Planning Strategies Business Owners Can’t Live Without

Protecting Your Business from Common Planning Mistakes

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Common Concerns

1. What will happen to my business if something happens to me?
2. Frustration over paying too much taxes
3. Angered by constant increase in benefit costs
4. Unsure whether my business is in a solid position
5. Is my business worth what I think it is?
6. How do I keep vital employees?
What percent of family businesses survive generation transitions?

- Less than 33% from 1st to 2nd Generation
- 50% from 2nd to 3rd Generation

What percent of start-up entrepreneurs intend to purchase and existing business?

Only 3% of start-up entrepreneurs acquire existing business. So, out of 100 people who have decided to be their own boss, only 3 of them would be in the market to buy yours.

Source: Business Creation in the US, Small Business Administration, Office of Advocacy Report, July 2010
On average, how much does it cost a business to replace a key employee?

- **20% of annual salary for mid-range positions.**
- **16% of annual salary for high-turnover, low-paying jobs.**
- **Up to 213% of annual salary for highly educated executive positions.**

Source: https://www.zanebenefits.com
What Will You Learn?

1. Common personal and business mistakes and how to avoid them
2. How to make your business work for you
3. Education and awareness
4. Understand the risks and benefits of business planning
Common Mistakes in 4 Key Areas

- Retirement Planning
- Succession Planning
- Key Employee Planning
- Estate Planning
Retirement Planning
Retirement Planning

1. What is your strategy?
2. How much income will you need in retirement?
3. How do you deal with taxes?
Is Your Business Your Retirement Plan?

1. Many business owners put all their money back into the business

2. It’s like owning one stock

3. What if the business is not worth what you think it is? What options do you have?
1.
Do you have, or expect to have, any “common law employees”?

2.
Do you want your employees to be able to contribute their own money too?

3.
Which is a higher priority – maximum contributions or simple administration?
✓ Your plan not only helps secure your future—it may be the primary way your employees can secure theirs.

✓ Offering a plan helps make your business competitive when it comes to attracting and keeping good employees.

✓ There are potential tax benefits to offering a plan, because plan contributions for the business owner are deductible as a business expense.
Transfer the business to family
Consult
Sell the business outright
Keep working – Installment sale

Four Options for Retirement
4 Types of Retirement Plans for Small Businesses

1. Simplified Employee Pension Plan (SEP IRA)
2. Savings Incentive Match Plan for Employees (SIMPLE IRA)
3. Self-Employed 401(k) plan
4. 401(k) plan (better for larger companies given setup costs, administration, fiduciary responsibilities)
Plan Management

How and when you use your accounts can have a big impact on your overall retirement picture.

Make sure you’re creating the right plan that best meets your needs.
Estate Planning 101

“You can’t take it with you”
Estate Planning Concerns for Businesses

1. Uninvolved family members and equalization of estate
2. Would your survivors be able to continue the business successfully?
3. Would they know what needs to be done to settle your estate?
4. What effect do you think that would have on your family’s lives?
5. How will your heirs cover any taxes that are due?
6. Will they be forced to sell the business or other assets?
Alwin Ernst

Founder of what would become Ernst & Young died with an estate over $12 million. His heirs ended up having to pay 56% of it during the settlement.

JD Rockefeller

The family paid 64% of his $26 million estate

Elvis Presley

His family paid 73% of his $10 million dollar estate

The Wrigley Family

Owned the Cubs for decades & built Wrigley Field had to sell the team after 3 years of fighting with the IRS to pay the $40 million owed in Estate Taxes
# History of Estate Tax

Estate, Gift, and GST Tax Rates and Exemptions under Current Law, 2007 – 2017

<table>
<thead>
<tr>
<th>Year</th>
<th>Estate and GST tax rate</th>
<th>Gift tax rate</th>
<th>Estate and GST tax exemptions</th>
<th>Lifetime gift exemptions</th>
<th>Annual gift exemptions</th>
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<td>2017</td>
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<td>$5.49 Million</td>
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Source: Internal Revenue Code

(a) The exemption, which was $10,000 in 1998, is indexed for inflation in $1,000

(b) Executors can elect to apply the EGGTRA rules, which repealed the estate tax for 2010, but otherwise the 2011 parameters apply
3 Main Goals of Estate Planning

Who, What, When and How?

1. Put in place plans that control the distribution of your assets

2. Implement strategies designed to reduce taxes and estate settlement costs

3. Determine how your estate (and heirs) will pay any remaining debts, taxes and expenses.
Tools of the Plan

1. Decide who will inherit your personal and business assets
2. Formalize the arrangements for that distribution to take place

**Wills**
Legal declaration of how you want your assets to be distributed when you die.

**Trusts**
A legal entity that can hold title to property for the benefit of one or more people.

**Life Insurance**
Can provide the cash your family needs to help maintain their lifestyle and pay estate taxes and settlement costs.
How vital are they to your business?

Key Employee Planning
What Does Your Normal Day Look Like?

Who do you see around you?

Take your self out of the picture for a day or a week – now who do you see keeping things running smoothly?

Who Are Your Key Employees?

• Direct impact on the value of your business
• Experience, skills and knowledge that would be hard to replace
• Important role in the future of your company

Bottom line: losing a key employee would be a significant financial loss
3 Main Types of Key Employee Incentives

01 Deferred Compensation Plans

02 Split-Dollar Plans

03 Executive Bonus Plans

Why Consider These Plans?

• Buy loyalty
• Retain top talents
• Protect your business from loss
• Give you flexibility
• Provide your top staff members and yourself with key employee benefits helps ensure a healthy, happy work environment
I can see the light at the end of the tunnel

Succession Planning
Why Plan?

Stakes are high when it comes to succession planning for your business.

Create Opportunities

☑ Define and address a company’s strategic goals and challenges
☑ Identify the qualifications and expertise needed to meet current and future leadership needs
☑ Provide for long-term business value.

Thoughtful Planning

☑ Circumvent pressure and reduce uncertainty for business owners and families
☑ Strengthen stakeholder confidence
☑ Improve employee morale
☑ Prevent significant business interruptions
Defining Your Exit Strategy

Assess all the possibilities and choosing the best outcome for you when it’s time to step down.

50-70% of family businesses will not survive the transition to the second generation. Jumps to almost 90% in the transition to the third generation.

7/10 small business owners have given serious thought to who will run their business in the future, yet only 32% have a formal business succession plan.

Source “Don’t Let a Weak Succession Plan Become a Wealth Destroyer” Kathy F. Hartin, National Underwriter, 2007
Why Do Businesses Struggle with Succession?

- 25% Referenced inadequately prepared heirs
- 60% Cites breakdown in trust and within the family unit
- 10% Indicated issues related to transfer taxation
- 12% Pointed to lack of family mission or purpose that clearly defines use of family wealth

Source: Succession, tax and estate planning issues in transferring a family-owned business, Leonard, Street and Deinard, 2010. All rights reserved.
5 BASIC STEPS TO KNOW
Events That Trigger a Succession

- Death
- Disability
- Retirement
- Walk away of owner
- Alienation
- Divorce

1. Determine Your Objectives
2. Have the right team
3. Value Your Business
4. Design a Plan
5. Put the Plan into Action!
The Four Dimensions of Succession

1. Succession in Leadership
   Who should lead the business?
   Family employment and compensation?
   Define and preserve family legacy and value
   Common values and level of commitment?
   Family philanthropy?

2. Succession in Ownership
   Who should own the business?
   How should governance be structured?

3. Transfer wealth to next generation
   Beneficiaries: fair vs. equal?
   Understanding tax and legal consequences
   How much to retain for the current generation?
What Are Your Options?

01. Sell the Business
02. Merge the Business
03. Shut the Business Down
04. Stay the Same
Don’t wait too long to begin

Work with a professional to review the facts about your business and your needs
Start putting your business plan in place now. Protect against the unexpected.
“If you don’t know where you’re going, any road will get you there.”

— Lewis Carroll

Thank you!

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