The Pre-Exit Planning Checklist

April 2026

The most consequential financial decisions a business owner will make are not made at the closing table. They are made in the months before the transaction — when entity structures can still be reorganized, charitable vehicles can still be established, estate plans can still be updated, and tax optimization strategies can still be implemented.

By the time a letter of intent is signed, the planning window has closed on most of the strategies that produce the greatest benefit. This checklist is designed to help business owners and their advisors identify the critical planning areas that deserve attention before a liquidity event — not after.

18 MONTHS	12 MONTHS	6 MONTHS	AT CLOSE
Structure & Strategy	**Estate & Tax**	**Deal Preparation**	**Execution**
• Entity restructuring	• Estate document updates	• Asset vs. stock sale analysis	• Investment policy deploy
• QSBS qualification review	• Trust funding verification	• Earnout structuring	• Cash reserve setup
• Charitable vehicle setup	• Multi-year tax projection	• Insurance review	• Post-sale tax payments
• GRAT / IDGT funding	• Gift exclusion planning	• Advisor coordination	• Purpose planning

Entity & Tax Structure

The foundation of pre-exit tax efficiency is structural. These decisions must be made early — most cannot be implemented once a transaction is imminent.

01

Review Entity Structure [1]

Evaluate whether the current entity type (S-Corp, C-Corp, LLC, partnership) is optimal for the anticipated transaction. C-Corporation status may unlock the Qualified Small Business Stock (QSBS) exclusion under IRC §1202, which allows eligible shareholders to exclude up to 100% of capital gains on stock held for five or more years, subject to a per-taxpayer cap of $15 million for stock issued after July 4, 2025. The corporation must have aggregate gross assets below $75 million at the time of issuance.

02

Evaluate Installment Sale Eligibility [2][3]

Determine whether the transaction can be structured as an installment sale under IRC §453, deferring capital gains recognition across the payment period. This can reduce the effective tax rate by spreading income across lower brackets. An interest charge applies under §453A when total installment obligations exceed $5 million at year-end.

03

Analyze State Tax Residency

State income tax can represent a significant portion of the total tax burden on a business sale. If relocation to a lower-tax state is being considered, the timing relative to the sale is critical. Most states apply sourcing rules that look at residency on the date of sale. Relocating after a deal closes generally does not reduce the state tax liability.

04

Assess Opportunity Zone Reinvestment [4]

Capital gains from a business sale may be eligible for deferral through reinvestment in a Qualified Opportunity Zone Fund under IRC §1400Z-2. Investments held for ten or more years may offer exclusion of gains on the OZ investment itself.

QSBS STACKING STRATEGY

Shareholders may multiply the per-taxpayer QSBS exclusion by gifting shares to family members or transferring them to separate irrevocable non-grantor trusts before the sale. Each taxpayer (or qualifying trust) receives its own $15 million exclusion. This must be implemented before the sale.

Charitable & Estate Planning

The intersection of charitable intent and tax efficiency is most powerful before a liquidity event.

05

Establish Charitable Vehicles Before the Sale [5]

A Charitable Remainder Trust (CRT) that receives appreciated business interests before a sale can sell those interests without triggering immediate capital gains tax, spreading income recognition over up to twenty years while providing an immediate charitable income tax deduction. A Donor-Advised Fund offers administrative simplicity and an immediate deduction for the fair market value of contributed assets.

06

Contribute Appreciated Interests Pre-Sale [6]

Donating appreciated business interests to a charitable vehicle before the sale can eliminate capital gains on the contributed shares entirely. However, the “prearranged sale doctrine” applies: if a buyer has already been identified before the contribution is made, the IRS may treat the sale as having occurred before the charitable transfer, eliminating the tax benefit.

07

Review and Update Estate Documents

Estate plans designed for a pre-sale net worth may be inadequate for a post-sale balance sheet. Trusts, beneficiary designations, powers of attorney, and healthcare directives should all be reviewed. Beneficiary designations on retirement accounts and insurance policies override will and trust provisions.

08

Consider GRATs or IDGTs for Wealth Transfer [8][9]

A “zeroed-out” GRAT returns the original value to the grantor while all appreciation above the IRS §7520 rate passes to beneficiaries tax-free. An IDGT allows the grantor to sell assets to the trust in exchange for a promissory note — no capital gains are triggered because the grantor and trust are treated as the same taxpayer for income tax purposes.

09

Maximize Gift Tax Exclusions [7]

The annual gift tax exclusion under IRC §2503(b) allows each taxpayer to gift up to $18,000 per recipient per year (2024). The lifetime exemption stands at $13.61 million per individual, scheduled to revert to approximately half after 2025 absent legislation. Pre-sale gifts of business interests at current valuation can remove significant future appreciation from the taxable estate.

IRC §2036: RETAINED INTEREST RISK

Transferring business interests to family limited partnerships or LLCs at discounted valuations while retaining control may trigger IRC §2036. This allows the IRS to include the full fair market value of transferred assets in the taxable estate at death. A “bona fide sale for adequate and full consideration” exception exists but requires genuine transfer of control.

Deal Structure & Negotiation

How the transaction itself is structured has direct and significant tax consequences for the seller. The type of buyer — strategic acquirer, private equity, management buyout, ESOP, or family transition — shapes deal structure, tax consequences, and post-close role expectations.

10

Asset Sale vs. Stock Sale Analysis

In an asset sale, the purchase price is allocated across individual assets — some taxed as ordinary income, some as capital gains. In a stock sale, the seller typically recognizes capital gain on the entire proceeds. Buyers generally prefer asset sales for the step-up in basis; sellers generally prefer stock sales for capital gains treatment.

11

Earnout and Contingent Payment Planning [2]

Earnout payments may be treated as ordinary income or capital gain depending on the agreement structure. The timing and character of these payments should be modeled in advance. Installment sale treatment under §453 may apply if the earnout qualifies.

12

Working Capital and Holdback Provisions

Purchase agreements typically include working capital adjustments and escrow holdback provisions that affect the total realized gain and the timing of tax recognition. The tax treatment of these should be addressed in the purchase agreement with input from tax counsel.

13

Non-Compete and Consulting Allocation

Amounts allocated to non-compete agreements and consulting arrangements are taxed as ordinary income — not capital gains. Even a modest percentage allocated to these categories can result in hundreds of thousands of dollars in additional tax. The allocation between goodwill and non-compete/consulting is often negotiable.

> **INDUSTRY TIMING AND MARKET CONTEXT**
>
> External factors — technological disruption, competitive consolidation, regulatory shifts, and valuation cycles — affect when to sell as much as how to structure the sale. Are current industry multiples at a premium or a discount? The most advantageous deal structure cannot fully compensate for poor market timing. Evaluate the external landscape alongside the internal planning in this checklist.

Post-Sale Integration

The transition from business owner to wealth steward involves financial, structural, and personal dimensions.

14

Assess Founder Dependence and Succession Readiness

Before entering a sale process, test a simple question: what breaks if you step away for ninety days? Buyers discount businesses that cannot operate without the founder. Document key processes, develop a management layer, and create a written succession plan. Consider third-party leadership assessment to validate that the identified successor can lead the business post-close.

15

Pre-Develop an Investment Policy

Developing an investment policy statement before the sale closes prevents allocation decisions under post-sale euphoria or anxiety. The policy should reflect actual needs: income requirements, time horizon, risk capacity, liquidity needs, tax sensitivity, and multigenerational objectives.

16

Define a Post-Sale Wealth Vision

Beyond investment allocation, establish clear parameters for what the newfound wealth should accomplish. What lifestyle do you want for yourself and your family? What are the intergenerational expectations? What philanthropic commitments matter most? Define these guidelines before the proceeds arrive and communicate them to family members so expectations are aligned from the start.

17

Establish Cash Reserves and Liquidity Planning

Plan for twelve to twenty-four months of living expenses in liquid reserves before deploying capital into longer-term investments. Factor in estimated tax payments, potential earnout uncertainty, and the psychological adjustment to living from investments rather than business income.

18

Conduct a Comprehensive Insurance Review

Life insurance needs may change post-sale. Umbrella liability coverage should reflect the new net worth. D&O; tail coverage may be required. Key-person and buy-sell policies tied to the sold business should be evaluated for cancellation or conversion.

19

Plan for Identity and Purpose [11]

Research suggests that 75% of business owners experience seller's remorse within one year of a transaction. The loss of daily purpose, identity, team, and structure is real and well-documented. Planning for the non-financial transition — board involvement, mentoring, philanthropy, a new venture — is a critical component of a successful exit.

20

Engage Family Stakeholders Early

A business transition is rarely a solo event. Communicate transition plans to family members early in the process. Set expectations about post-sale roles, distribution of proceeds, and timeline. For family businesses, confirm that the next generation wants to be involved and is prepared for the responsibilities. There should be no surprises when the transition happens.

21

Establish Advisor Coordination, Advisory Board, and Governance

Before the sale, identify who will serve as the coordinating center across all disciplines and establish a communication cadence among all professionals. Consider forming a formal advisory board of fiduciaries and industry leaders who can provide strategic guidance and act on your behalf if needed. After the close, define who will coordinate ongoing tax filings, statement aggregation, document storage, and family communication.

> **THE PLANNING WINDOW**
>
> Most strategies in this checklist require six to eighteen months of lead time. Entity restructuring, charitable vehicle establishment, GRAT funding, estate document updates, and gift tax planning all have implementation timelines that cannot be compressed after a letter of intent is signed.

REFERENCES & NOTES

[1] IRC §1202 — Partial Exclusion of Gain from Certain Small Business Stock. Updated by the One Big Beautiful Bill Act (OBBBA), signed July 4, 2025, with tiered holding periods and increased caps. See 26 U.S.C. § 1202.

[2] IRC §453 — Installment Method. Allows deferral of gain recognition when payments extend beyond the sale year. See IRS Publication 537. See 26 U.S.C. § 453.

[3] IRC §453A — Special Rules for Non-Dealers. Interest charge on deferred tax liability when installment obligations exceed $5 million. See 26 U.S.C. § 453A.

[4] IRC §1400Z-2 — Qualified Opportunity Zone investments held 10+ years may exclude post-investment appreciation. See 26 U.S.C. § 1400Z-2.

[5] IRC §170 — Charitable Contributions. Deduction limitations vary by vehicle type and donor AGI. See 26 U.S.C. § 170.

[6] The prearranged sale doctrine: Gregory v. Helvering, 293 U.S. 465 (1935). Charitable contributions are disregarded if a binding sale agreement exists before the transfer.

[7] IRC §2503(b) — Annual Gift Tax Exclusion. 2024 exclusion: $18,000 per donee. Lifetime exemption: $13.61M per individual, scheduled to sunset after 2025. See 26 U.S.C. § 2503(b).

[8] IRC §2036 — Transfers with Retained Life Estate. IRS may include full value in gross estate if grantor retained control or economic benefit. See 26 U.S.C. § 2036.

[9] IRC §7520 — Valuation Tables. The monthly IRS rate used for GRAT annuity calculations. Lower rates favor the grantor. See 26 U.S.C. § 7520.

[10] This checklist reflects federal tax law as of April 2026. Tax laws are subject to change. This does not constitute tax, legal, or investment advice. Consult qualified professionals.

[11] Exit Planning Institute, 2023 State of Owner Readiness Report. Reports that 75% of business owners experience seller's remorse within twelve months of a transaction.

IMPORTANT DISCLOSURES

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