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Keeping it in the Family Keys to Succession Planning

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After pouring years of blood, sweat and tears into building your business, it would be a shame to lose it, fail to maximize your financial return, or fail to ensure its longevity after you are gone. As we will demonstrate in this article a little bit of planning can go a long way!



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Very successful business owners often overlook the need for succession planning. Managing and tackling short-term obstacles can consume the majority of a business owner's time, leaving succession planning stuck on the to-do list. Once you do decide to retire or you are in the unfortunate situation where you or a business partner become seriously disabled or pass away, a succession plan is nowhere to be found. To ensure continuity for your business, as well as potentially save your heirs from paying a hefty estate tax (a top federal tax rate of 40% plus applicable state taxes!) to the government upon your death, it is paramount to have a succession plan in place.

A solid succession plan addresses legal, managerial, financial and ownership issues. Depending on your goals and objectives, your succession plan may address a gradual transition in management and ownership beginning today, or it simply may define the process to be undertaken in a crisis whereby you no longer could perform your duties

Ensuring that you have an advisory team in place is a good initial step in the process. With seasoned advisors, such as an attorney, commercial banker, CPA, insurance expert and business valuation expert, creating a succession plan is not as daunting a task as many anticipate. Moreover, having a plan in place can often times end up costing less than a potential dispute down the road.

Some components to consider for your succession plan may include:

❖ **BUY-SELL AGREEMENT:**

If there is more than one shareholder (or member/partner), one of the most important documents you can have is a buy-sell agreement between the owners. A buy-sell agreement provides for the continuity of your business if a shareholder is disabled or passes away. The agreement provides a process for the other shareholder(s) to purchase sufficient shares from you or your estate to operate the business. This can be especially important in a company with two owners, each holding a 50% interest. Without both votes, no decisions can be made. The agreement can include salary and distribution provisions to ensure that even a disabled shareholder (and his/her family) is treated fairly. Once a buy-sell agreement is in place, it is critical to fund this transaction to ensure that the transfer of ownership can occur.

❖ **LIFE INSURANCE:**

A good way to fund a buy-sell agreement is for the company to purchase life insurance on each shareholder for which the company is the beneficiary. In case of a death of an insured shareholder, the company can use the proceeds from the life insurance policy to buy back the shares from the decedent's estate. As a result the business



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can compensate the family for the shareholder's ownership share in the company while continuing to operate with the remaining shareholders in place.

❖ **KEY-PERSON INSURANCE:**

If you perform valuable services for the company, it may be difficult to continue operating the business in your absence. Key-person insurance, with the company as the beneficiary, can provide funds to retire bank debt, hire a replacement executive, fund temporary losses, or even wind down operations without having to tap into any personal guarantees or other personal assets.

❖ **GROOM A SUCCESSOR:**

Preparing one or more people in your company to take over your duties in case of your retirement, disability or demise is an ideal option. Granted, however, grooming your successor(s) is a long-term process, requiring a time commitment on your part. This is one of the most important parts of planning for the longevity of your business, but unfortunately, is oftentimes overlooked.

When it comes time to transfer the business and implement the succession plan, there are numerous options available to business ownership, including:

❖ **GIFT SHARES OF THE COMPANY:**

An important goal of succession planning is to reduce the value of your business ownership interest so that, upon your death, the beneficiary(ies) of your estate will not be burdened by a large estate tax. Recent legislation increased the lifetime gift exemption to \$5.43 million per individual for 2015 (indexed annually for inflation). Business owners with estates that are greater than this exemption should consult with an estate planning attorney to develop a plan to gift shares of the company and avoid a large estate tax. Moreover, the lifetime exemption and estate tax laws have undergone many changes in the last several years and it remains uncertain what changes, if any, will be made by future congressional or presidential actions.

By gifting minority interest shares of the company to your heirs, you can take advantage of minority and marketability discounts on the valuation of the shares. Hence, you can reduce or eliminate the taxes associated with the gift(s).

❖ **ESTABLISH AN EMPLOYEE STOCK OWNERSHIP PLAN (ESOP):**

Selling shares in your company to your employees via an ESOP not only provides diversification of your assets with tax benefits, it can increase employee morale and can provide for management succession. Moreover, it provides a mechanism for the business owner to sell the business without having to go through the process of marketing the company and going through deal negotiations.



❖ **ATTRACT FRESH EQUITY:**

You may be able to attract equity capital into your business in exchange for a piece of the pie. For growth businesses, equity investors not only can provide a way for you to diversify your net worth, but their deeper pockets and knowledge often can increase your company's growth-rate. In today's low interest rate environment, private equity and venture funds are eager to deploy capital into growing businesses, which can be an attractive way for a business owner to either partially or fully exit the firm.

❖ **INCENTIVE COMPENSATION PROGRAMS:**

By offering an incentive compensation program that incorporates stock options or Phantom Stock, you may be able to attract key executives, as well as retain your management, sales and product teams.

❖ **SELL THE COMPANY:**

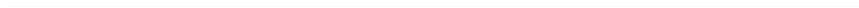
When you are ready to retire or exit the business, you may want to think about selling to a strategic or financial buyer. However, you must be aware of the long life cycle required to sell a business and the tax implications associated with the sale structure.

Taking action today to prepare for retirement, disability or death is an important part of keeping your business healthy and preserving wealth in your estate. In order to maximize your goals for your company and your estate, both financial and otherwise, you need to understand the value of your company and net financial returns under the various options, as outlined above.

[SP&H Founders](#)
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SP&H can value your company under various scenarios and assumptions to help you determine which path has the potential to maximize your return on investment and sweat equity.

For more information on how to structure a solid succession plan, please contact Tom Pastore at tpastore@sphvalue.com or Henry Kaskov at hkaskov@sphvalue.com.



Friend of the Firm - Peter Resnick



Peter has recently launched his new business, XB Logistics, a third party logistics company(3PL) that specializes in warehousing and order fulfillment services such as pick, pack and ship solutions. Using a unique, but time-tested approach, Peter is able to provide a world-class distribution solution at 30% savings over conventional 3PLs!

Using this unique business model enables customers to:

- **Avoid** the impact of future legislated minimum wage increases and rising health care costs
- **Deliver** 30% savings on manually intensive value-added services such as repacking, labeling, kitting, POS/POP displays, and light assembly
- **Defer** duties on imported products
- **Potentially avoid** California nexus issues
- **Utilize** a warehouse management system with 24 x 7 real-time access to inventory levels, order status, shipment tracking information and that seamlessly integrates with dozens of e commerce shopping cart platforms.

[SP&H Facebook Page](#)

For more information about XB Logistics, please check out its website www.xblogistics.com. [Click here for video about XB Logistics.](#)

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Congratulations!

Please join us in congratulating SP&H team members Alec Baillie and Henry Kaskov on recently receiving their Accredited Senior Appraiser (ASA) designation.



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Henry has been with the firm since 2010 and is a Senior Associate, Manager in our Chicago office.
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Alec and Henry specialize in valuing closely held companies for transactions, tax reporting, financial reporting, and litigation purposes.

SP&H Classic Rock Business Mixer

March 19, 2015
Black Rose Tavern

Live Classic Rock Music Featuring the Nevin Sanli Band!



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Quote of the Day

"The only way to do great work is to love what you do".

Steve Jobs

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