



Keeping the Family Business In the Family

RICHARD A. LARSON, JD, CLU, ChFC
Incentive Compensation Alternatives, LLC

It is not extremely difficult to accomplish the topic of this presentation but one does have to focus, get serious about taking the necessary steps to accomplish the goal, and many decisions must be made. The following is a cursory overview however I recommend you get with a certified financial planner, your accountant and lawyer – all at the same time in the same room– in order to adequately insure your desires are properly met from all angles. That's from a legal standpoint, a numbers standpoint and adequate coverage from whatever financial product you intend to use. Here is some of the information needed and questions that will require answers.

Liquidation vs. Buy-Sell

The problem is a liquidated business has very little value! Most business owners want to see their businesses continued either by 1) their Heirs, 2) business Associates, or 3) friendly competitors. However, conflicting interests arise when a business owner: 1) becomes disabled, 2) is disagreeable, 3) retires or 4) dies. The withdrawing owner (or his estate) wants: 1) top dollar for shares, 2) prompt settlement, 3) fixed value for estate tax purposes and 4) relief to family of business worries. The remaining owner (or owners) wants: 1) full control of the business, 2) smooth transfer, 3) minimum interference

from heirs, 4) continuing line of credit and 5) minimum purchase price.

Buy-Sell Agreements

Without a prior Buy-Sell Agreement, your heirs may experience: 1) great financial loss or 2) the objectives of neither side will be satisfied. However, with a prior Buy-Sell Agreement you can provide for the orderly transfer of business, mutually agreeable price, mutually agreeable terms and a binding estate tax value. In other words you have certainty instead of uncertainty.

Business Types

An agreement favorable to all parties can be more easily drafted prior to a crisis. Business Continuation Plans vary with the type of business you have. There are three major business forms are sole owner, partnership or corporation.

If you are a sole owner of a business, your first major question is "Who would be interested in taking over my business: family members, loyal employees or a friendly competitor?" In the absence of a prospective buyer, the business must be liquidated. This usually results in a loss of years of good will, loss of jobs for loyal employees, difficulty in collecting accounts receivable, loss of business income to your family and sale of assets at a fraction of their value. In other words, liquidation may bring only pennies on the dollar. A current business continuation arrangement is a better solution. In the event of death it provides agreement as to price and terms of payment, assets included in the sale,

method of accumulating cash to buy the business interest, etc. Benefits to your family are freedom from business worries, no forced sale of assets, you receive a fair price and probate estate can be settled more quickly. Benefits to a proposed buyer are the buyer still has a job, he or she becomes the owner and controls future business growth, they have a feeling of job security, a current desire to build the business and are able to run the business better if you retire.

If you own an interest in a partnership, there are several major issues that should be considered: If you died prematurely, would you want your business interest retained for your family or sold to others? Can the business survive without you? Can your partners afford to buy your interest? Without a business continuation agreement a partnership is generally dissolved at the death of a partner, the surviving partner becomes...

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