



**THE EXIT & RETIREMENT
TAX BLUEPRINT**

STRATEGIC PLANNING FOR BUSINESS SALES & RETIREMENT

**Business Sales • Asset vs Stock
• Estate Planning • Roth Conversions**

**MINIMIZE TAXES,
MAXIMIZE LEGACY WEALTH**

This guide provides general educational information and does not constitute tax, legal, or financial advice. Consult with qualified professionals before implementing any strategy.

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Executive Summary

The years surrounding business exit and retirement are the highest-stakes period for tax planning. A single structural decision can swing tax bills by hundreds of thousands—or millions. Strategic planning in the 2-5 years before exit creates transformational savings.

This blueprint provides comprehensive guidance on business sale structures, retirement account optimization, estate planning integration, and multi-year income management. Every strategy is designed for maximum tax efficiency while preserving flexibility and legacy wealth.

Key Takeaways:

- Asset sales vs. stock sales can create \$500,000+ tax differences on the same transaction
- QSBS planning can eliminate federal tax on up to \$10 million in business sale gains
- Strategic Roth conversions in low-income years create tax-free retirement wealth
- Pre-exit entity restructuring unlocks installment sales and estate planning opportunities

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Work With AE Tax Advisors

Business Sale Structure: Asset vs. Stock

The single most important decision in a business sale is structure: asset sale or stock sale. This determines tax treatment, buyer deductions, and your net proceeds. The interests of buyer and seller are often opposed—negotiation is critical.

Asset Sale (Buyer's Preference)

Buyer purchases specific assets (inventory, equipment, customer lists, goodwill). Buyer gets step-up in basis and immediate depreciation/amortization deductions. Buyer avoids inheriting unknown liabilities.

Seller Tax Impact:

- Ordinary income on: inventory, receivables, depreciation recapture
- Capital gains on: goodwill, customer relationships, going concern value
- C-corps: Double tax (entity-level + shareholder distribution)
- S-corps/LLCs: Single tax at shareholder level (pass-through)

Stock Sale (Seller's Preference)

Buyer purchases ownership interests (stock/membership units). Buyer inherits existing basis and liabilities. Seller gets single-level capital gains treatment on entire transaction.

Seller Tax Impact:

- Entire gain taxed as long-term capital gains (20% + 3.8% NIIT)
- No depreciation recapture at ordinary rates
- C-corp QSBS may eliminate federal tax on up to \$10M gain
- Clean exit—no ongoing involvement with assets

Asset vs. Stock Tax Impact Comparison

Business sale for \$5M (S-corp with \$1M basis):

Stock Sale:

- Capital gain: \$4M (\$5M - \$1M)
- Tax at 23.8%: \$952,000
- Net to seller: \$4,048,000

Asset Sale (allocation: \$2M goodwill, \$3M depreciable assets):

- Goodwill: \$2M at 23.8% = \$476,000
- Depreciation recap: \$1.5M at 25% = \$375,000
- Remaining gain: \$1.5M at 23.8% = \$357,000
- Total tax: \$1,208,000
- Net to seller: \$3,792,000

Stock sale advantage: \$256,000 more to seller

Negotiation: Seller demands \$5.3M in asset sale to achieve same net proceeds as \$5M stock sale

Section 338(h)(10) Election (Hybrid Approach)

IRC § 338(h)(10) allows treating stock sale as asset sale for tax purposes. Requires buyer and seller to jointly elect. Buyer gets asset step-up, seller gets single-level tax (if S-corp or subsidiary). Only available for certain entity types.

QSBS Planning for C-Corporation Sales

Qualified Small Business Stock (QSBS) is the most powerful exit strategy for C-corporation owners. Proper planning from formation through sale can eliminate federal tax on \$10 million+ in gains.

QSBS Requirements (All Must Be Met)

- C-corporation stock acquired at original issuance (not secondary purchase)
- Gross assets under \$50 million at issuance and immediately after
- Qualified active business (not finance, hospitality, farming, professional services)
- 80%+ of assets used in active business during holding period
- Held for at least 5 years before sale

QSBS Tax Benefits

- 100% exclusion of capital gains (for stock issued after Sept 27, 2010)
- Maximum exclusion: Greater of \$10 million or 10x cost basis
- Per-shareholder limit (each founder gets \$10M exclusion)
- State tax treatment varies—some states don't conform to federal exclusion

QSBS Exit Tax Elimination

Two founders each own 50% of qualifying C-corp:

Formation: Each invests \$100K at original issuance

5 years later: Company acquired for \$30M

Each founder's gain: \$15M (\$15M sale - \$100K basis)

Without QSBS:

- Capital gains tax per founder: \$3,570,000 (23.8%)
- Total tax both founders: \$7,140,000

With QSBS (properly structured):

- Exclusion per founder: \$10M (maximum)
- Taxable gain per founder: \$5M
- Tax per founder: \$1,190,000
- Total tax savings: \$4,760,000

If each founder had contributed \$1.5M originally:

- 10x basis = \$15M exclusion each
- Total federal tax: \$0
- Tax savings: \$7,140,000

Pre-Exit QSBS Planning Strategies

- Issue stock to family members/trusts 5+ years before anticipated exit
- Increase founder basis through additional capital contributions (boosts 10x limit)
- Roll proceeds from QSBS sale into new QSBS investment within 60 days (IRC § 1045)
- Never convert to S-corp if QSBS benefits exceed S-corp savings

Installment Sales and Seller Financing

Installment sales spread gain recognition over multiple years as payments are received. This manages tax brackets, provides interest income, and can facilitate transactions where buyer lacks full purchase price.

Legal Foundation

IRC § 453 permits installment method reporting for sales where at least one payment is received after the tax year of sale. Gain is recognized proportionally as payments are received. Interest income taxed as ordinary income.

How Installment Sales Work

- Calculate gross profit percentage: $(\text{Sale price} - \text{Basis}) \div \text{Sale price}$
- Apply gross profit percentage to each payment to determine taxable gain
- Remainder of payment is basis recovery (non-taxable)
- Interest component taxed separately as ordinary income

Depreciation Recapture Exception

Depreciation recapture is taxed in full in year of sale—cannot be deferred via installment method. Only the capital gain portion can be spread. This limits installment sale benefits for highly depreciated assets.

Installment Sale Tax Deferral

Business sale for \$3M, basis \$500K, 5-year note:

Gross profit percentage: $(\$3M - \$500K) \div \$3M = 83.33\%$

Payment structure:

- Down payment: \$600K (year 1)
- Annual payments: \$600K (years 2-5)
- Interest rate: 6%

Year 1 taxation:

- Principal: $\$600K \times 83.33\% = \$500,000$ gain
- Interest: \$144K (on \$2.4M note)
- Total taxable: \$644,000
- Tax at 23.8% + 37%: ~\$206,672

Compare to immediate recognition:

- Year 1 gain if all-cash: \$2,500,000
- Tax: \$595,000

Installment benefit:

- Spreads gain over 5 years
- May keep income in lower brackets
- Time value of money on deferred tax

Installment Sale Restrictions

- Not available for inventory or publicly traded stock
- Related party sales have special rules (resale within 2 years triggers acceleration)
- S-corp sales with installment notes require careful planning to avoid built-in gains tax
- Must charge adequate interest (AFR) or IRS imputes interest income

Earn-Outs and Contingent Consideration

Earn-outs tie a portion of purchase price to future business performance. They bridge valuation gaps but create tax complexity. Proper structuring determines whether payments are capital gains or ordinary income.

Tax Treatment of Earn-Outs

Capital Gain Treatment (preferred):

- Earn-out structured as additional purchase price for business/stock
- No continuing involvement as employee or consultant
- Payments contingent on business metrics, not personal services
- Treated as installment sale proceeds (capital gain as received)

Ordinary Income Treatment (unfavorable):

- Seller remains as employee during earn-out period
- Payments tied to seller's personal performance or continued involvement
- IRS may recharacterize as compensation (W-2 income)
- Taxed at 37% + payroll taxes vs. 23.8% capital gains

Structuring for Capital Gains Treatment

- Clearly document earn-out as additional purchase price in purchase agreement
- Tie payments to objective business metrics (revenue, EBITDA, customer retention)
- Avoid metrics tied to seller's personal performance or continued services
- If seller stays as employee, structure as separate employment agreement with market-rate salary
- Obtain tax opinion letter supporting capital gain characterization

Earn-Out Characterization Impact

Business sale: \$8M upfront + \$2M earn-out over 2 years

As Capital Gain (well-structured):

- Upfront: \$8M at 23.8% = \$1,904,000
- Year 1 earn-out: \$1M at 23.8% = \$238,000
- Year 2 earn-out: \$1M at 23.8% = \$238,000
- Total tax: \$2,380,000

As Ordinary Income (poorly structured):

- Upfront: \$8M at 23.8% = \$1,904,000
- Year 1 earn-out: \$1M at 40.8% = \$408,000
(37% income + 3.8% NIIT)
- Year 2 earn-out: \$1M at 40.8% = \$408,000
- Total tax: \$2,720,000

Poor structuring cost: \$340,000 additional tax
on same economics

Open Transaction Doctrine

If earn-out amount is not reasonably ascertainable, may qualify for open transaction treatment—deferring all gain until basis is recovered. Rarely applies due to IRS scrutiny. Requires contingencies that make valuation truly speculative.

Pre-Sale Entity Restructuring

Strategic restructuring 12-24 months before sale can unlock significant tax savings. These changes require advance planning—last-minute restructuring raises IRS scrutiny and may be disregarded.

S-Corporation to C-Corporation (QSBS Opportunity)

Convert S-corp to C-corp if QSBS benefits exceed S-corp pass-through benefits. Requires 5-year holding period from conversion, so plan early. Factor in double taxation during holding period vs. QSBS exclusion at exit.

Asset Distribution Before Sale

Distribute non-operating assets (real estate, excess cash, investments) to shareholders before sale. This reduces purchase price, limits buyer's interest in non-core assets, and may allow separate tax treatment. Watch for dividend characterization in C-corps.

Multi-Entity Carve-Out

Separate unrelated business lines into distinct entities. Sell high-value line, retain others. Creates flexibility in negotiations and may preserve ongoing income streams. Requires legitimate business purpose beyond tax avoidance.

Family Gifting and Estate Planning Integration

Gift shares to family members or trusts before exit event. Gifts during low-valuation periods use less lifetime exemption. Post-gift appreciation occurs in recipient's hands. Creates multiple QSBS \$10M exclusions. Must occur well before sale to avoid step transaction doctrine.

Retirement Income Planning and Tax Bracket Management

Retirement income comes from multiple sources with different tax treatments. Strategic sequencing of withdrawals minimizes lifetime taxes and preserves wealth for heirs.

Retirement Income Sources and Tax Treatment

Source	Tax Treatment	Optimal Strategy
Social Security	0-85% taxable based on income	Delay to age 70 if possible
Traditional IRA/401(k)	100% ordinary income	Fill lower brackets, consider Roth conversions
Roth IRA	Tax-free	Preserve for late retirement/heirs
Brokerage Account	Capital gains, dividends	Tax-loss harvesting, step-up at death
Municipal Bonds	Tax-free interest	Use in high-income years
Qualified Annuities	Ordinary income	Defer until needed for income

Withdrawal Sequencing Strategy

Ages 60–72 (before RMDs):

- Live on taxable brokerage accounts and cash reserves
- Execute Roth conversions up to top of 24% bracket
- Delay Social Security to maximize lifetime benefit
- Draw down pre-tax retirement accounts strategically

Ages 73+ (RMDs begin):

- Take required minimum distributions from traditional accounts
- Qualified charitable distributions count toward RMD (tax-free if charitable)
- Use Roth for discretionary spending (no RMDs)
- Start Social Security at 70 (maxed out delayed credits)

Roth Conversion Strategies

Roth conversions pay taxes now to create tax-free growth forever. The strategy is most powerful in low-income years before Social Security and RMDs begin.

When to Convert

- Year of business sale (if installment sale creates low W-2 income)
- Gap years between retirement and Social Security (ages 60-70)
- Market downturns (convert more shares at lower values)
- Years with large deductions (medical expenses, business losses, charitable contributions)
- Before RMDs push you into higher brackets

Multi-Year Roth Conversion Strategy

Retiree, age 62, with \$2M in traditional IRA:

Without conversions:

- Age 73: RMDs begin, \$80K+/year ordinary income
- Combined with Social Security: 28–32% bracket
- Lifetime taxes: \$600,000+
- Heirs inherit traditional IRA (taxed at distribution)

With strategic conversions (ages 62–72):

- Convert \$150K/year for 10 years
- Stay in 24% bracket during conversions
- Total conversion tax: \$360,000 (paid over 10 years)
- Age 73+: No RMDs on Roth accounts
- Social Security taxed at lower rates (less income)
- Roth grows tax-free for life + heirs

Lifetime tax savings: \$240,000+

Heirs receive \$2M+ Roth (tax-free withdrawals)

How Much to Convert

Convert up to top of target bracket—typically 24% bracket ceiling (\$383,900 married filing jointly in 2025). Model 5–10 year conversion plan. Account for standard deduction and other income sources. Pay conversion tax from non-retirement funds if possible (preserves Roth balance).

Medicare Premium Impact (IRMAA)

Large Roth conversions can trigger Income-Related Monthly Adjustment Amounts (IRMAA), increasing Medicare Part B and D premiums. IRMAA uses MAGI from 2 years prior. Factor this into conversion planning—may want to smooth conversions to avoid crossing IRMAA thresholds.

Required Minimum Distributions (RMDs)

RMDs force distribution from traditional retirement accounts starting at age 73 (raised from 72 in SECURE 2.0). Failure to take RMDs triggers 25% penalty. Strategic planning minimizes tax impact.

RMD Calculation and Timing

$RMD = \text{Account balance (Dec 31 prior year)} \div \text{Life expectancy factor (IRS Uniform Lifetime Table)}$. First RMD can be delayed until April 1 following year you turn 73—but creates double distribution in year 2. Generally better to take first RMD in year you turn 73.

Strategies to Minimize RMD Tax Impact

Qualified Charitable Distributions (QCDs):

Direct transfer up to \$105,000 (2025) from IRA to charity. Counts toward RMD but not included in AGI. Tax-free distribution—better than taking RMD and deducting charitable contribution.

Pre-RMD Roth Conversions:

Reduce traditional IRA balance before RMDs begin. Lower balance = lower future RMDs and lifetime tax burden.

Strategic Asset Location:

Hold growth assets in Roth (no RMDs), income-producing assets in traditional IRA. Take RMD from fixed income holdings to minimize disruption to growth portfolio.

Aggregate and Satisfy:

Calculate RMD separately for each IRA but can withdraw total from one account. Allows selective liquidation from preferred holdings.

Inherited IRA Rules (SECURE Act Changes)

Non-spouse beneficiaries must empty inherited IRAs within 10 years (no more stretch IRAs). Exceptions for eligible designated beneficiaries (spouse, minor children, disabled, chronically ill, beneficiaries within 10 years of age). This accelerates tax and limits legacy planning—Roth accounts more valuable for heirs.

Estate Planning and Wealth Transfer

Exit events create unique estate planning opportunities. Coordinating business sale proceeds with wealth transfer strategies multiplies tax savings and preserves legacy wealth.

Estate Tax Exemption (2025: \$13.99M per person)

Federal estate tax exemption is \$13.99 million per person (\$27.98M married couple) in 2025. Exemption is portable between spouses. CRITICAL: Exemption sunsets to ~\$7M in 2026 unless extended. Use-it-or-lose-it opportunity for gifts before 2026.

Pre-Exit Gifting Strategies

- Gift business interests before sale at low pre-exit valuation
- Sale proceeds accrue to recipients—removes appreciation from estate
- Use grantor trusts (GRATs, IDGTs) for leveraged gifting
- Apply valuation discounts for minority interests and lack of marketability
- Must occur well before sale—step transaction doctrine risk if too close

Post-Exit Wealth Transfer Techniques

Spousal Lifetime Access Trusts (SLATs):

Gift sale proceeds to irrevocable trust for spouse's benefit. Removes assets from estate while maintaining indirect access. Each spouse creates SLAT for other spouse. Must have meaningful differences to avoid reciprocal trust doctrine.

Charitable Remainder Trusts (CRTs):

Contribute appreciated assets to CRT before sale. Trust sells tax-free, provides income stream for life/term of years, remainder to charity. Immediate charitable deduction, removes assets from estate, diversifies concentrated position.

Intentionally Defective Grantor Trusts (IDGTs):

Gift/sell assets to trust that is ignored for income tax but not estate tax. Grantor pays income taxes on trust earnings (additional wealth transfer). Trust assets grow outside estate. Can sell business to IDGT with installment note.

Basis Step-Up Planning

Assets held until death receive basis step-up to FMV, eliminating capital gains. For married couples, consider holding appreciated assets in states with full step-up for community property. May be worth paying estate tax to get basis step-up in some scenarios.

Work With AE Tax Advisors

Exit and retirement planning requires coordination across tax, legal, and financial advisors. The strategies in this guide can save millions in taxes—but require years of advance planning and meticulous execution.

Exit & Retirement Planning Services

AE Tax Advisors provides comprehensive exit and retirement tax planning for business owners and high-net-worth individuals:

- Business sale structure analysis (asset vs. stock, installment sales, earn-outs)
- QSBS qualification review and exit planning
- Pre-exit entity restructuring and family wealth transfer
- Multi-year Roth conversion modeling and execution
- Retirement income sequencing and tax bracket management
- RMD minimization and qualified charitable distribution planning
- Estate planning coordination with trust and legal counsel

Schedule Your Private Consultation

Get a comprehensive exit and retirement tax strategy with multi-year projections.

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Email: contact@aetaxadvisors.com

Analysis includes:

- Sale structure analysis and tax modeling
- Pre-exit restructuring recommendations
- 10-year retirement income projection
- Roth conversion multi-year plan
- Estate planning integration

The 2-5 Year Planning Window

Most exit tax strategies require 2-5 years of advance planning. QSBS needs 5 years. Entity restructuring needs time to establish business purpose. Family gifting requires valuations and timing. Our most successful clients engage us 3-5 years before anticipated exit—not 3 months before closing.

Legal Disclaimers

This whitepaper provides general educational information about exit and retirement tax planning under federal tax law. It is not intended to provide tax, legal, estate planning, or financial advice. Every exit and retirement situation is unique and depends on specific business structures, timing, family circumstances, and state tax laws.

Business sale structures, QSBS planning, installment sales, and estate planning strategies require coordination with legal counsel, valuation experts, and financial advisors. AE Tax Advisors does not provide legal or estate planning advice. Actual tax benefits depend on proper structuring, timing, documentation, and compliance with all applicable rules.

Estate and gift tax laws are subject to change. The current exemption amount sunsets in 2026. State tax treatment varies significantly. IRC references are provided for educational purposes and do not create an advisory relationship.



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