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Comprehensive Financial Plan

Prepared for: **James & Patricia Harmon**

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Date: April 2026
Client Status: Sample / Illustrative

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Executive Summary

Big Picture

James and Patricia Harmon have spent three decades building a business and a life. As the founders of a regional specialty manufacturing company with annual revenues of $4.2 million, they have accumulated significant wealth—but most of it is tied up in an illiquid asset: the business itself. At 54 and 51, respectively, they are approaching the most consequential financial decision of their lives: the sale of their company. How they structure, time, and invest those proceeds will determine the shape of every year that follows. This plan is designed to prepare them for that transition—financially, structurally, and personally.

Over the past several weeks, we gathered detailed information about their business, personal finances, retirement aspirations, and legacy intentions. Several themes emerge:

- **Wealth concentration:** The Harmon balance sheet is heavily concentrated in the business and real estate. Until the business is sold, their financial flexibility is constrained and their wealth is not diversified. De-risking this concentration is the central challenge of the plan.
- **Business sale structure:** The manner of the sale—all-cash versus installment, asset versus stock, strategic versus financial buyer—will have profound tax and cash-flow implications. These decisions require coordination between legal, tax, and financial planning.
- **Tax planning urgency:** A business sale of this magnitude will trigger a significant capital gains event. Without proactive planning, a substantial portion of the proceeds will go to federal and state taxes. The window to plan is before the sale, not after.
- **Retirement income design:** The Harmons have not relied on traditional retirement accounts as their primary wealth-building vehicle. Post-sale, designing a sustainable, tax-efficient income stream from invested proceeds is the primary planning challenge.
- **Legacy and succession:** James and Patricia have one adult son who works in the business and one daughter who does not. How they handle the transition—including any role for the son after the sale—has both financial and family dimensions that must be addressed deliberately.

The rest of this plan moves through each dimension of their financial life with specific analysis and recommendations at every stage.

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How to Read This Plan

This report is organized into focused sections. Each section explains the relevant concept, presents the key numbers for the Harmon household, and closes with specific recommendations. Readers who want the highlights should read the Executive Summary and the *Pulling It Together* section. Those who want the full analytical picture should read sequentially.

Projections throughout this report are illustrative, not predictive. The business sale, in particular, introduces variables that no model can fully anticipate—deal timing, buyer type, negotiated terms, and market conditions all affect the outcome. The value of this plan is not in the precision of any single number but in the framework it provides for making the most important decisions well.

Personalized Overview

It has been a privilege to work with James and Patricia over the past several weeks. They came to this process with a clear-eyed view of where they are and a genuine desire to understand what comes next. Several themes shape this plan:

- James has run the business for 28 years and is genuinely ready to transition. Patricia has supported the business from its earliest days and has been increasingly involved in its operations over the past decade. Both are emotionally prepared for the sale in a way that many business owners are not.
- Their son, Michael (age 28), has worked in the business for four years. He is capable and motivated, but the business is likely to be sold to an outside buyer given its scale and the family's preference for a clean exit. Supporting Michael's transition—financially and professionally—is an important element of the plan.
- Their daughter, Sarah (age 25), is a physician in residency and financially independent. The estate plan needs to treat both children equitably without creating resentment over the business transition.
- James and Patricia describe their retirement vision as "freedom with purpose." They want to travel extensively, stay engaged in their community, and potentially invest in or advise early-stage companies. This is not a passive-retirement household.
- They are deeply averse to financial complexity for its own sake. The plan is designed to be as clear and manageable as possible, without sacrificing the sophistication that their situation genuinely requires.

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1 Net Worth and Balance Sheet

What Is Net Worth?

Net worth is the value of everything you own minus everything you owe. For most households, it is a straightforward calculation. For the Harmon household, it requires an important caveat: the largest single asset—the business—is valued at an estimate, not a market price. The figures below use a conservative trailing EBITDA multiple as the basis for the business valuation. The actual sale price could be higher or lower depending on market conditions, buyer type, and deal structure.

$$\textbf{Net Worth} = \textbf{Total Assets} - \textbf{Total Liabilities}$$

Current Net Worth Snapshot

Assets	Amount	Liabilities	Amount
Cash & Equivalents	$192,125	Business Line of Credit	$85,000
Taxable Brokerage	$612,100	Real Estate Mortgage	$320,000
James's 401(k)	$480,750	Auto Loans	$42,000
Patricia's SEP-IRA	$479,875	Other Liabilities	$18,000
Roth IRA (combined)	$77,650		
Business Interest (est.)	$1,890,000		
Primary Residence	$785,000		
Investment Property	$325,000		
TOTAL ASSETS	**$4,842,500**	**TOTAL LIABILITIES**	**$465,000**
NET WORTH	**$4,377,500**		

Table 1: Net Worth Summary — James & Patricia Harmon (Sample)

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Asset Allocation by Liquidity and Tax Status

Asset	Value	Liquidity	Tax Treatment
Cash & Equivalents	$192,125	High	Taxable
Taxable Brokerage	$612,100	High	Capital Gains
Roth IRAs	$77,650	Medium	Tax-Free
James's 401(k)	$480,750	Medium	Tax-Deferred
Patricia's SEP-IRA	$479,875	Medium	Tax-Deferred
Primary Residence	$785,000	Low	Cap. Gains Exclusion
Investment Property	$325,000	Low	Capital Gains
Business Interest	$1,890,000	Low	Capital Gains / Ord.

Table 2: Asset Allocation by Liquidity and Tax Treatment

Liquidity Profile — Before & After

The charts below classify the Harmon total asset base into three liquidity tiers. The "Before" picture reflects the current state: nearly 68% of total assets are illiquid, dominated by the business and real estate. The "After" picture reflects the post-sale portfolio once proceeds are diversified—the Low tier drops by 22 percentage points and the High and Medium tiers grow substantially.

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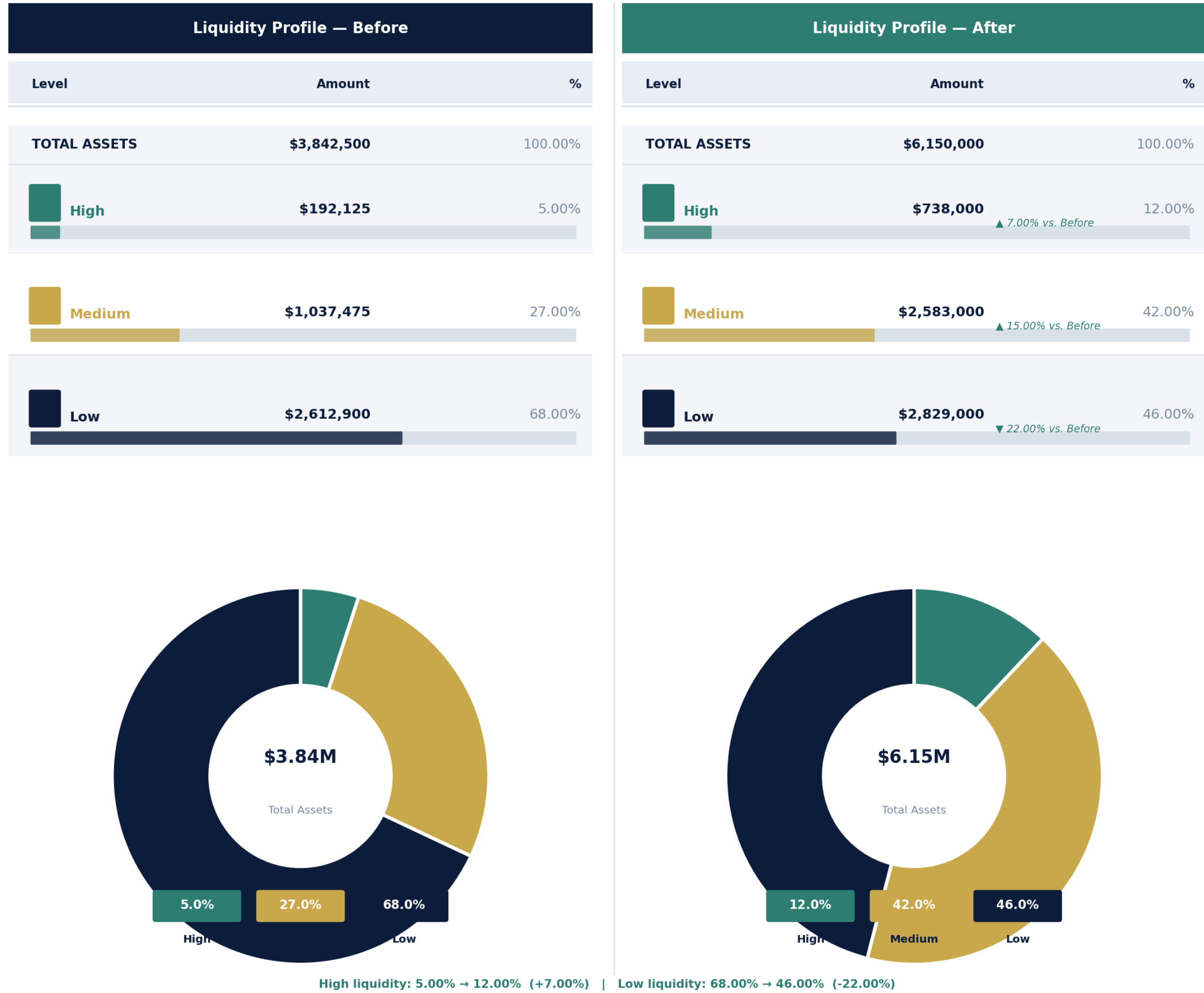

Figure 1: *Liquidity Profile — Before & After Business Sale and Proceeds Deployment*

Key Takeaway — Net Worth

The Harmon balance sheet is strong in total but highly concentrated. The business represents approximately 49% of total assets—a level of concentration that most financial planners consider a significant risk. A single adverse event (key-person departure, economic downturn, industry disruption) can impair this value materially before a sale is completed. The plan prioritizes de-risking this concentration through the sale process while maximizing after-tax proceeds.

2 Cash Flow and Lifestyle

Current Annual Income and Expenses

James draws an annual salary of $280,000 from the business, plus distributions that have averaged $120,000 per year over the past three years, for total annual compensation of approximately $400,000. Patricia draws a salary of $95,000 for her role as operations director. Combined household income before taxes is approximately $495,000.

Category	Annual Amount	% of Income
Total Household Income	$495,000	
Federal & State Taxes (est.)	-$148,500	30.0%
Retirement Savings (401k/SEP/Roth)	-$88,000	17.8%
Business Reinvestment	-$60,000	12.1%
Mortgage & RE Payments	-$38,400	7.8%
Fixed Household Expenses	-$54,000	10.9%
Variable Expenses	-$48,000	9.7%
Discretionary / Lifestyle	-$52,000	10.5%
Annual Surplus	**$6,100**	**1.2%**

Table 3: Annual Cash Flow Summary (Sample)

The modest surplus is typical for high-income business-owner households where income is largely reinvested into the business and lifestyle spending is elevated. The cash-flow picture will transform dramatically post-sale, as business reinvestment disappears and salary income is replaced by portfolio distributions and investment returns.

Post-Sale Cash Flow Planning

James and Patricia have identified a target post-sale lifestyle budget of $180,000 per year in today's dollars. This is meaningfully lower than their current spending because it excludes the $60,000 in business reinvestment and reduces certain business-related expenses. At a conservative 4.5% withdrawal rate, this target requires an investable portfolio of approximately $4 million—well within reach after the sale.

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Key Takeaway — Cash Flow

The Harmon household currently runs lean on surplus because most excess cash is reinvested in the business. Post-sale, the financial picture simplifies dramatically: a well-invested portfolio of proceeds, combined with Social Security and the investment property, should comfortably support their $180,000 target with a high degree of confidence. The critical transition period is the 18–24 months surrounding the sale, when tax liabilities, legal costs, and deal contingencies create temporary cash-flow complexity.

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3 Debt Management Strategy

Obligation	Balance	Rate	Monthly Pmt	Notes
Primary Mortgage	$320,000	3.90%	$1,850	18 yrs remaining
Inv. Property Mortgage	$0	—	—	Free & clear
Business Line of Credit	$85,000	7.25%	Variable	To be retired at sale
Auto Loans (2)	$42,000	5.75%	$1,100	Due 2027–2028
Other	$18,000	6.50%	$580	Personal loan
Total Debt	**$465,000**		**$3,530/mo**	

Table 4: Debt Summary

The debt picture is manageable and will be largely resolved by the sale. The business line of credit will be retired as part of the sale transaction. The auto loans are short-term and will roll off naturally. The primary mortgage, at 3.90%, is below current market rates—paying it off early is not financially optimal. The recommended approach is to hold the mortgage through retirement and allow the proceeds to work at a higher rate of return.

Key Takeaway — Debt

The Harmon debt load is appropriate for their income and asset level. All business-related debt disappears at the time of sale. The primary mortgage should be retained—the 3.90% rate is well below long-term portfolio return expectations, and the after-tax cost is even lower. Post-sale, James and Patricia will be effectively debt-free on a net basis within 18 months as the remaining personal obligations roll off.

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4 Business Sale and Transition Planning

The business sale is the defining financial event in this plan. Getting it right—from valuation to structure to timing to proceeds deployment—is worth far more than any other planning decision James and Patricia will make.

Business Valuation Framework

Metric	Value / Estimate
Trailing 12-Month Revenue	$4,200,000
Trailing EBITDA	$840,000
Applied EBITDA Multiple (est.)	4.5×–6.0×
Estimated Enterprise Value Range	$3.8M–$5.0M
Less: Business Debt	($85,000)
Est. Net Proceeds Range	**$3.7M–$4.9M**
Tax Basis in Business Assets	$310,000
Est. Capital Gains Exposure	$3.4M–$4.6M
Est. Federal/State Tax (combined)	$680,000–$920,000
Est. After-Tax Proceeds	**$3.0M–$4.0M**

Table 5: Business Valuation and Sale Proceeds Estimate (Illustrative)

Sale Structure Considerations

- **Asset sale vs. stock sale:** Buyers typically prefer asset sales (more favorable depreciation treatment); sellers typically prefer stock sales (capital gains rates rather than ordinary income on certain assets). The negotiated structure materially affects after-tax proceeds—this is a critical deal point.
- **Installment sale:** Spreading the sale proceeds over 3–5 years via a seller-financed note can reduce the single-year tax burden by keeping income below the top capital gains bracket each year. The trade-off is counterparty risk on the note. This option warrants careful analysis.
- **Qualified Small Business Stock (QSBS):** Depending on the legal entity structure and the nature of the business, a portion of the gain may qualify for the Section 1202 exclusion. This should be reviewed immediately with a tax attorney.

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- **Charitable strategies at sale:** Contributing appreciated business interest to a Donor-Advised Fund or Charitable Remainder Trust before the sale can reduce taxable gain while advancing philanthropic goals. Timing is critical—this must be done *before* a sale is agreed to in principle.

Key Takeaway — Business Sale

The single most impactful financial decision in this plan is how the sale is structured, not what the sale price is. A $500,000 difference in headline price matters far less than whether the gain is taxed at capital gains rates or ordinary income rates, or whether a portion can be deferred via installment. James and Patricia should engage a transaction attorney and a CPA with M&A experience before entering serious negotiations with any buyer.

5 Wealth-Building Potential and Retirement Trajectory

Post-Sale Portfolio Projection

Assuming a mid-range sale outcome of $4.2 million in net proceeds (before tax) and an effective combined tax rate of approximately 22% on the gain, estimated after-tax proceeds of $3.4 million will be added to the existing investable portfolio.

Component	Estimated Value
Existing Taxable Brokerage	$612,100
James's 401(k)	$480,750
Patricia's SEP-IRA	$479,875
Roth IRAs (combined)	$77,650
After-Tax Business Sale Proceeds	$3,400,000
Total Investable Portfolio at Retirement	**$5,050,375**

Table 6: Estimated Post-Sale Investable Portfolio

Retirement Income Sources

Income Source	Est. Annual	Begins
Portfolio Withdrawals (4.5% of $5.05M)	$227,267	Immediately
Investment Property Net Income	$18,000	Immediately
James's Social Security (age 67)	$38,400	2039
Patricia's Social Security (age 67)	$29,600	2042
Total (at full activation)	**$313,267**	**2042+**

Table 7: Projected Retirement Income Sources (Sample)

Against a target of $180,000 per year (approximately $215,000 inflation-adjusted at 2.5% over 8 years), portfolio withdrawals alone exceed the target from day one. Social Security adds a meaningful additional layer of income security in their late 60s.

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Key Takeaway — Retirement Outlook

The Harmon retirement picture, post-sale, is very strong. The combination of a well-invested portfolio of proceeds plus existing retirement accounts plus Social Security creates multiple overlapping income streams—exactly the kind of redundancy that makes a retirement plan resilient to unexpected events. The primary planning challenge shifts from wealth-building to wealth-management: how to invest, withdraw, and structure income most efficiently over a 30–40 year retirement horizon.

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6 Risk Management and Insurance

Life Insurance Review

	Current Coverage	Recommended	Gap	Note
James	$1,500,000	$2,500,000	$1,000,000	Key-person risk pre-sale
Patricia	$750,000	$1,000,000	$250,000	Review post-sale

Table 8: Life Insurance Gap Analysis

An important nuance: James's life insurance serves a dual purpose pre-sale—personal protection and business continuity (key-person coverage). After the sale, the business-continuity need disappears and the personal coverage need also decreases as the portfolio grows. Both policies should be reviewed and likely reduced after the sale is complete.

Disability and Key-Person Insurance

James currently carries no individual disability insurance—his income protection has been the business itself. This is a common but significant gap for business owners. If James were disabled before the sale, the business's value could be impaired precisely at the moment the family needed it most. A short-term disability bridge policy should be obtained immediately.

Property and Liability

With a net worth approaching $4.4 million and growing, personal liability exposure is a meaningful concern. The Harmons currently carry a $1 million umbrella policy—appropriate but worth reviewing. As the investable portfolio grows post-sale, increasing the umbrella to $3–$5 million is recommended.

Key Takeaway — Risk Management

The most urgent insurance action is a disability bridge policy for James between now and the completion of the sale. His ability to operate the business and close the transaction at full value is the single most important financial asset in the household right now—and it is completely unprotected. This is a fixable gap and should be addressed within 30 days.

7 Taxes and Withdrawal Strategy

The business sale will create the largest single-year tax event in James and Patricia's financial lives. Pre-sale tax planning is the highest-priority action item in this plan.

Tax Status — Before & After

The charts below illustrate the current tax composition of the Harmon portfolio and the projected picture after the sale proceeds are invested and the Roth conversion strategy is implemented. The transformation is dramatic: the Taxable bucket drops from 73% to 54% as business proceeds are reinvested in diversified vehicles, while the Tax-Advantaged bucket grows from just 2% to 14% through aggressive Roth conversions in the lower-income years following the sale.

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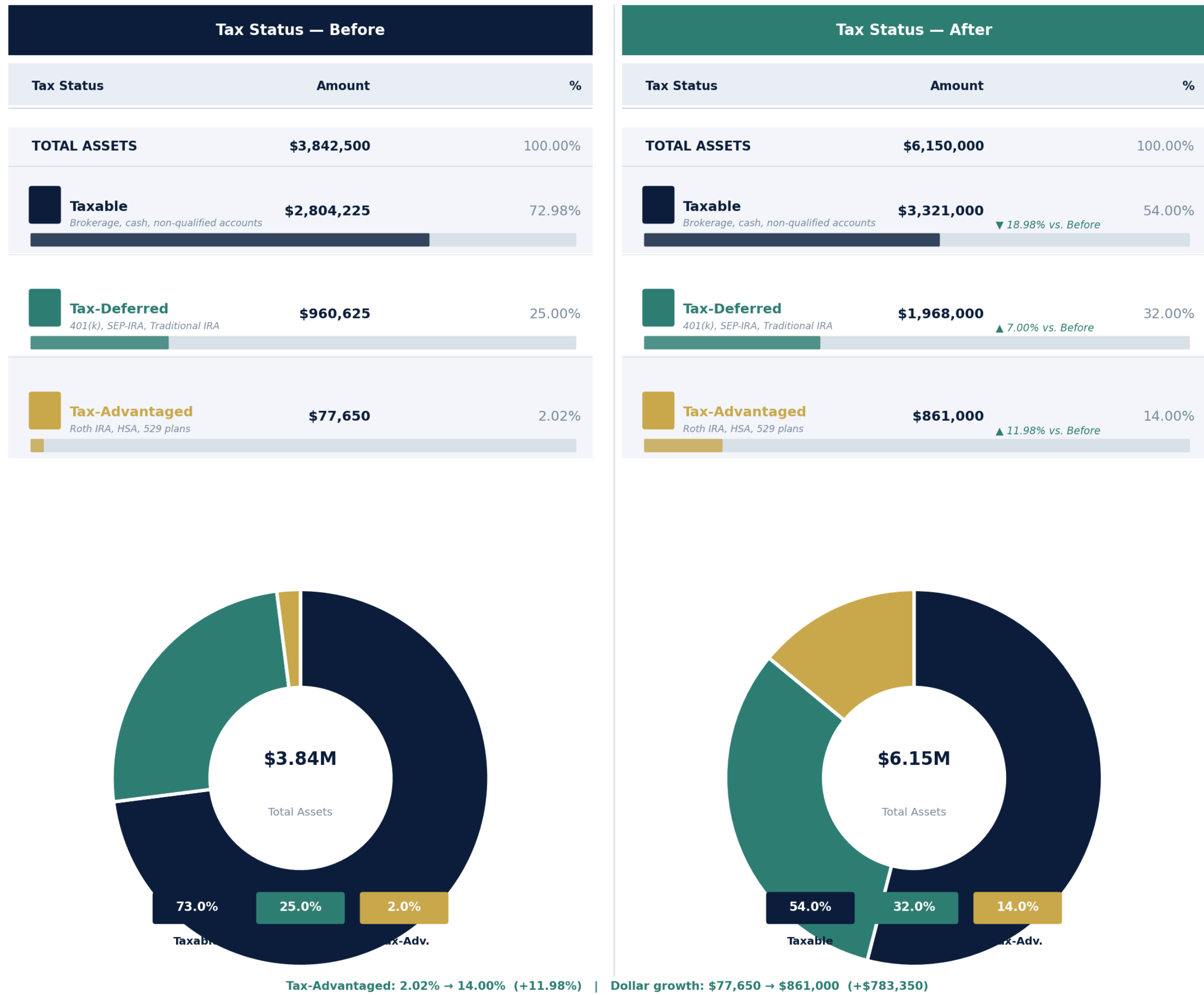

Tax Status Analysis — Before & After

Tax Status — Before

Tax Status	Amount	%
TOTAL ASSETS	$3,842,500	100.00%
Taxable *Brokerage, cash, non-qualified accounts*	$2,804,225	72.98%
Tax-Deferred *401(k), SEP-IRA, Traditional IRA*	$960,625	25.00%
Tax-Advantaged *Roth IRA, HSA, 529 plans*	$77,650	2.02%

Tax Status — After

Tax Status	Amount	%
TOTAL ASSETS	$6,150,000	100.00%
Taxable *Brokerage, cash, non-qualified accounts*	$3,321,000 ▼ 18.98% vs. Before	54.00%
Tax-Deferred *401(k), SEP-IRA, Traditional IRA*	$1,968,000 ▲ 7.00% vs. Before	32.00%
Tax-Advantaged *Roth IRA, HSA, 529 plans*	$861,000 ▲ 11.98% vs. Before	14.00%

Figure 2: *Tax Status of Assets — Before & After Sale and Roth Conversion Strategy*

Pre-Sale Tax Strategies

- **Maximize retirement contributions before sale:** James should maximize his 401(k) contribution ($30,500 with catch-up) and Patricia her SEP-IRA (up to 25% of net self-employment income) in the year of the sale to reduce AGI.
- **Donor-Advised Fund:** Contributing $150,000–$200,000 of appreciated business interest to a DAF before the sale agreement is signed can generate a large charitable deduction in the high-income sale year while directing funds to causes they care about over time.

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- **Installment sale analysis:** Spreading the gain over 5 years at $600,000–$800,000 of recognized gain per year keeps the Harmons in the 20% long-term capital gains bracket (rather than triggering the 23.8% rate with the NIIT surcharge) and avoids the Medicare surtax threshold on investment income.

Post-Sale Roth Conversion Opportunity

The year or two following the sale—particularly if the Harmons have no wage income—represents a unique opportunity to convert large amounts from the traditional retirement accounts to Roth at favorable rates, filling the 22% or 24% bracket without triggering the higher rates that will apply once Social Security and RMDs begin.

Metric	Estimate
Annual Roth Conversion Target (yrs 1–5)	$120,000–$150,000
Est. Tax Cost per Year (22–24% bracket)	$26,400–$36,000
Total Deferred Accounts (401k + SEP)	$960,625
Est. RMD Reduction at Age 73	$35,000–$45,000/yr
Estimated Lifetime Tax Savings	$180,000–$280,000

Table 9: Post-Sale Roth Conversion Opportunity (Illustrative)

Key Takeaway — Taxes

For the Harmon household, tax planning is not a supporting role—it is the main event. The difference between a well-structured sale and a poorly structured one could be $500,000 or more in after-tax proceeds. And the difference between an active post-sale Roth conversion strategy and doing nothing could be another $200,000 in lifetime tax savings. These decisions compound over decades. Engaging a CPA with business sale and Roth conversion expertise is the most important professional relationship to establish in the next 60 days.

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8 Estate and Legacy Planning

The business sale materially changes the Harmon estate picture. A household that was primarily an operating business becomes a liquid, investable estate—and with that liquidity comes both new estate tax considerations and new opportunities for intentional legacy planning.

Estate Planning Document Inventory

Document	Status	Action Needed
Will (James)	In Place (2019)	Update pre-sale
Will (Patricia)	In Place (2019)	Update pre-sale
Revocable Living Trust	In Place	Review beneficiaries
Healthcare Proxy	In Place	Confirm current
Durable Power of Attorney	In Place	Confirm current
Buy-Sell Agreement	In Place	Review for sale
Beneficiary Designations	Partial	Update all accounts
TOD on Taxable Brokerage	Not in place	Add immediately

Table 10: Estate Planning Document Inventory

Key Estate Planning Priorities

- **Update estate documents before the sale.** The sale changes the nature and composition of the estate significantly. Wills and trust documents written when the business was the primary asset may no longer reflect current intentions.
- **Equitable treatment of Michael and Sarah.** Michael has worked in the business; Sarah has not. If the business is sold to an outside buyer, Michael may receive a retention bonus or transition role as part of the deal. The estate plan should be reviewed to ensure that any differential treatment of the children reflects intentional decisions, not oversight.
- **Federal estate tax threshold.** With a projected post-sale net worth of \$5.5M–\$6M, the Harmon estate approaches—and with growth may exceed—the federal estate tax exemption, particularly after the scheduled TCJA sunset. A trust strategy should be evaluated before the sale closes.

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- **Charitable giving at sale.** The Harmons have expressed interest in creating a lasting philanthropic presence in their community. A Charitable Remainder Trust funded with pre-sale business interest, or a significant contribution to a DAF at closing, can accomplish this goal while reducing the taxable gain.

Key Takeaway — Estate Planning

The business sale is both an estate planning event and a financial planning event. The time to address estate documents, trust structures, and charitable strategies is *before* the sale closes—not after. Once proceeds are in hand, many of the most tax-efficient strategies are no longer available. James and Patricia should schedule an estate attorney meeting within the next 30 days.

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9 Pulling It Together: Actionable Steps & Ongoing Support

Immediate Next Actions (0–30 Days)

1. **Engage a transaction attorney and M&A-experienced CPA.** These two professionals, working alongside the financial planner, form the core advisory team for the sale. Neither should be hired without experience in business transactions of this type and size.
2. **Obtain a disability bridge policy for James.** This is the most urgent risk management gap. His ability to close the sale at full value depends on his health and continued involvement.
3. **Add a TOD designation** to the taxable brokerage account.
4. **Schedule an estate attorney meeting.** Bring the existing trust documents, wills, and a summary of all accounts and the anticipated sale structure.
5. **Explore QSBS eligibility.** Confirm with the CPA whether the business qualifies for the Section 1202 gain exclusion. This one check could save hundreds of thousands of dollars.

Short Term (3–12 Months)

1. **Establish a Donor-Advised Fund** and consider a contribution of appreciated business interest before the sale agreement is executed. The charitable deduction in the sale year is highly valuable.
2. **Analyze the installment sale option** with the CPA. Model the tax outcome of a 5-year installment note versus an all-cash close at various sale prices.
3. **Maximize retirement contributions** in the sale year: James's 401(k) at full catch-up, Patricia's SEP-IRA at the maximum allowable.
4. **Update all beneficiary designations** on the 401(k), SEP-IRA, Roth IRAs, and life insurance policies.
5. **Develop a proceeds deployment plan** before the sale closes. Define the target asset allocation, the role of the investment property, and the timeline for deploying liquidity.

Medium Term (1–3 Years)

1. **Implement Roth conversion strategy.** Begin annual conversions of $120,000–$150,000 from the 401(k) and SEP-IRA into Roth accounts in the years following the sale, before Social Security and RMDs begin.

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2. **Evaluate the investment property.** Determine whether to hold, rent more actively, or sell. A 1031 exchange into a passive real estate vehicle (DST or UPREIT) may simplify management while maintaining real estate exposure.
3. **Review the umbrella liability policy.** Increase to $3–$5 million to reflect the grown investable estate.
4. **Revisit the retirement income plan annually.** As interest rates, market returns, and Social Security projections evolve, the withdrawal rate and sequence should be recalibrated.
5. **Define Michael's transition support.** Whether through a direct gift, a discounted loan, or an employment arrangement with the buyer, clarify how the family will support Michael's next chapter.

Ongoing Collaboration

The Harmon plan is a living document. The sale process itself may take 12–24 months and will surface new decisions at every turn. The goal is not a plan that is perfect on day one but a framework and a team that can adapt as conditions evolve—moving James and Patricia from business owners to financially independent retirees with clarity, confidence, and as much after-tax wealth as the law allows.

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