

The Voice of Iowa Business Since 1903



IOWA ASSOCIATION
OF BUSINESS & INDUSTRY

Leaving Your Business without Losing Your Shirt

July 9, 2010

Presented by:



Advocate • Collaborate • Educate • Motivate



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ABI Advisory Council

Working together to identify critical issues facing Iowa business and deliver timely *information and service to ABI members.*

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- **Introduction of Program – *Mike Ralston***
- **Business Succession Overview – *Don Doudna***
- **Presentation of Case Study Facts – *Marv Debner***
- **Legal, Tax & Financial Strategies – *Bill Brown & Marv Debner***
- **Business Succession Funding Strategies – *Steve Parrish***
- **Personal Planning Techniques – *Johnne Syverson***
- **Question & Answer Session**
- **Roundtable Discussion**





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Family Business Succession

Presented by:
Donald Doudna, PhD



BrownWinick
ATTORNEYS AT LAW

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Family Business Succession Foundation

- There is no success in life that makes up for failure in the family
- Facts are important but feelings control the process and outcome



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Life Events That Trigger Action

- Death of a relative, close friend, or member of a prominent family in area
- Illness of G1 or G2
- Changing business conditions or technology that cause stress to older generation
- Family tension created between one generation and another over business operation
- Addition of a family member through birth or marriage
- More family needing a job and wanting to join the family business



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What Succession Planning is Not

- The Succession Planning process is often mistaken for contingency or continuity planning.
- Getting the business to the next generation or key person is easy – keeping the business viable for the next decade is the challenge. Ten areas need to be investigated to do proper succession work.

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10 Key Success Areas

- Personal Financial and stewardship plan
- Business structure
- Business performance
- Strategic and operational plans
- Leadership and management preparation and continuity
- Successor preparation
- Management synergy and teamwork
- Family dynamics and ages
- Family governance
- Owner motivation and perspective on legacy and income goals



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The Ideal Process Is

- A team effort inside and outside the family.
- All affected family members, staff, and advisors play a role.



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Discover the Goals, Feelings and Plans for Each Generation First

- Spend at least 8 hours with the older generation
- Gather all pertinent financial and legal information
- Interview each involved party and their spouse
- Use technology to assess the family dynamics
 - Pro Scan
 - Family/team scan
- Hold a family meeting to discuss the process and preliminary observations
- Build a simple framework for a family strategy and timeline for moving forward



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Discover Business Goals & Environment Next

- Discover business goals and environment next
- Interview all key business staff and discuss business and its future
- Use technology to understand leadership dynamics
- Build or enhance current strategic and operating plans
- Affirm both human and financial capital management plan
- Make adjustments in 10 key areas
- Build the proper documents and process for success including compensation, roles, training, timelines, and benchmarks to determine process

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Legal, Tax and Financial Strategies

Presented by:

Bill Brown and Marv Debner



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For: John & Laurie Winters

Report Name: Data Reports – Balance Sheet (Today)

Plan: Current Wills – H dies first

Scenario: All to Spouse

	Co-Owned	John	Laurie	Total
Assets				
Securities	2,000,000	0	0	2,000,000
Real Estate	1,250,000	1,500,000	0	2,750,000
Business Interests	0	7,700,000	2,200,000	9,900,000
Retirement Plans	0	700,000	0	700,000
Total Assets	\$3,250,000	\$9,900,000	\$2,200,000	\$15,350,000
Liabilities				
Real Estate	450,000	0	0	450,000
Equity				
Securities	2,000,000	0	0	2,000,000
Real Estate	800,000	1,500,000	0	2,300,000
Business Interests	0	7,700,000	2,200,000	9,900,000
Retirement Plans	0	700,000	0	700,000
Total Equity	\$2,800,000	\$9,900,000	\$2,200,000	\$14,900,000



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Key Issues

- Management of estate tax
- Structure of asset transition
- Corporate planning
- Cash flow for John and Laurie's retirement
- Other planning



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Estate Tax Review

- \$1,000,000 gift tax exemption
- \$1,000,000 / \$3,500,000 estate tax exemption
- Unlimited marital deduction
- Step up in basis
- New administration's proposed legislation



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Estate Tax Summary

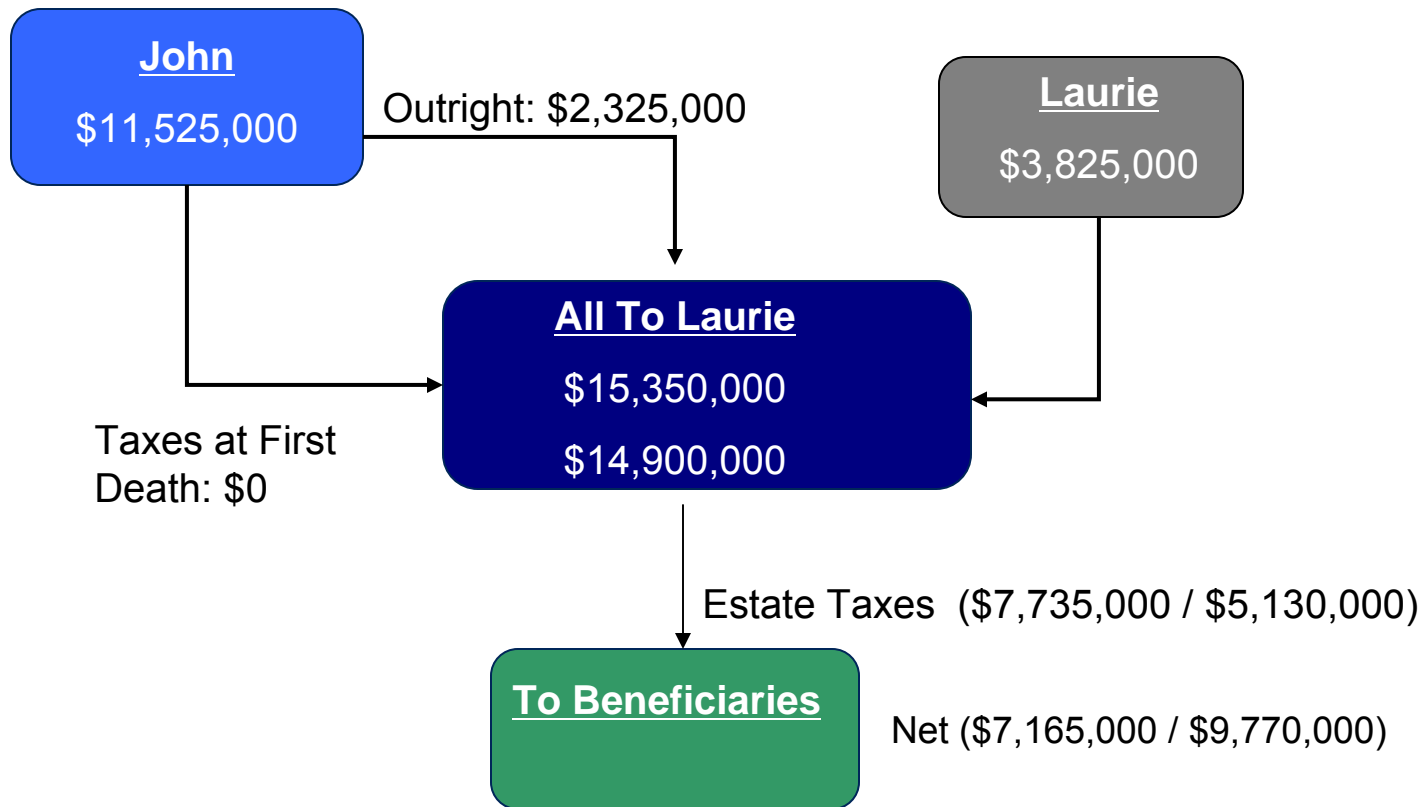
- Estate tax at second death of \$7,645,000 without regard to growth if \$1 million exemption (\$14.9M - \$1.0M of estate tax exemptions x 55%)
- Estate tax at second death of \$5,130,000 without regard to growth (\$14.9m - \$3.5m of estate tax exemptions X 45%)



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Current Plan





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Estate Tax Issues

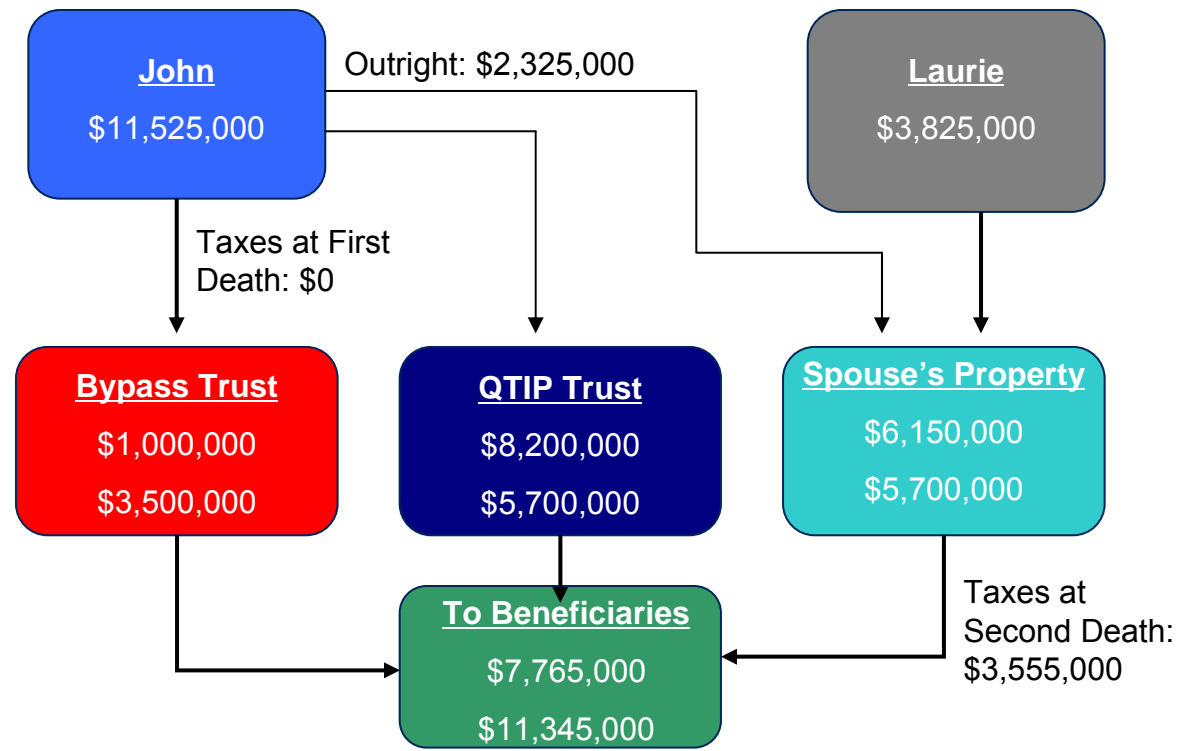
- \$3m of life insurance in the company increases estate tax cost by \$1.35m
- Assumes no discounts on company stock for minority interest of lack of marketability
- Net estate left after taxes and expenses \approx \$7.165M with \$1M exemption (\$3.055M/child); \$9.75M with \$3.5M exemption (\$3.25M/child)
- Liquidity / tax payment problem
- Over funding marital deduction - tax efficient wills



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New Plan - John Dies First





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Ownership Issues

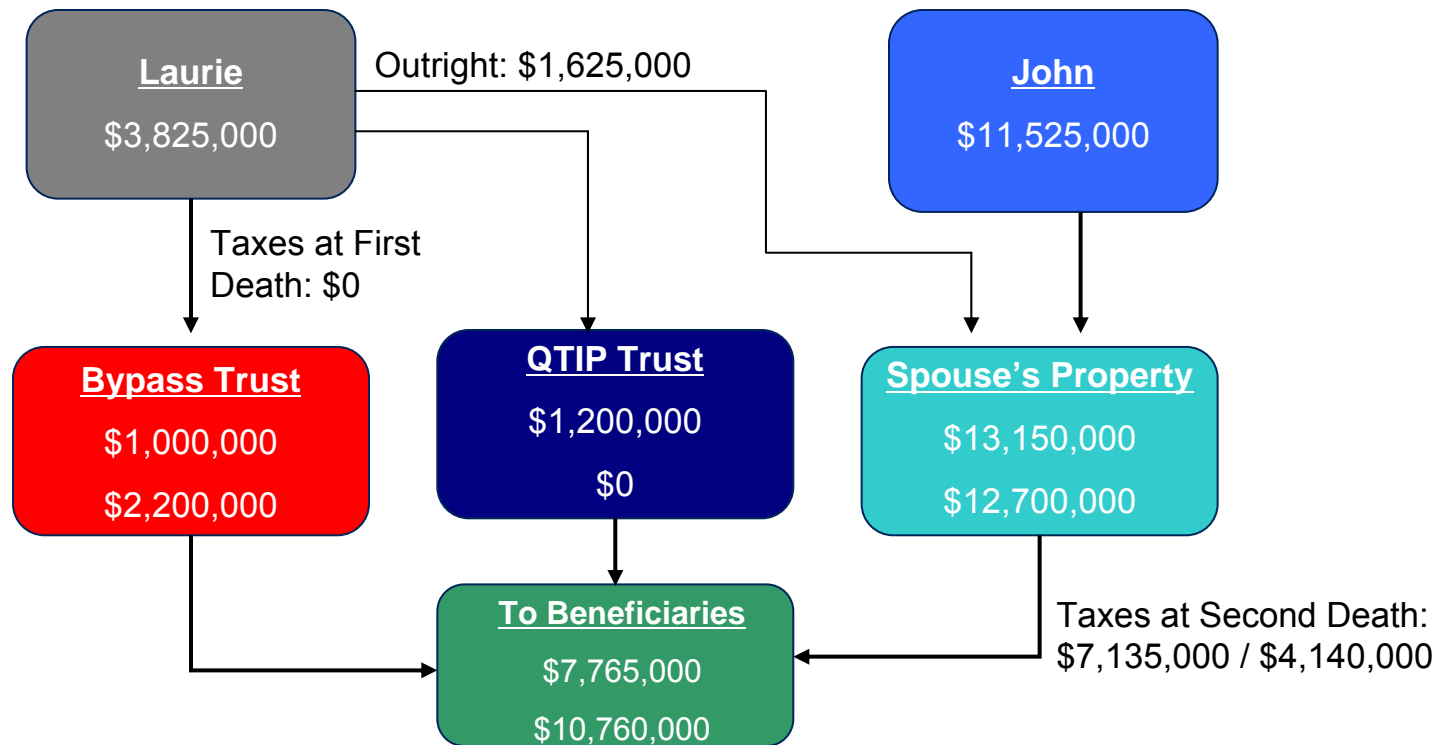
- Property ownership inequality - problem if spouse dies first



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New Plan - Laurie Dies First





For: John & Laurie Winters

Report Name: Comparison

\$1,000,000 exemption

Plan 1: Current Wills - H dies first

Plan 2: Optimal Marital Plan - H dies first

Plan 3: Optimal Marital Plan - W dies first

	All To Spouse	Optimum Marital	Optimum Marital
Estate at death of John			
Taxable estate	\$0	\$1,000,000	\$13,900,000
Federal tentative tax	0	345,800	7,480,800
Less applicable credit (includes gift tax payable)	345,000	345,800	345,800
Less state death tax credit	0	0	1,690,000
Less other credits	0	0	0
Plus state death tax	0	0	1,690,000
Plus retirement income tax	0	0	0
All taxes at death	0	0	7,135,000
To beneficiaries	7,165,000	7,765,000	7,765,000
Estate at death of Laurie			
Taxable estate	\$14,900,000	\$13,900,000	\$1,000,000
Federal tentative tax	8,080,800	7,480,800	345,800
Less applicable credit (includes gift tax payable)	345,800	345,800	345,800
Less state death tax credit	1,850,800	1,690,800	0
Less other credits	0	0	0
Plus state death tax	1,850,000	1,690,800	0
Plus retirement income tax	0	0	0
All taxes at death	7,735,000	7,135,000	0
To beneficiaries	7,165,000	7,765,000	7,765,000



For: John & Laurie Winters

Report Name: Comparison

\$3,500,000 exemption

Plan 1: Current Wills – H dies first Plan 2: Optimal Marital Plan – H dies first Plan 3: Optimal Marital Plan – W dies first

	All To Spouse	Optimum Marital	Optimum Marital
Estate at death of John			
Taxable estate	\$0	\$3,500,000	\$12,700,000
Federal tentative tax	0	1,455,800	5,595,800
Less applicable credit (includes gift tax payable)	1,455,800	1,455,800	1,455,800
Less state death tax credit	0	0	0
Less other credits	0	0	0
Plus state death tax	0	0	0
Plus retirement income tax	0	0	0
All taxes at death	0	0	4,140,000
To beneficiaries	9,770,000	11,345,000	10,760,000
Estate at death of Laurie			
Taxable estate	\$14,900,000	\$11,400,000	\$2,200,000
Federal tentative tax	6,585,800	5,010,800	870,800
Less applicable credit (includes gift tax payable)	1,455,800	1,455,800	1,455,800
Less state death tax credit	0	0	0
Less other credits	0	0	0
Plus state death tax	0	0	0
Plus retirement income tax	0	0	0
All taxes at death	5,130,000	3,555,000	0
To beneficiaries	9,770,000	11,345,000	10,760,000



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Estate Tax Solutions

- Ongoing annual gifting program
- Optimal marital deduction wills
- Property ownership transfers between spouses
- QPRT for vacation home
- Utilize discounts to reduce overall size of estate.
(35% discount on \$9.9m of company value = \$1.42M of tax savings at 45% rate; \$1.91M of tax savings at 55% rate)



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Liquidity Planning

- Section 6166 – deferred payment of estate taxes
 - Business interest must exceed 35% of adjusted gross estate
 - Elect to pay in 10 installments – following a deferral period of up to 5 years
 - 2% interest rate on first \$1,280,000 of value
- 303 redemption – can redeem stock of corporation to pay estate taxes and receive capital gains treatment
- Buy insurance in irrevocable life insurance trust (ILIT) to remove from estate (\$1.35m of taxes). \$3m of death benefit; premiums of \$66,000/yr for life or \$245,000/yr for 7 yrs. Consider premium financing to lower cash outflow and gift tax issues. Minor letter of credit costs <\$55,000 total



Structure of Asset Transition

- With \$3m of insurance in force, majority of taxes should be covered
- With taxes covered, non-company assets (including building) may be sufficient to provide for Steve to be treated equally (or utilize ILIT to provide Steve his 1/3)
- Leave non-company assets (including building) with John and Laurie as security during retirement



Corporate Planning

- Company business plan
- Begin process of freezing value of company and transitioning ownership utilizing discounts
 - Establish non-voting stock in company
 - Use gift program over 5 years to John Jr. and Martha (discounts, annual exclusion)
 - Possibly sell minor interest to CFO and COO
 - Pre-fund over 5 years a large portion of John's buyout in tax-favored manner
 - Lock in Buy/Sell, confidentiality and non-compete agreements
 - Form LLC to hold real estate



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Cash Flow for John's & Laurie's Retirement

- Continue cash stream from building through lease or sale
- Required distributions from retirement plan begin at age 70-1/2 (can accelerate if necessary)
- Partial sale and/or consulting agreement begins at retirement for 5 years (age 66 to 70)
- Other freeze and transfer techniques



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Business Succession Funding Strategies

Presented by:

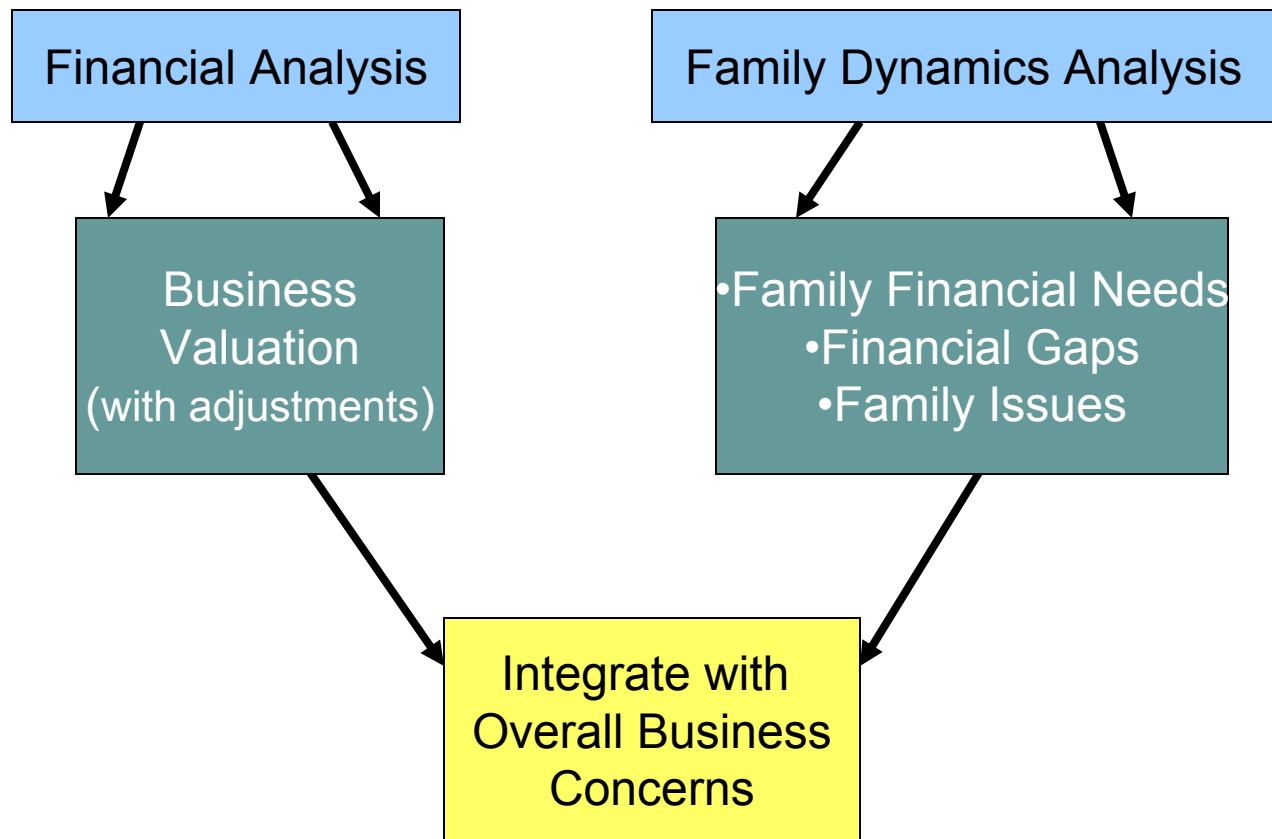
Steve Parrish JD, CLU, ChFC



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Step 1: Business and Personal Survival





Step 2: Exit Plan for Owner

Determine Objectives

- Maximize value
- Minimize taxes
- Maximize flexibility

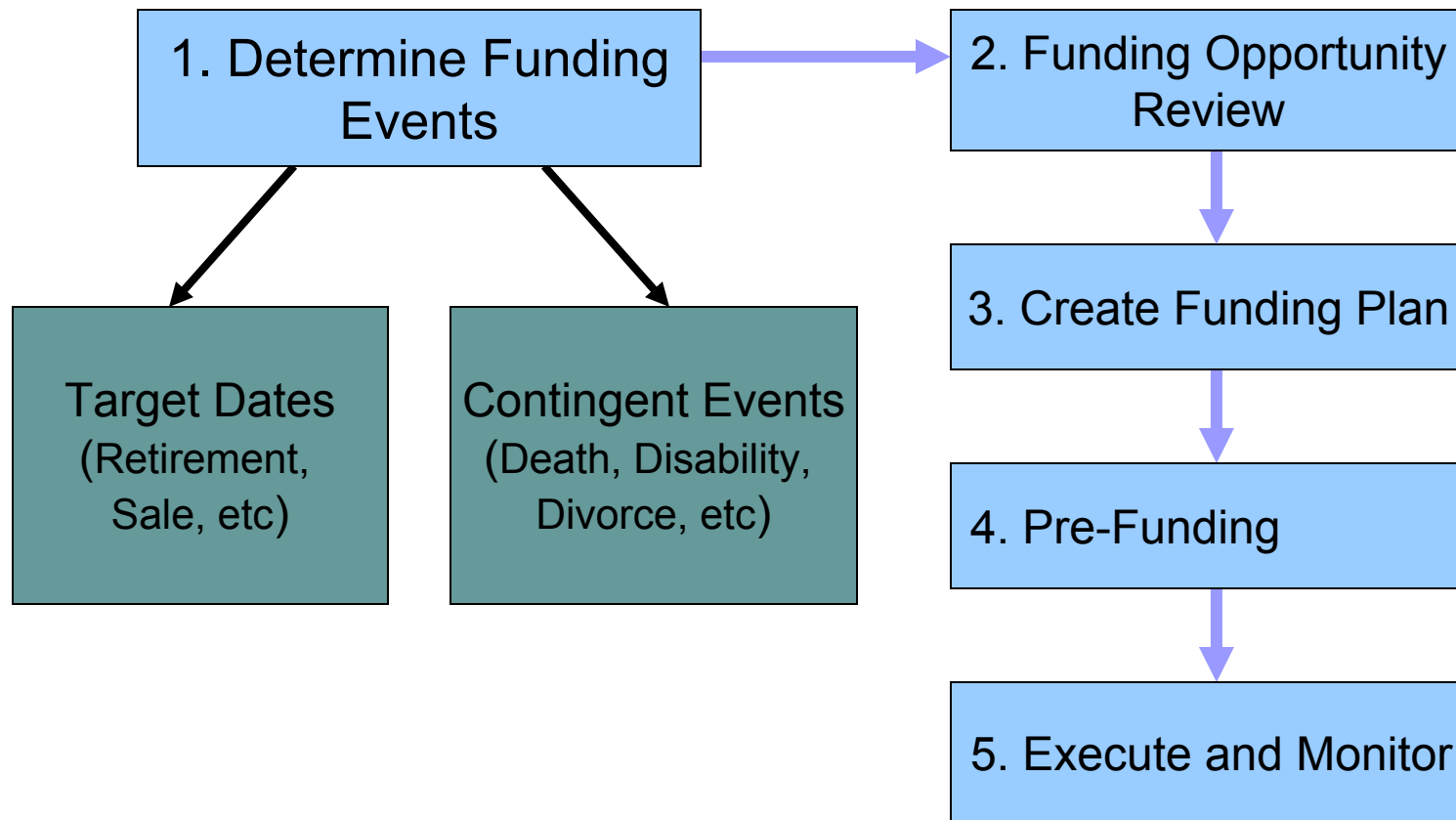


Assess Exit
Techniques

- Sale
- Capital transfer
- Gift



Step 3: Funding Transfer Plan





Funding Alternatives

Funding at event

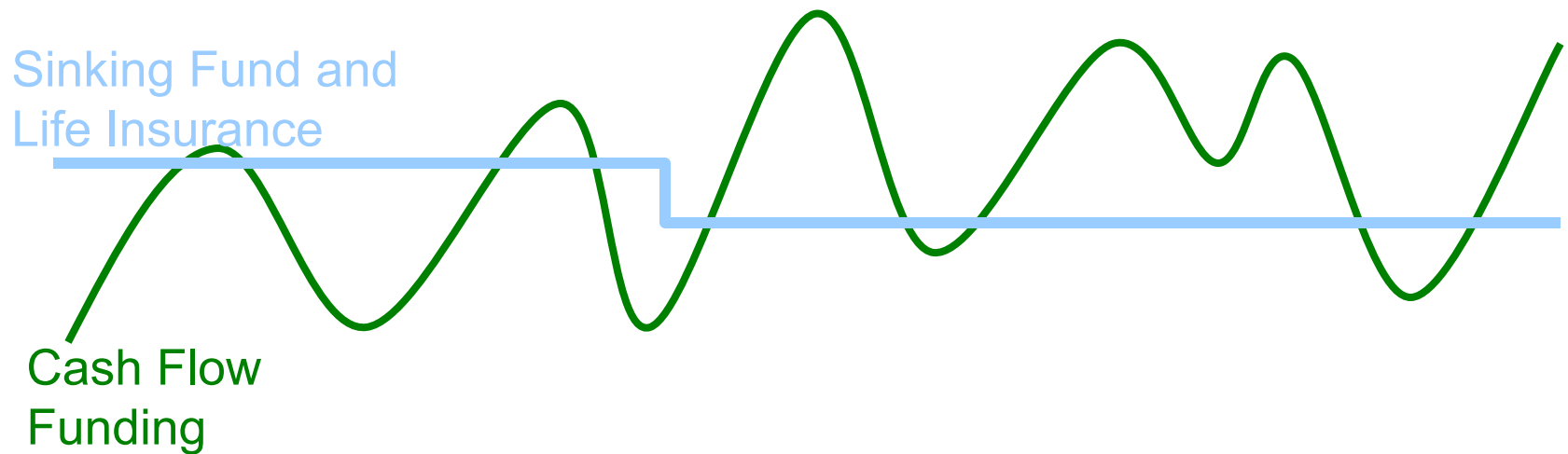
- From Sale/Liquidation
- From Equity
- Borrowing
- Through Tax Relief (6166, etc)

Pre-funding

- Family business
 - GRAT
 - Interest Only Note
 - I.L.I.T.
- Sinking Fund
- Life Insurance
- Tax Planning (e.g. ESOP)



Funding Example





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Personal Planning Techniques

Presented by:
Johnne Syverson, CFP®



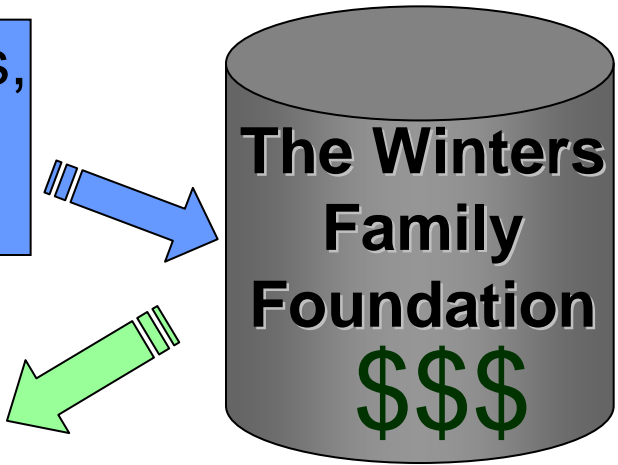
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Family Foundation Using a Donor Advised Fund

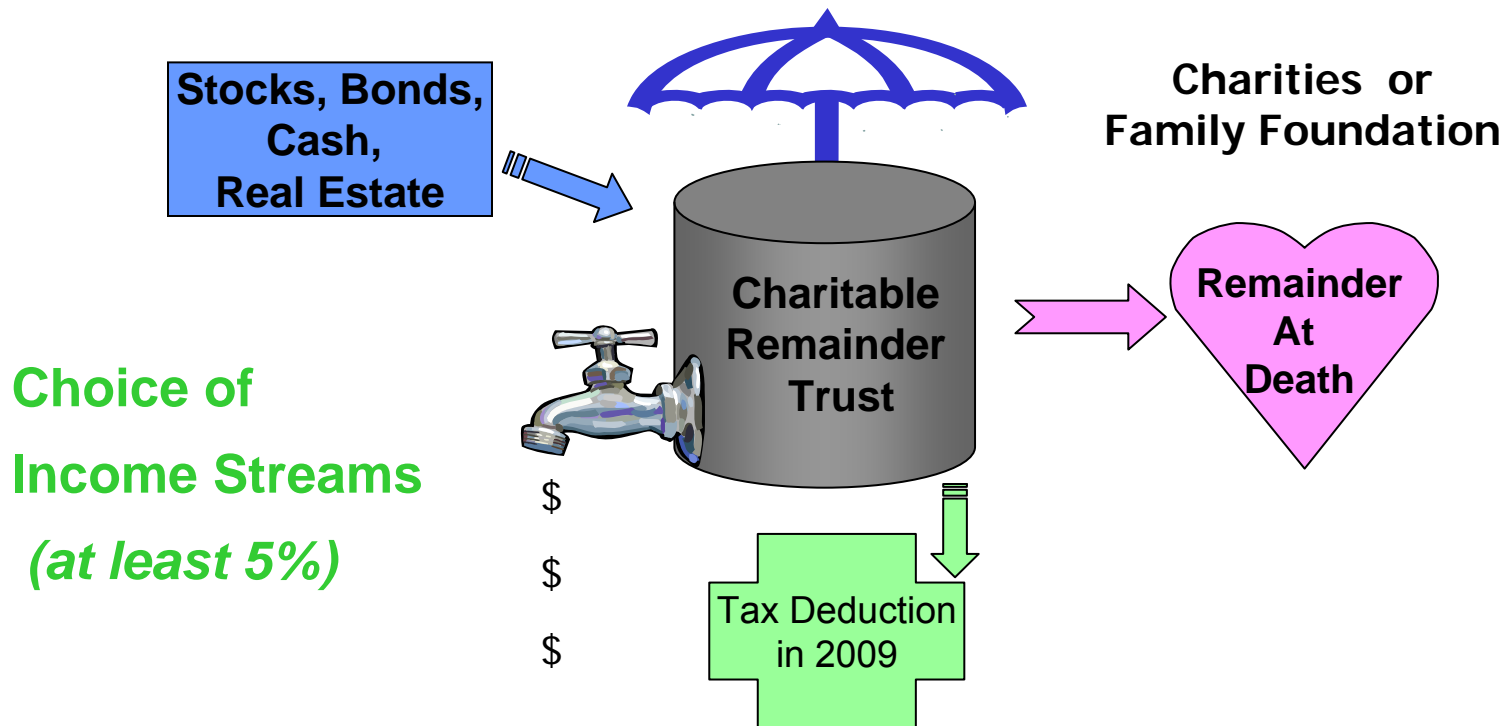
Stocks, Bonds,
Cash,
Real Estate

Tax Deduction
in 2009





Charitable Remainder Trust



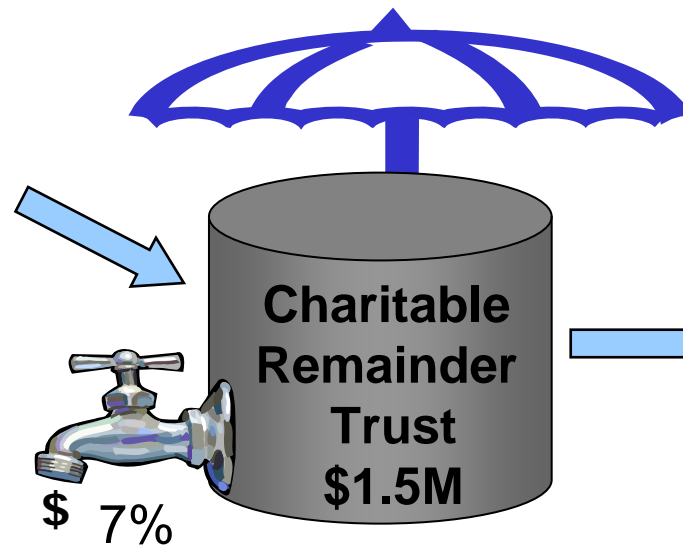
Choice of
Income Streams
(at least 5%)



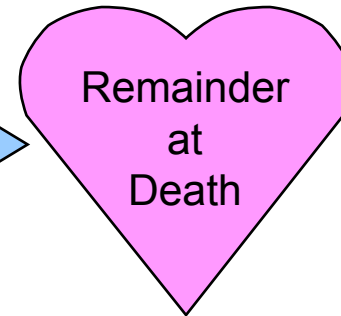
Tax - Effective Sale of Building



Building
 Sale Price = \$1,500,000
 Cost Basis = \$100,000
 Capital Gain = \$1,400,000
 Cap Gain Tax = \$280,000



Family Foundation

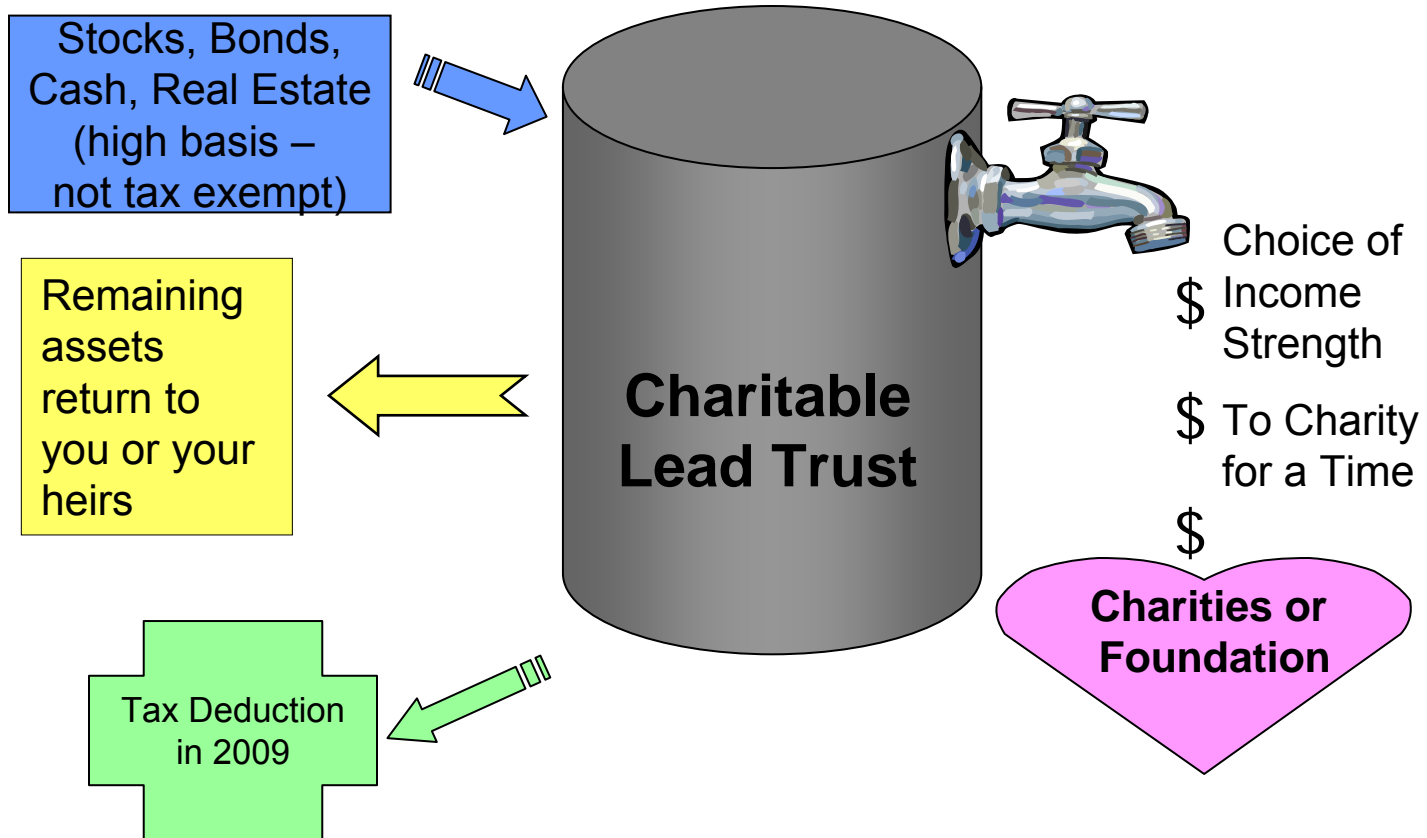


\$105,000/yr
 income

Tax Deduction
 2009=
 \$340,000

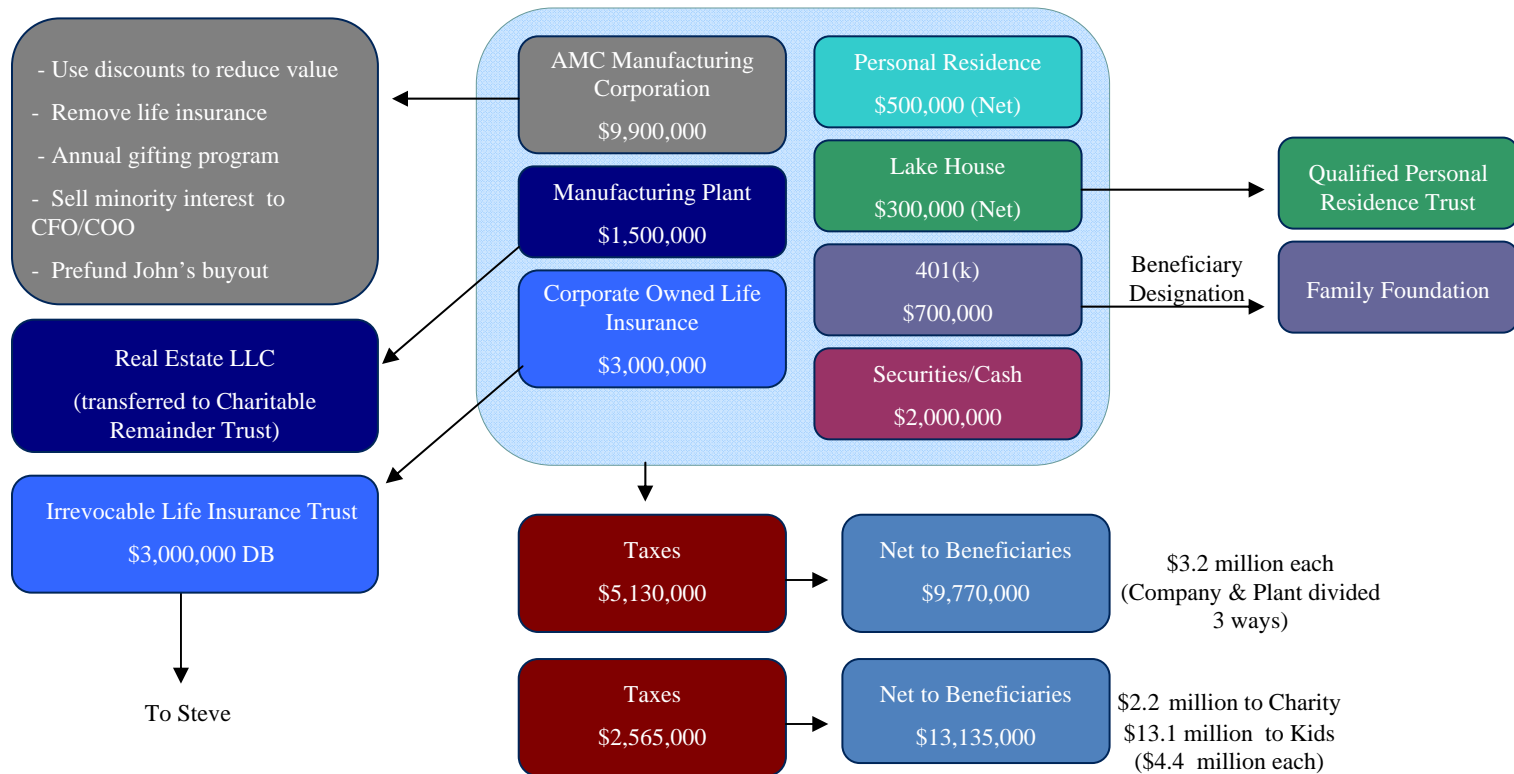


Charitable Lead Trust





John/Laurie Winters Estate - \$17,900,000





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Thank You



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Marv Debner

Marv Debner, CPA is a Senior Partner at LWBJ Financial. He received his BS in Accounting from Iowa State University. Marv has 18 years of experience with Deloitte & Touche Des Moines office prior to coming on board with LWBJ. Areas of expertise include: manufacturing, transportation, real estate and agribusiness, mergers & acquisitions structuring, tax methods & periods, research & development credits, state credits & incentives, S Corporations and family-owned businesses and succession planning.

Marv is a member of the top 40 Under 40 business leaders in Iowa in 2004, a Board member of the Iowa Association of Business and Industry, Executive Committee & Treasurer of Junior Achievement of Central Iowa, Member of AICPA and the Iowa Society of CPAs, and a Past board member of Choose Des Moines Communities, Iowa Taxpayers Association and the United Way Planned Giving Advisory Council.

Bill Brown

William C. Brown is a member of BrownWinick, focusing on a corporate transactional and business planning practice, concentrating on acquisitions, divestitures, capital formation, financing and tax planning for closely held companies and their owners and executives. Bill has been active in legislative matters affecting closely held companies and has successfully lobbied for several business and tax initiatives benefiting closely held business.

Bill has been active in a wide variety of civic leadership positions with organizations such as the Iowa Association of Business and Industry, the Iowa Taxpayers Association, the Polk-Des Moines Taxpayers Association and the United Way of Central Iowa. He is also active in professional associations, including the American Bar Association Section on Taxation S Corporation Committee and the Iowa Bar Association Tax Section Council.



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Dr. Donald Doudna

Don is a Senior Business Coach for Syverson Strege & Company, located in West Des Moines and President of the Family Business Resource Center.

Over the last three decades, Don has been a catalyst for improving communication, designing strategy, and implementing operating plans that result in high performance by combining the analytical ability of a researcher with practical management skills and people sensitivity.

Don also serves on numerous boards including the Iowa College Foundation, Sports World, the Broadlawns Hospital Foundation and Chairman's Council, Shivvers Manufacturing and Faulkner Automobile Organization.

Johnne Syverson, CFP®, AEP, CAP

Johnne is President of Syverson Strege & Company, a Wealth Coaching firm located in West Des Moines. Johnne has more than 35 years of experience in financial services and planning.

He is a CERTIFIED FINANCIAL PLANNERTM practitioner and one of only 1,300 practitioners in the United States who is credentialed as an Accredited estate Planner (AEP).

Johnne was among the first in the nation to attain the Chartered Advisor in Philanthropy (CAP) designation. He serves as a resource to high net worth families and other professionals in the area of advanced estate and charitable tax planning.



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Steve Parrish

Steve Parrish is National Advanced Solutions Consultant for the Principal Financial Group. With more than 30 years experience as a practicing attorney, financial planner and insurance industry executive, he frequently addresses the challenges of business owners and executives.

Parrish is an expert on business owner financial planning including buy/sell agreements and exit planning as well as executive compensation. He is a recognized industry authority, spokesperson and author, with work printed in notable publications like Journal of Financial Services Professionals, CPA Wealth Provider and Private Wealth. As an industry thought leader, he has served as an expert source for such prominent media outlets as Forbes, Wall Street Journal Radio, Journal of Financial Planning and On Wall Street.