KENTO

WEALTH ADVISORS
OF MAEDER WEALTH GROUP

A GUIDE FOR BUSINESS OWNERS



Planning before the sale of a *California* business.

SCAN TO CONNECT

The decisions that matter most in a business sale are usually made — or missed — before the deal begins. A plain guide to the work that must be considered, coordinated, and aligned in the years and months ahead of a transaction.

Most owners plan the growth of their business carefully and the exit from it hardly at all. Surveys by Wells Fargo's wealth management group have found that roughly half of business owners have done no transition planning, and the overwhelming majority have no plan for their life after the exit — even though the general guidance is to begin three to five years before a transition.[1] That gap is not a character flaw. Running the company always comes first. But it means the owners who do plan early hold a real advantage: more options on taxes, more time to build value, and a calmer process when the deal arrives.

What follows is the sequence we walk through with owners, drawn from and aligned with the business transition planning resources of Wells Fargo Advisors — whose specialist teams we can draw on directly through our affiliation with Wells Fargo Advisors Financial Network.

01 Start with your number, not the company's.

Before anyone values the business, value the life you want after it. What do you need to net from a sale to fund retirement, family goals, and giving? That figure comes from a personal cash-flow plan — your assets, your obligations, and your goals modeled under different sale prices, tax outcomes, and timelines.[2] Knowing your number changes everything downstream: it tells you whether an offer is actually enough, whether the timeline should move, and how much of the proceeds need to work how hard afterward. If you don't know what the business is worth yet, the exercise can be run in reverse — solving for the minimum value the sale must achieve for the plan to hold.

02 Understand what the business is worth — and what drives it.

Buyers pay for cash flow, growth, and confidence in both. Revenue matters less than profitability, and profitability matters most alongside margin — a business with higher earnings and a stronger margin generally commands both a bigger number and a bigger multiple on that number.[3] Value also rises as risk falls: customer and supplier concentration, thin management, and dependence on the owner personally are the risks buyers discount hardest. Reducing the company's dependence on you is usually the slowest piece of value creation and the most important one, which is exactly why it belongs years before a sale rather than months.[3]

A preliminary valuation early in the process — through an appraiser or specialist — confirms whether the likely range meets your number, and points to what to improve if it doesn't.[4]

03 Prepare for diligence before diligence prepares for you.

Nearly every sale process finds problems; the question is whether they are found and fixed by you first.[3] The recurring ones:

- Financial records that aren't in saleable condition — owner expenses mixed into the books, records that aren't current. A CPA review, and in many cases a quality of earnings report, addresses this before a buyer's team does.
- Working capital — excess inventory and receivables rarely add to the price; lean, well-managed working capital demonstrates the company can run efficiently.

- Concentration — heavy reliance on one customer or supplier makes buyers nervous; diversifying takes time, which is another argument for starting early.
- The management team — buyers want to know who runs the company after you, and whether they'll stay. Retention and incentive arrangements for key people are part of presale work.
- Your own advisors — if the business has outgrown the CPA or attorney who served it at a smaller size, the time to upgrade to sale-experienced professionals is before the process starts, not during it.

04 Do the income-tax work before the deal structure hardens.

"How do I save on taxes in the sale" is the most common presale question, and the honest answer is that it depends on your entity structure, the deal structure, and timing — which is why this work runs through your CPA, early enough that the answers can still shape the deal.[2] One of the more meaningful opportunities is charitable: gifting business interests to charity before a sale, whether outright or through donor advised funds or charitable trusts, can produce a deduction and remove the gifted portion from the taxable transaction — but only if it's structured properly and done presale.[2]

California adds its own layer. The state generally taxes capital gains at ordinary income-tax rates, so the state's share of a sale is larger than owners from elsewhere expect. California also does not follow the federal exclusion for qualified small business stock, so a benefit that appears on a federal projection may not appear on the state one. Both points belong in an early conversation with your CPA, not a late one — and the residency question, the one owners ask about most, is large enough to get its own section.

05 Moving out of state before the sale: what it actually takes.

Every year, owners approaching a sale ask the same question: what if we move to Nevada, Texas, or Florida first? It is a fair question — California generally taxes residents on all income regardless of source, while nonresidents are taxed only on income from California sources — and on a large sale the difference is real money.[5] It is also a question the state has seen many times before, and the rules are built accordingly.

Residency is not a declaration; it is a set of facts. California's guidelines rest on where your closest connections are, and the Franchise Tax Board's published factors read like an audit checklist: where you spend your time, where your spouse and children live, the location of your principal residence, which state issued your driver's license, where your vehicles are registered, where you hold professional licenses and voter registration, where you bank, and where your work actually is. Spend more than nine months of a year in California and you are presumed to be a resident.[5] A move that appears on paper but in actuality is incomplete — the house kept, the family still here, most weekends spent back in California — is the classic losing pattern.

Sequence matters as much as substance. For a stock sale, what generally controls is where you reside when the sale happens, not when the money arrives. The state's guidance is blunt about it: stock sold on an installment basis by a California resident remains taxable by California even when the payments are received after moving away.[6] Signing first and moving after does not work.

And for many private business sales, moving does not change the result at all. California taxes nonresidents on California-source income, which includes an owner's share of income from partnerships and S corporations doing business here — and gains sourced to California follow the seller across state lines.[6] Whether your deal would even benefit from a move depends on your entity and how the transaction is structured; an asset sale and a stock sale can land in very different places. That analysis, done with your CPA, should come before any moving truck.

There is no fixed number of years that makes a move safe. What the facts need to show is that the change was genuine and complete before the transaction — and the earlier and cleaner the move, the stronger those facts are. Done honestly and sequenced correctly, it is a legitimate choice. Done as a maneuver dated weeks before a closing, it invites exactly the scrutiny it was meant to avoid.

06 Do the estate work before the letter of intent.

The estate planning window closes earlier than the deal does. Before a sale is agreed, a qualified appraisal may support valuing your business interest with discounts for lack of marketability and control — commonly cited in the range of twenty to forty percent — which allows more to be moved out of your estate through gifts or irrevocable trusts at a lower gift-tax cost.[2] Once a letter of intent is signed or an agreement to sell is in place, those opportunities are generally gone.[2] If your net worth after the sale will sit above the estate and gift exemption — or grow toward it — this is the single most time-sensitive piece of presale planning, and the reason we push the estate conversation to the front of the timeline.

> The pattern across all of this is the same: your planning options are most numerous before the letter of intent – and many of them close for good once it is signed.

07 If you have partners, reread the buy-sell agreement now.

The 2024 Supreme Court decision in Connelly v. United States changed the landscape for co-owned businesses: life insurance proceeds a company holds to redeem a deceased owner's shares can now be counted in the company's value for estate-tax purposes, without an offsetting deduction for the redemption obligation.[7] For businesses with redemption-style agreements funded by insurance, that can mean a larger taxable estate than anyone planned for. The practical response is a review — of the buy-out mechanism (redemption versus cross-purchase or hybrid), the funding, and the valuation formula, which in Connelly was badly outdated — and the general guidance is to repeat that review every couple of years and whenever ownership changes.[7] Your attorney leads this; we make sure it happens and that the estate plan is reviewed alongside it.

08 Choose the path deliberately.

A sale to a third party is only one of several transitions — family succession, a management buyout, an employee stock ownership plan, and private equity each carry different economics, timelines, and demands on the management team.[4] The right one follows from your goals, quantitative and qualitative alike: the number you

need, the timeline you want, what happens to your employees and your name on the door. Owners who define those goals clearly, often years ahead, tend to see better outcomes than owners who let the first offer define them.[4]

09 Know what happens the day after.

The proceeds need a plan of their own, agreed before the wire arrives: how the money is invested and to what purpose, banking so funds can move easily, insurance reviewed against a changed picture, and the estate plan carried through. We treat the close as the midpoint of the work, not the end of it.

SOURCES

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3 Wells Fargo Advisors, "Creating value and preparing your company for sale." wellsfargoadvisors.com/why-wells-fargo/products-services/business/presale-preparing-for-sale.htm

4 Wells Fargo Advisors, "Which transition option is right for you?" wellsfargoadvisors.com/why-wells-fargo/products-services/business/transition-options.htm

5 California Franchise Tax Board, Publication 1031, "Guidelines for Determining Resident Status." ftb.ca.gov/forms/2025/2025-1031-publication.pdf

6 California Franchise Tax Board, Publication 1100, "Taxation of Nonresidents and Individuals Who Change Residency." ftb.ca.gov/forms/misc/1100.html

7 Wells Fargo Advisors, "The Shifting Buy-sell Landscape." wellsfargoadvisors.com/why-wells-fargo/products-services/business/buy-sell-landscape.htm

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