

# ROBS Client Guide

Retirement-Funded Business Strategies

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## Traditional ROBS and ROBS with a Roth Conversion

When starting or expanding your business, accessing your retirement funds partially or fully can offer substantial financial flexibility. However, the decision involves understanding two primary pathways clearly: **Traditional ROBS** or a **ROBS with a Roth Conversion**.

Here’s an easy-to-understand comparison to help you make an informed decision:

### Comparing Your Retirement Funding Options & How to Combat Double Tax.

Feature	(1) Traditional ROBS	(2) ROBS with a Roth Conversion
<b>Taxation at Setup</b>	<b>No immediate taxes or penalties</b> when properly structured.	Taxes due on converted amount, typically in April of the year following conversion. Taxable as ordinary income.
<b>Future Tax Impact</b>	Retirement withdrawals will be <b>taxed as ordinary income</b> .  Potential Double Tax with Asset Sale.	All future growth and retirement distributions from Roth IRA are <b>tax-free</b> , assuming IRS rules are met.
<b>Complexity &amp; Costs</b>	Common, straightforward, and relatively lower complexity.	Need access to liquid cash to pay taxes for conversion. Moderate complexity—requires careful tax planning and accurate financial projections.
<b>Suitability</b>	Highly suitable for most entrepreneurs aiming to finance their business without immediate taxes or penalties.	Ideal if you anticipate higher tax rates in retirement, wish to benefit from tax-free growth, and have the means to pay taxes when due, typically in April of year following conversion.

## ROBS VS. ROBS WITH ROTH CONVERSION

<b>Scenario</b>	\$500,000 investment grows to \$1,500,000; funds distributed after age 59½
<b>Tax Assumption</b>	28% combined federal + state (23% federal, 5% state)

### 1 Contribution Stage

Item	Traditional ROBS	ROBS with Roth Conversion
Initial investment	\$500,000	\$500,000
Taxes on conversion	\$0	(\$140,000)*

### 2 Investment Growth

Item	Traditional ROBS	ROBS with Roth Conversion
Sale price and net cash payout (before taxes)	\$1,500,000	\$1,500,000

### 3 Distribution at or after Age 59½

Item	Traditional ROBS	ROBS with Roth Conversion
Taxes on distribution	(\$420,000)*	\$0

### 4 Net Cash to Investor

Item	Traditional ROBS	ROBS with Roth Conversion
Net cash payout (after all taxes)	\$1,080,000	\$1,360,000

\* tax typically due in April of the following year

## What Does Each Retirement Funding Option Mean for You?

### 1 Traditional ROBS

#### How ROBS Works

- 1 Establish a new business as a C Corporation.
- 2 Create a company retirement plan.
- 3 Rollover your traditional retirement funds into the new plan.
- 4 The funds buy stock in your new business, providing capital.

#### Why Choose ROBS

- ✓ No immediate tax burden when executed correctly.
- ✓ Avoid debt, keep ownership, and control of your business.
- ✓ Common, simple, and IRS-compliant if properly managed.

#### Who Should Consider ROBS

- Entrepreneurs seeking a straightforward, debt-free business startup.
- Individuals comfortable with taxable retirement distributions later.

## 2 ROBS with a Roth Conversion

### How The Conversion Works

- 1 Same sequence of steps as Traditional ROBS with the addition of....
- 2 Perform an in-plan Roth conversion of any pre-tax rollover dollars.
- 3 Pay taxes on the converted amount, typically in April of the year after conversion.
- 4 All future capital gains from sale of your business are exempt from tax, provided proceeds remain in the Roth retirement plan or rolled to a Roth IRA. All future retirement distributions from the Roth IRA are tax-free.

### Key Differences

- Often used to provide tax mitigation and wealth protection features, such as:
  - No Required Minimum Distributions.
  - Allows tax-friendlier dividends (vs. W-2 income) distributed from excess profits of business to grow tax-free.
  - Allows for lifetime tax-free growth for surviving spouse and an additional ten years for surviving children.
- Requires careful planning and payment of income taxes in the year following conversion, typically in April.

### Why Choose The Conversion

- ✓ Expect to be in a higher tax bracket in the future.
- ✓ Expect the value of the business to increase.
- ✓ Interested in long-term tax-free growth after paying upfront taxes now.
- ✓ Want greater flexibility later without concern for taxes on withdrawals.

## Who Should Consider The Conversion

- Entrepreneurs and investors looking for tax-efficient growth long-term.
- Those with sufficient resources to comfortably cover immediate tax obligations.

## Why Understanding These Options Matters

The right decision can significantly influence your financial security, business success, and retirement strategy. Carefully choosing your path helps you:

- **Preserve retirement savings** without unnecessary penalties.
- **Maintain control** over your business.
- **Optimize your long-term tax situation**, enhancing overall financial security.

## Next Steps

Before deciding, consider these actions:

- **Discuss your goals** and situation with a financial advisor.
- **Evaluate your tax circumstances** with a CPA or tax expert.
- **Discuss your plans** with an experienced ROBS provider.
- **Weigh immediate business funding needs** against your long-term retirement strategy.

# Strategies for Exiting



SPECIALIZED ACCOUNTING SERVICES

## Your ROBS-Funded Business

Understanding how to exit retirement-funded strategies is essential for protecting your retirement, minimizing taxes, and preserving your business's value. Here's how you can successfully exit each option:

### Example Payout for Each Retirement Funding Option:

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## 1 Exiting Traditional ROBS

### Exit Process:

- Obtain a third-party appraisal for the company to determine share price.
  - Appraisal not necessary under Stock Sale (unless to related party)
- Sell your business, close it, or unwind the arrangement.
- Your retirement plan sells its shares in your C Corporation.

### Tax Considerations:

- Gains within the retirement plan **remain tax-deferred**.
- Once withdrawn at retirement age, funds are taxed as ordinary income.

### Exit Strategies:

- **Sell Your Business:**
  - Proceeds from the sale flow back into the retirement account.
- **Buyback Stock:**
  - You can personally buy stock back from your retirement plan at fair market value, replenishing the retirement account.
- **Convert Plan:**
  - Convert to a standard retirement account (e.g., IRA or 401(k)) after selling business shares, simplifying future management.

## 2 Exiting ROBS with a Roth Conversion

### Exit Process:

- Obtain a third-party appraisal for the company to determine share price.
  - Appraisal not necessary under Stock Sale (unless to related party)
- Sell your business, close it, or unwind the arrangement.
- Your retirement plan sells its shares in your C Corporation.

### Tax Considerations:

- After conversion, **all distributions from your Roth IRA are tax-free** (assuming you meet the IRS five-year holding requirement and are age 59½ or older).
- Net proceeds will continue to grow tax free in a liability protected vehicle for the rest of your or your spouse's life, and an additional 10 years beyond your lifetime if passed down to your children.

### Exit Strategies:

- **Sell Your Business, Buyback Stock, or Convert Plan**
  - Refer to #1 – Exit Strategies section above for details.
- **Regular Retirement Withdrawals:**
  - Withdraw funds tax-free upon retirement.
- **Early Withdrawals:**
  - You can withdraw your converted principal amount (not earnings) tax-free at any time, without penalties.
- **Investment Flexibility:**
  - Easily redirect funds toward other investments or personal goals, providing strategic financial flexibility.

## Importance of a Planned Exit

Having a clear, strategic exit plan from any retirement-funded business strategy is vital to:

- **Maximize Your Retirement Savings:**  
Preserve tax advantages, ensure compliance, and secure your future.
- **Minimize Taxes and Fees:**  
Avoid costly tax surprises or penalties through proper planning.
- **Ensure Smooth Business Transitions:**  
Facilitate easier, well-timed business sales or transfers.
- **Know the differences between Asset Sales vs. Stock Sale**  
See comparison chart between Asset Sale & Stock Sale for details.

## Comparison Chart Between an Asset Sale & Stock Sale:

Feature	Asset Sale (\$1.5M)	Stock Sale (\$1.5M)
<b>Type of Sale</b>	Buyer purchases individual assets of the business.	Buyer purchases company shares directly from ROBS retirement plan.
<b>Tax Impact on Business</b>	Gains from asset sale typically taxable at corporate level.	Usually no immediate corporate-level taxes.
<b>Tax Impact on Retirement Plan</b>	After corporate taxes, net proceeds return to ROBS retirement account (tax-deferred).	Full proceeds return directly to retirement account (tax-deferred).
<b>Seller Advantage</b>	Potentially more attractive to buyer; flexibility in asset selection.	Higher proceeds, simpler transaction.
<b>Buyer Advantage</b>	Asset step-up allows buyer future tax deductions (depreciation).	Simpler purchase; takes existing business as-is.
<b>Complexity &amp; Cost</b>	Complex; higher professional fees and negotiations.	Simpler; typically lower costs and faster transaction.
<b>Best Suited For:</b>	Seller open to lower net proceeds to accommodate buyer preference.	Seller aiming for maximum retirement proceeds and simplicity.

## Asset Sale vs. Stock Sale Comparison

<b>Scenario</b>	Business sells for \$1,500,000
<b>Comparing</b>	Asset Sale vs. Stock Sale
<b>Tax Assumption</b>	26% blended rate (21% federal + 5% state)

### 1 Sale Details

Item	Asset Sale	Stock Sale
Sale price	\$1,500,000	\$1,500,000

### 2 Taxable Basis

Item	Asset Sale	Stock Sale
Net book value of assets (inventory, equipment, etc.)	(\$500,000)	\$0
<b>Taxable gain</b>	<b>\$1,000,000</b>	<b>\$0</b>

### 3 Taxes Owed at Sale

Item	Asset Sale	Stock Sale
Taxes due (26% rate applied to taxable gain)	(\$260,000)	\$0

### 4 Net Cash Returned to Retirement Plan

Item	Asset Sale	Stock Sale
<b>Net proceeds (after taxes)</b>	<b>\$1,240,000</b>	<b>\$1,500,000</b>

## Recommended Next Steps for Exiting:

- **Consult Advisors Early:**

- Engage retirement planning experts or business exit strategists early
- Evaluate the expertise, experience and liability protection that ROBS provides

- **Develop a Clear Exit Timeline:**

Define clear milestones and timing to execute your chosen exit method smoothly.

- **Stay IRS Compliant:**

Ensure continuous compliance to avoid unexpected tax consequences during and after your exit.

Proper exit planning from your retirement-funded business strategy ensures you safeguard your retirement assets, minimize tax burdens, and successfully transition your business and financial life.

## from ROBS clients

### **Q:** Can I reimburse myself for expenses paid with personal funds?

- A:** **Yes** – any business expenses paid with personal funds can be reimbursed back to the individual once the bank account is funded.
- B:** SAS recommends keeping a spreadsheet tracking the expenses paid with personal funds with Date, Amount, Vendor and short description of purchase.

### **Q:** How do I get money out of the business?

- A:** Loans/Advances to related parties are a prohibited transaction.
- B:** Ways to take cash out:
  - i. Through W-2 wages
  - ii. If the individual owns shares – a dividend can be paid out and is taxable to the individual reporting a 1099-DIV.
  - iii. Profit Sharing – money into your retirement plan (not personal pocket)
- C:** After you're at least 59½ and your Roth account has met the 5-year rule, the company can declare dividends to the Roth plan (as a shareholder). The plan can then distribute those dividends to you as a qualified, tax-free payout.

### **Q:** How do I determine what a reasonable salary is?

- A:** Salary should be in accordance with the roles and responsibilities of the owner.
- B:** Salary can be paid Weekly, Bi-Weekly, Monthly, or Quarterly.
- C:** Performance/Result based bonuses are allowed.
- D:** Work with your SAS Accountant to determine what is reasonable.

## from ROBS clients

### Q: Can I purchase stock in the ROBS C-Corp, as a personal investment?

- A: Yes** – Any cash deposited into the business and not paid back or reimbursed, can be considered for personal investment
- B:** A formal appraisal is not needed for personal investment, however, you should work with a CPA to determine a fair share price that does not dilute the plan investment.
- C:** Discuss any documentation requirements to support these investments with your service provider. This may include bank statements, appraisals, or a CPA letter supporting investments (e.g. pre-corporate expenses)

### Q: Can I purchase a Vehicle?

- A:** If the vehicle will be used 100% for business use, then yes, the business can purchase the vehicle.
- B:** If not used 100%, then SAS recommends that the owner reimburse themselves for in one of the following ways:
  - i. Mileage Reimbursement using the IRS standard \$/mile
  - ii. Auto Allowance – this will be added to Payroll and subject to payroll taxes.

### Q: Can the C-Corp (ROBS) have ownership in other entities?

- A:** Yes - They can be a partner in an LLC & be a shareholder in another C-Corp
  - i. Discuss any business structures with your service provider to ensure ROBS compliance.
- B:** No – They cannot be a shareholder in an S-Corp.

## from ROBS clients

### Q: Does C-Corp (ROBS) have 'Double Tax'?

**A:** *Dividends paid to the Retirement Plan are exempt from dividends tax.*

*i. However, dividends to individual shareholders are taxed immediately on individual tax return at capital gains rate.*

**B:** *Wages still carry payroll taxes for all entities, and the C-corp pays 21 % federal + state tax on its taxable income. By contrast, S-corp or partnership/LLC income flows through and is taxed to the owners at their individual rates (pass through rate can be as high as federal taxes of 37% plus state income taxes (0–13.3%).*

### Q: Who is the ideal candidate for Traditional ROBS vs ROBS with a Roth Conversion, and Why?

**A: Traditional ROBS (pre-tax money):** *Best when you need the largest amount of capital now, most of your retirement money is pre-tax, and you can live with strict ERISA/IRS compliance and C-corp requirements.*

**B: Traditional ROBS + Mix (pre-tax + Roth/cash/debt):** *Useful when you want capital and tax diversification—limit how much of your nest egg is at risk, manage current taxes, and keep some Roth money growing untouched.*

**C: ROBS with a Roth Conversion:** *Ideal when you have a big traditional IRA, expect strong business growth, and can afford to pay the conversion tax now (i.e., low current tax bracket and large carryforwards). Eventual tax-free exit, value no RMDs on Roth plan dollars, and want heirs to receive funds income-tax-free (though most non-spouse heirs must empty the account within 10 years).*

**D: ROTH 401(k) ROBS:** *Fits owners with sizable 401k balances who expect high future growth and eventual tax-free exit, value having no RMDs on Roth plan dollars, and want heirs to receive funds income-tax-free (though most non-spouse heirs must empty the account within 10 years).*