

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:

ROBS VS. ROBS WITH ROTH CONVERSION

| | |
|-----------------------|--|
| Scenario | \$500,000 investment grows to \$1,500,000; funds distributed after age 59½ |
| Tax Assumption | 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

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- Once withdrawn at retirement age, funds are taxed as ordinary income.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

Asset Sale vs. Stock Sale Comparison

| | |
|-----------------------|---|
| Scenario | Business sells for \$1,500,000 |
| Comparing | Asset Sale vs. Stock Sale |
| Tax Assumption | 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 |
| Taxable gain | \$1,000,000 | \$0 |

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 |
|-----------------------------------|--------------------|--------------------|
| Net proceeds (after taxes) | \$1,240,000 | \$1,500,000 |

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.