

## Special Strategies for Family-Owned Businesses

Few people have more estate-planning issues to deal with than the family-business owner. The business may be the most valuable asset in the owner's estate. Yet, two out of three family-owned businesses don't survive the second generation. If you are a business owner, you should address the following concerns as you plan your estate:



Who will take over the business when you die? Owners often neglect to develop a management succession plan. It is vital to the survival of the business that a successor, whether within the family or out, be ready to take over the reins.

Who should inherit your business? Splitting this asset equally among your children may not be a good idea. For those active in the business, inheriting the stock may be critical to their future motivation. To those not involved in the business, the stock may not seem as valuable. Perhaps your entire family feels entitled to equal shares in the business. Resolve this issue now to avoid discord and possible disaster later.

How will the IRS value your company? Because family-owned businesses are not publicly traded, determining the exact value of the business is difficult without a professional valuation. The value placed on the business for estate tax purposes is often determined only after a long battle with the IRS. Plan ahead and ensure your estate has enough liquidity to pay estate taxes and support your heirs.

The law currently provides two types of tax relief for business owners:

1) Section 303 redemptions -- your company can buy back stock from your estate without the risk of the distribution being treated as a dividend for income tax purposes. Such a distribution must, in general, not exceed the estate taxes, funeral and administration expenses of the estate. One caveat: The value of your holdings must exceed 35% of the value of your adjusted gross estate. If the redemption qualifies under Section 303, this is an excellent way to pay estate taxes.

2) Estate tax deferral -- normally, your estate taxes are due within nine months of your death. But if closely held business interests exceed 35% of your adjusted gross estate, the estate may qualify for a deferral of tax payments. No payment other than interest is due until five years after the normal due date for taxes owed on the value of the business. The tax related to the closely held business interest then can be paid over 10 equal annual installments. Thus, a portion of your tax can be deferred for as long as 14 years from the original due date. Interest will be charged on the deferred payments.

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