Readiness Report, Exit Planning Institute.

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