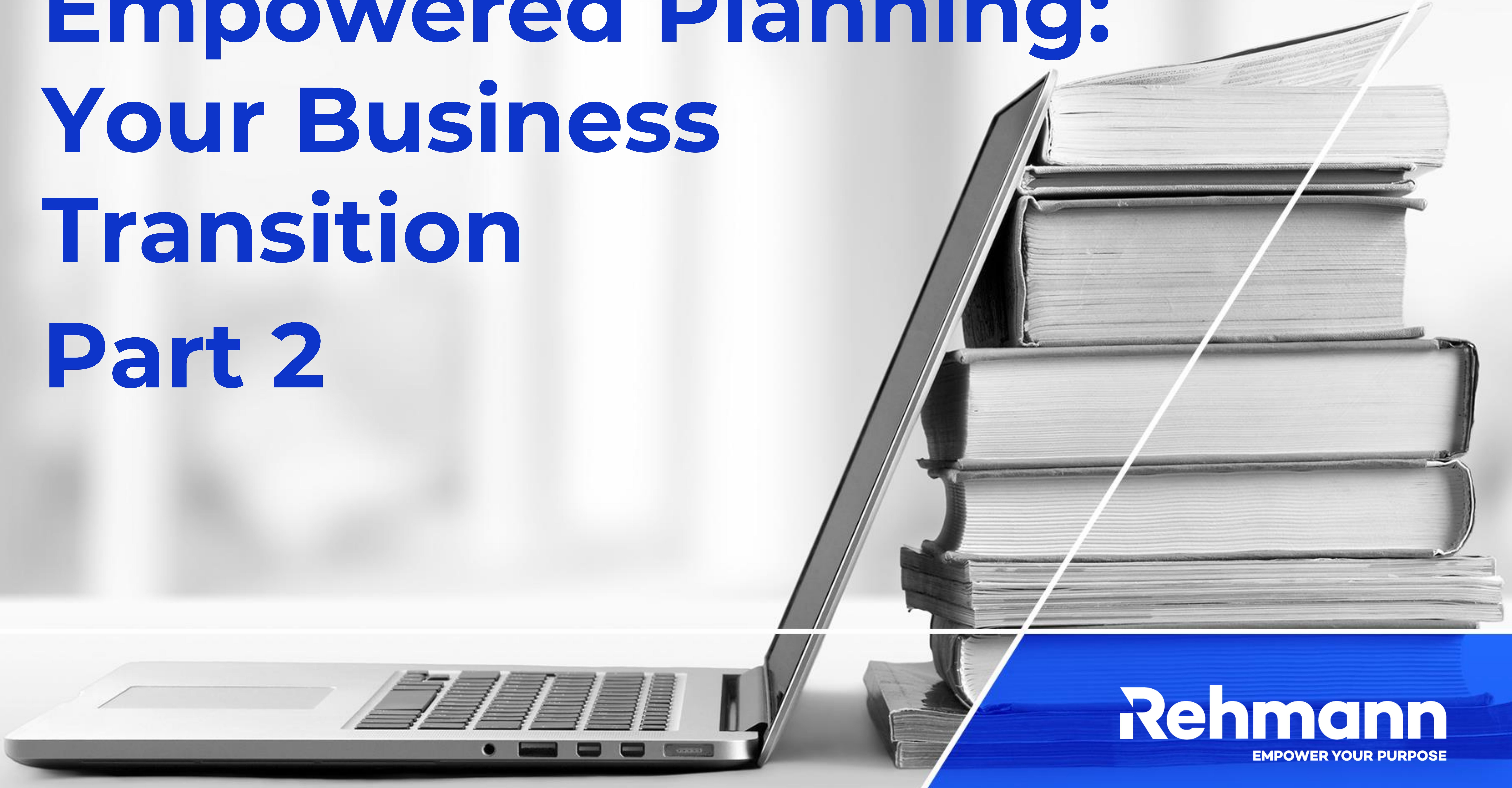
Empowered Planning: Your Business Transition

Part 2



Rehmann
EMPOWER YOUR PURPOSE

Today's Agenda

Using valuation to meet your transition goals

Gifting your business

Post-transition planning

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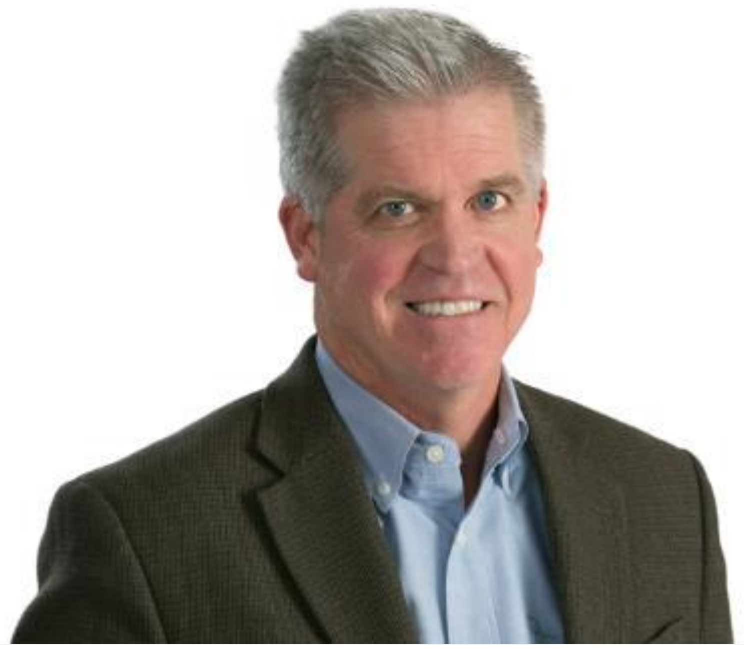

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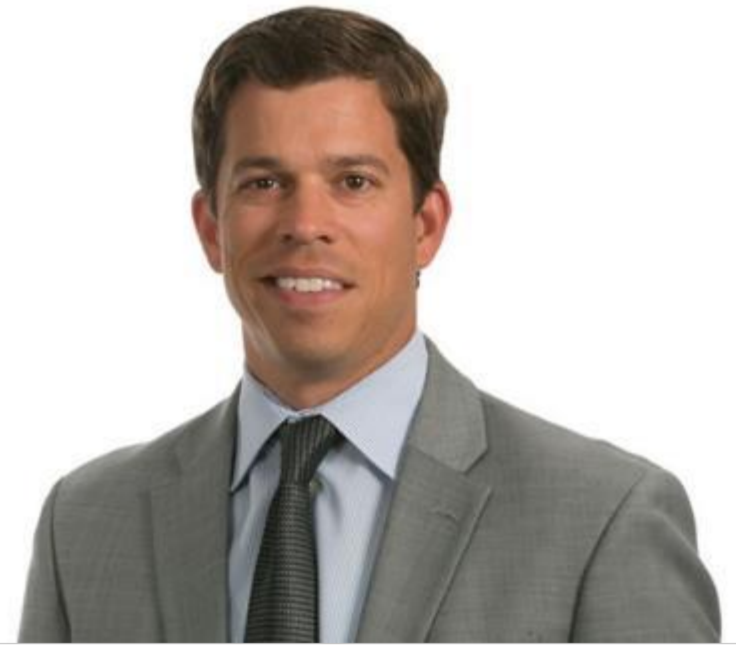

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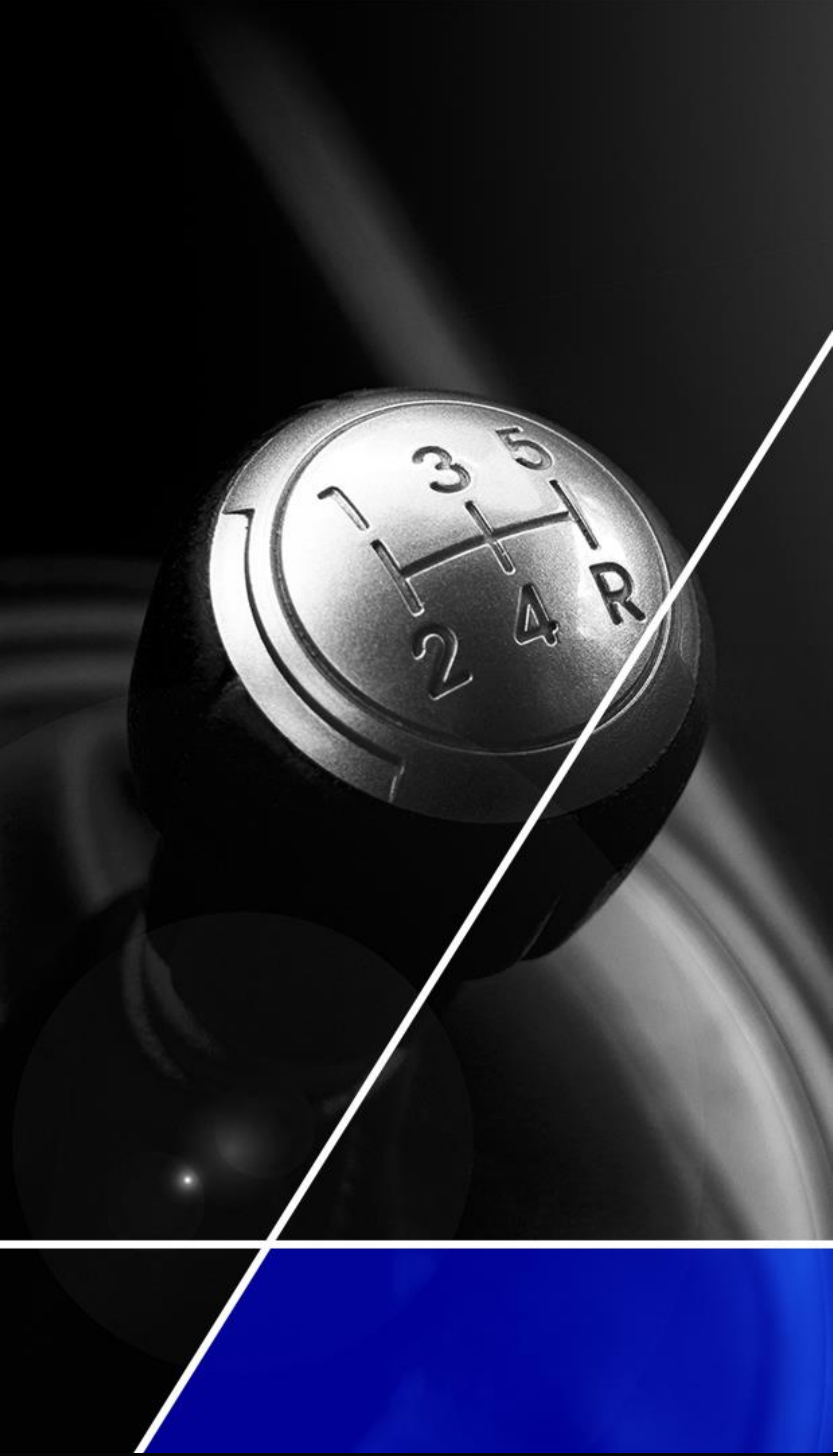
Using valuation to meet your transition goals

Topics

- Driving value
- Cash flow and risk
- Minimizing taxes
- Discounting

How to drive value?



- Looking for the right buyer …
  and more importantly the **right type of buyer**
- Saleable business or a job?
- No surprises
- No skeletons in the closet
- TRUE level of income and expenses

Cash flow and Risk

- The two drivers of value
- Lever effect
- Personal expenses
- Officer compensation
- Customer concentration
- **KEY PERSON RISK**
- Risk drives required return
- Spectrum of risk

Minimizing Taxes

Depends on what sort of transaction

GIFTING / MORE COMPLEX ESTATE PLANNING

- Discounts
- SLATs, GRATs, and other alphabet soup

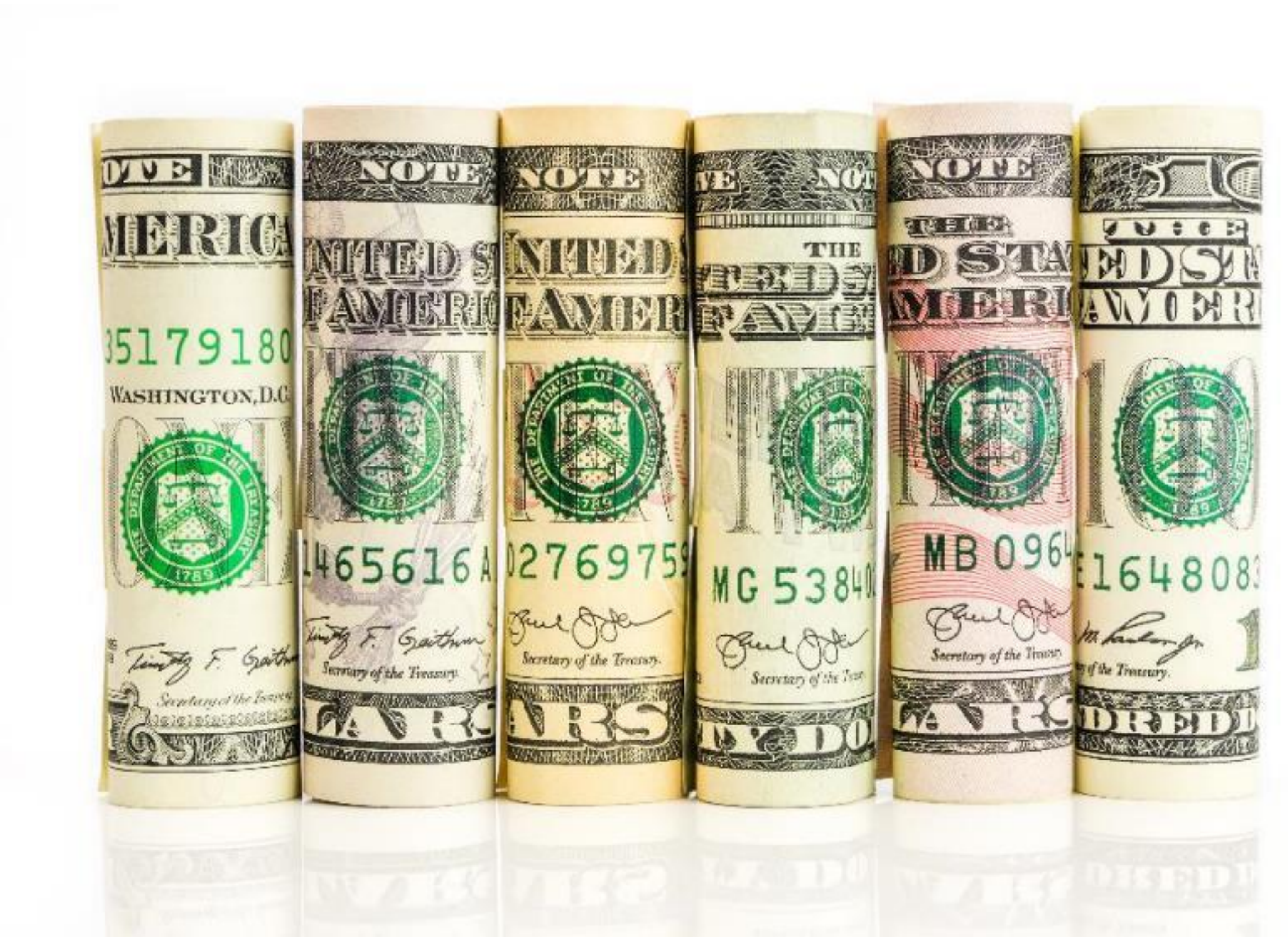
SALE

- Stock sale vs asset sale
- Cash at closing vs over time
- Consulting agreement
- Non-compete
- Personal Goodwill
- C Corp vs S-Corp / LLC / Partnership

Discounting

REALITY, not just a tax-savings construct

- Control
  - Discount for Lack of Control
    - Closed End Funds
  - Control Premium
    - M&A



Marketability

- Pre-IPO Studies
- Restricted Stock Studies
- Protective Puts

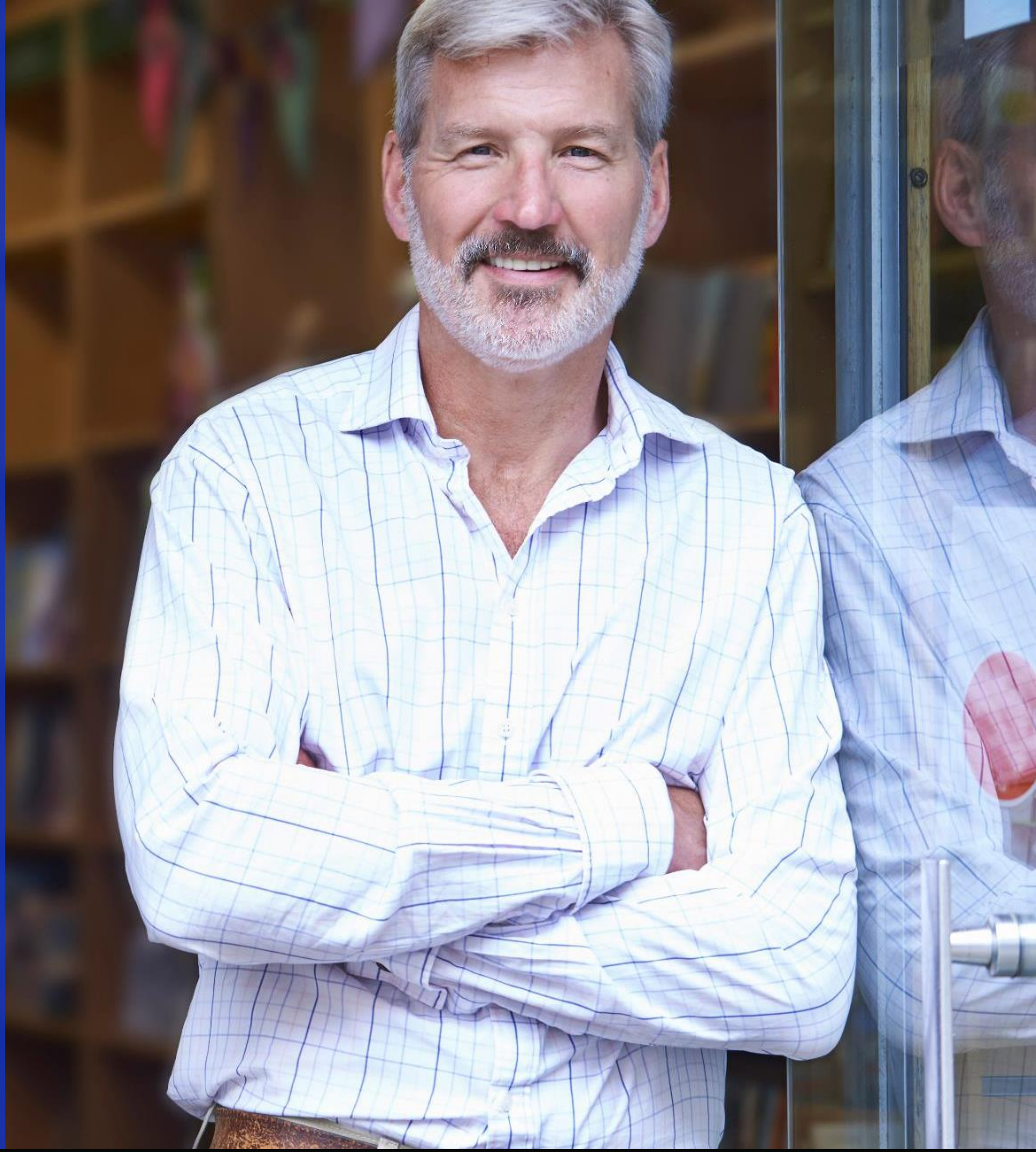
Estate Planning Considerations

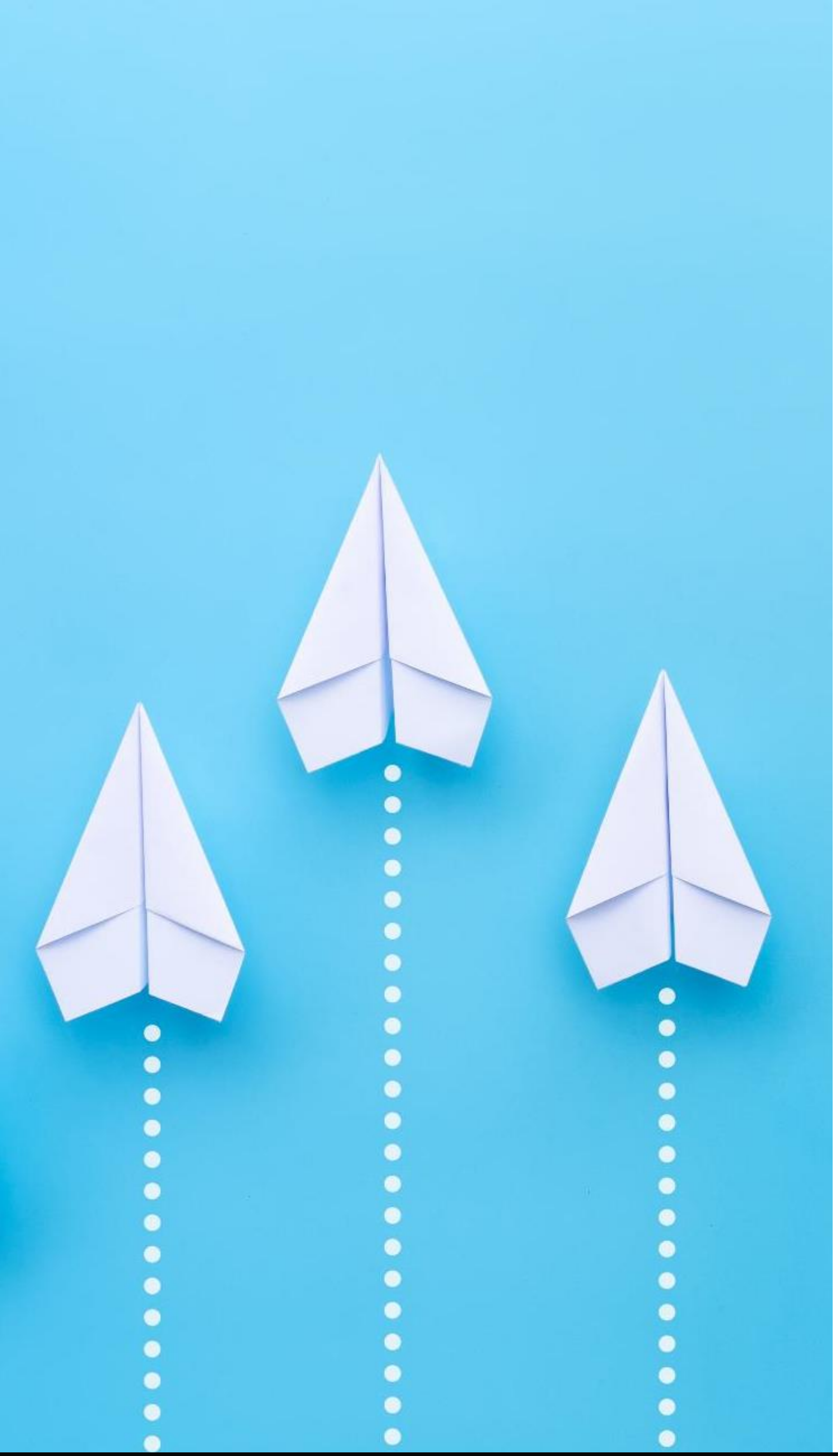
Estate Planning Considerations

- If the business will remain within the family after the death of the current owners, careful planning should take place well in advance of the death.

- Every situation has its own unique fact pattern that will often have significant influence on how the plan is designed and implemented.

- While every situation is unique, there are several characteristics that may be present.





Factors that may have significant impact on the planning process

- Size of the business in terms of value.
- Relative value of business interest compared with the overall size of the estate.
- Number of family members working in the business and number not in the business.
- Quality of non-family executives in the business and likelihood they will stay after the transfer of the business.
- Overall liquidity of the estate.
- Type or types of business entities involved, i.e. C Corps, S Corps, Partnerships.
- Which family members will own and run the business after the death.

Planning after the sale

Planning after the sale

- What are the opportunities and obstacles that someone may face during this transition?
- Is the financial impact of selling in-line with your expectations for life during retirement?
- What might someone be unaware of when planning for their future after the sale?
- What to do when sales proceeds must be converted to cash flow?
- How to address the risks associated with converting to cash flow?

Variables to Consider

Should you rollover your company retirement plan to an IRA? What are the advantages/disadvantages in doing so?

Is a Roth conversion appropriate for you?

How should proceeds from a business sale be invested and how is investment risk accounted for?

Should an investment incorporating a guaranteed source of income be considered? What are the implications in doing so?

Do I need life insurance during retirement? What are my options for any existing policies?

What is the appropriate amount of investment risk in my portfolio so that I don't run out of money in retirement?

The Impact on You

- It could make sense to rollover your retirement plan to an IRA.
  - Be aware that rules regarding distributions from a qualified retirement plan account and an IRA do differ.
    - Example: Discrepancy between age 55 vs. 59 ½
- Depending upon your income tax situation, a Roth conversion of retirement plan assets may be suitable for you.
  - Amounts converted to a Roth IRA are generally subject to ordinary income tax; however, future earnings are distributed tax-free when made as a qualified distribution.
- Developing a diversified investment portfolio and investing strategy is of paramount importance.
- Investment avenues exist that offer the potential for guaranteed retirement income, tax-deferral and principal protection while incorporating estate planning and wealth transfer goals.
- If life insurance was put in place as a business continuation approach - review the available options before canceling any policies outright after sale of the business.

In Summary

- The risk of outliving financial resources is greater than many people realize. Developing a plan that accounts for your personal risk tolerance and capacity while accomplishing your income and wealth transfer objectives is vital to achieving the life in retirement that you desire.


QUESTIONS

THANK YOU

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For more than 75 years, Rehmann has provided forward-thinking solutions to our clients. With nearly 900 associates in Michigan, Ohio and Florida, we are the momentum behind what's possible. We focus on the business of business – allowing companies and individuals to focus on what makes them extraordinary. We offer the future with the confidence of unrivaled expertise and integrity – driving impact that empowers our world.