Business Should Continue by Plan, Not Chance

Every business owner has their own unique situation, but sometimes ideas don’t arise until questions are asked and possible situations are mentioned. Are your clients currently facing any of the following scenarios or may face in the near future? Together, we can provide the right solution to their current and future needs of the business.

Scenario 1: How Do I Treat My Kids Fairly?

**ISSUE:** A business owner has two kids, a son who is active in the business who he wants to pass the business on to and a daughter that isn’t involved and hasn’t shown any interest in being involved. The owner still relies on a portion of the business for income. Owner and his wife are worried that their children will fight over the income from the business, regardless of his son’s level of involvement. They want to treat both kids fairly and to prevent the heartache of future family conflict.

**SOLUTION:** Designed a business succession plan where the owner gifts 25% of the business to the son to retain and reward him for taking over the day-to-day operations with the son buying an additional 24% now to be paid over 10 years. The remaining portion will be kept with the owner for control and ongoing income. The son will use a portion of his income from the gifted business to buy a life insurance policy on his parents equal to the portion of the business he doesn’t own with an Irrevocable Life Insurance Trust (“ILIT”) as owner and beneficiary. As long as the insurance remains in place, at the second death of his parents, all family members agree the son will inherit the remaining portion of the business while the daughter will receive the death proceeds from the ILIT. The uninvolved daughter will get her fair share without the risk and expense of running the family business.

Scenario 2: How Do I Retain Key Employees and/or Sell Them the Business?

**ISSUE:** A business owner wants to transition a portion of the business to his key employee in the next 10 years. The key employee is very interested in taking over but doesn’t believe he will have enough funds to purchase the business. Owner is worried that the key employee will look for work elsewhere if they don’t see themselves becoming an owner in the future. Ultimately, this could cause the owner to sell the business to an outside party and not receive the full value of the business.

**SOLUTION:** Designed an employee retention plan for the key employee that the owner contributes to with the assets owned by the company that is to vest to the key employee in 10 years. The key employee also has the opportunity to contribute pre-tax dollars with tax-deferred growth that he is 100% vested in. The contributions are tied to a formula reflecting the growth of the business and provide the key employee with the opportunity to benefit from his future work. At the end of 10 years, the owner will pay out the plans benefit to the key employee to purchase up to a designated amount of stock. The owner still retains the ability to sell the company over the next 10 years but structures the plan that if he does, his key employee will be paid 100% of the plan’s benefit at that time. The plan is structured to prevent the key employee from walking away from the business due to the “golden handcuff” but at the same time rewards the key employee with the opportunity to participate in the growth of the company and become an owner.

This report makes reference to concepts which have significant legal, accounting and tax implications. Our comments are intended to convey our general understanding of the applicable principles, but are not intended as legal, accounting or tax advice. We recommend that you consult your legal, accounting and tax advisors for application of these concepts as they relate to your specific factual situation. Securities offered through ProEquities, Inc. A registered broker-dealer, member FINRA & SIPC. National Benefits Group is independent of ProEquities, Inc.

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Scenario 3: Need for Additional Retirement Income

ISSUE: A business owner is looking for supplemental retirement income.
He currently maxes out his company-sponsored qualified plan and is limited in other qualified plans due to his income.

SOLUTION: Designed a private retirement plan using a specially designed life insurance contract. The plan has the same attractiveness as a Roth IRA, by using after-tax income to provide tax-deferred accumulation and tax-free distributions, without the income restrictions and contribution limits. Not only will the owner receive the benefits of an additional tax advantaged retirement vehicle, they’ll also be to provide their family with death benefit protection.

Scenario 4: Funding of buy-sell agreements

ISSUE: Two partners created a cross purchase buy-sell agreement where one owner agrees to purchase the other owner’s half of the business upon a triggering event such as retirement, disability or death. The problem is both owners are worried about how they will have the funds to purchase the other’s half if this situation occurs.

SOLUTION: Each owner purchases a life insurance policy with access to cash values on each other. With them being the owners of each other’s policies, they have the funds from the cash values or death benefit to purchase the other half after the triggering event. The other important thing is there should be additional succession planning even if a buy-sell agreement is in place. The sole owner has to think about their own exit strategy and who will take over the business when it’s their turn to retire. Is there a key employee or family member that will take over? Will the sole owner be able to manage the business on their own after the exit of their partner from the business? This is just one of the many reasons why a well drafted and continuously updated succession plan is important.

Are your clients in a similar situation with their business?

You can help them prepare for their future and the future of their business.

Whether a business has 10 employees or 100, we are able to design a customized plan that will fit the needs of each business owner and you’re able to offer additional services to your clients.

Call Matt Halvorson at 701-232-0643 to get the conversation started on succession planning solutions for their business.

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