PLANNING BOTH LIFE-CHANGING EVENTS

How to exit your business and enter *retirement*

You spent years building something. Leaving it well takes a plan of its own.



ABRI

2026 EDITION · UPDATED FOR THE ONE BIG BEAUTIFUL BILL ACT AND CURRENT IRS FIGURES.

Two plans, *not one*

An employee retires from a job. A business owner retires from a job, an asset, and an identity, usually at the same time. There is no default path and no HR department to run the process, so the plan has to cover both halves: what happens to the business, and what happens to your income.

This guide walks through four pieces of that work.

WHAT THIS GUIDE COVERS

- Succession planning: who takes over, doing what, and when
- Retirement income when there was never an employer plan
- How a sale is taxed, and how deal structure changes the bill
- SECURE Act 2.0 rules that affect you as an employer

PART 01

Succession *planning*

You have run the business for years. The first question is what it does without you. Answer it in three parts, in writing, before the timeline forces the answer for you.

WHO IS YOUR SUCCESSOR?

A family member, a partner, an employee, or an outside buyer. Name managers and owners officially and put their roles in writing, active or non-active. An assumed successor is not a plan; a named one is.

WHAT WILL THEY DO?

Spell out how family members, partners, and key staff are affected, what each role carries, and how disputes get resolved. Most succession failures are not financial. They are two people who each believed they were in charge.

WHEN WILL IT HAPPEN?

Set a timeline with real dates. Selling, stepping down, and closing each carry filing deadlines, notice periods, and tax-year consequences. A transition that straddles two tax years by accident is expensive.

Start earlier than feels necessary. A buyer, a bank, and the IRS all want to see clean books, documented roles, and revenue that does not depend on you personally. That takes two to three years to build, not two to three months.

PART 02

Where retirement income *comes from*

You likely never had the employer benefits a corporate employee accumulated. That does not leave you short of options. It means your options are different and need to be assembled deliberately.

If you are stepping down or closing

Passing the business to a successor may let you use the gift tax exemption, but only with planning that respects the valuation and filing rules. If you are closing instead, the business property and the business itself are two separate sales: real estate through an agent, equipment and inventory through a broker or auction. Sequence them, because the order affects which year the income lands in.

If you are selling the company

You need a defensible valuation before you need a buyer. That usually means a professional appraisal, a full inventory, and books that separate personal from business spending. Running personal expenses through the business is the single most common thing that slows a deal or shrinks the price, and it is also what an audit finds first.[1]



Once you have left

Whether you built savings monthly or received a lump sum, retirement can run three decades. Inflation and market timing are real risks against a single pot of money. Most durable plans draw on more than one source.

INVESTMENT ACCOUNTS

A Solo 401(k), SIMPLE, SEP, or IRA needs a withdrawal plan, not just a balance. Distributions from tax-deferred accounts are ordinary income and carry a 10% penalty before age 59½.[2] Proceeds from a sale can often be directed into these accounts, but the contribution limits are the constraint.

SOCIAL SECURITY

Owners who set their own compensation often have a reporting history that does not match what they remember earning. Pull your record from the Social Security Administration and reconcile it early. Claiming age is then a decision worth modeling, since delaying raises the benefit for life.

ANNUITY INCOME

An annuity converts part of a lump sum into guaranteed payments for life or a set term, which is a direct hedge against outliving your money.[3] Some can be funded with pre-tax dollars and grow tax-deferred during accumulation.[4] The costs and surrender terms vary widely, so the contract matters as much as the concept.

THREE OWNERS, THREE ANSWERS

- Saved little, sold well. A large lump sum and no pension favors converting part of it into guaranteed income, then investing the rest for growth.
- Saved well, sold modestly. Tax-advantaged accounts are already doing the work; the sale proceeds are better used filling remaining contribution room than buying a contract.
- Sold the real estate. A properly executed exchange into another investment property can defer the gain entirely, which changes the whole income picture.

PART 03



How a sale *is taxed*

However you think about selling the company, the IRS taxes it as the sale of every individual asset inside it. Each asset is treated as sold separately, even when one buyer takes everything on one day.[5]

ASSETS

Generally held more than a year and taxed at long-term capital gains rates of 0%, 15%, or 20%, which is the favorable side of the line.

INVENTORY

Held for use and turned over within the year, taxed as ordinary income at rates up to 37%. Same dollars, a much larger bill.

The temptation is to characterize everything as an asset. Overreach and the allocation looks wrong to the IRS, which slows the deal and can drive a buyer away. The buyer's incentive runs the other way: they want more of the price allocated to depreciable items they can write off. That tension is a real part of the negotiation, and sellers often trade a little on price to get an allocation that costs them less in tax.

Payment structure changes the answer

Taking the price in installments spreads the gain across years and can keep you out of the top bracket, and the contract can carry interest or contingencies. It also changes which income products fit: if payments arrive over eight years, a single-premium immediate annuity is the wrong tool. If the deal is structured as a merger rather than an outright sale, different tax treatment may apply again. Decide the income plan and the deal structure together, not in sequence.



Passing on a family business

A business is property, so transferring it for free or below fair market value falls under gift and estate tax rules.[6] While you are living, the gift tax exemption applies; after death, the estate tax does.[7] That opens the option of gifting the business in pieces over several years, each within the annual exclusion.

2026 FIGURES WORTH KNOWING

The annual gift tax exclusion is $19,000 per recipient. The lifetime estate and gift tax exemption is $15,000,000 per person, made permanent and indexed by the One Big Beautiful Bill Act, which removed the scheduled 2026 cliff that had been driving a lot of rushed transfers.

A sale during your lifetime generally triggers capital gains on the difference between adjusted basis and sale price.[8] A business passed at death generally receives a step-up in basis, so tax is measured from the value at your death rather than what you originally paid.[9] The gap between those two outcomes is often the largest single number in an exit plan, which is why the decision belongs in the plan and not in the will alone.

PART 04

SECURE Act 2.0 *as an employer*

If you are still operating, these rules cut the cost of offering retirement benefits, which is one of the few levers a small firm has for keeping the people who might eventually buy it from you.[10]

START-UP TAX CREDITS

Employers with up to 50 employees can claim a three-year credit covering 100% of plan administrative costs, capped at $5,000 a year. A further credit of up to $1,000 per employee applies to employer contributions, phasing down between 51 and 100 employees.

ROTH SIMPLE AND SEP IRAS

Both plan types can now be established on a Roth basis. Contributions are taxed in the year they are made and come out tax-free later, which suits younger employees and owners expecting higher rates ahead.

STARTER 401(K)

A stripped-down plan for employers offering nothing today. Employees are enrolled by default at 3% to 15% of pay, the annual limit matches the IRA limit, and employers make no matching or non-elective contributions. A starter safe harbor 403(b) works similarly.

AUTOMATIC ENROLLMENT

New 401(k) and 403(b) plans must enroll eligible employees at a minimum 3% pre-tax contribution, escalating 1% a year to at least 10% and no more than 15%. Employees may opt out. Businesses under three years old and those with 10 or fewer employees are exempt. This raises payroll cost, so it belongs in your exit math.

Find *support*

Small businesses are the foundation of the communities they sit in, and they deserve advice that treats them that way. We help owners map the whole exit: valuing the business, choosing a structure, timing the tax, and turning the proceeds into income that lasts.

You are an expert at your trade. This is ours. Get in touch for a complimentary conversation about your finances, your retirement, and what you want the business to become.

GET IN TOUCH

Share your story and see if we're a fit.

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Sources

1 IRS, Sale of a Business.

2 IRS, Topic No. 558, Additional Tax on Early Distributions.

3 FINRA, Annuities.

4 IRS, Publication 575, Pension and Annuity Income.

5 IRS, Publication 544, Sales and Other Dispositions of Assets.

6 IRS, Frequently Asked Questions on Gift Taxes.

7 IRS, Estate Tax.

8 IRS, Topic No. 409, Capital Gains and Losses.

9 IRS, Publication 551, Basis of Assets.

10 SECURE 2.0 Act of 2022, Division T of Public Law 117-328.

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