

EXIT PLANNING REVIEW

Exit Planning Information & Education For America's Business Owners

The Exit Planning Review[™] is an opt-in, bi-monthly newsletter published by Business Enterprise Institute, Inc.

This issue is provided to you by your Benchmark Financial Group Business Consultant professional, [Mike McGuire, CLU, ChFC](#).

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PROVIDED BY

Mike McGuire

Issue 1

Why Exit Planning?

Are you like most business owners?

- A majority of closely held and family owned businesses will change hands within the next five years; but
- Most Business Owners have not taken active steps to transition out of ownership.

Again, if you are like many of our readers, the reasons for failing to plan may be:

- You have simply been too busy working in your business to be working on it – at least until now.
- You are unsure of how to begin Exit Planning, who to use or even where to begin. Those uncertainties also can begin to disappear today.

This issue of **The Exit Planning Review**[™] and every subsequent issue will encourage you to work on—not in—your business. Your education about the Exit Planning process begins now. Proper knowledge and preparation can mean millions of dollars to you when you ultimately leave your company. Start Exit Planning today and you will avoid the sad (but too common) fate of T J Construction.

Years ago, I met with Jim & Tim McCoy, two owners of a thriving construction company. What I assumed would be a business planning meeting, turned out to be a "We're getting out of business, how do we do it?" meeting. As successful as

they were, they were tired of the government regulations, changing tax codes and day-to-day grind of running a multi-million dollar company.

A sale to a third party was not an option because Tim and Jim were not willing to stay on after a sale – and they had failed to develop a strong management team which any savvy purchaser would require as a condition of purchasing the company. Transferring ownership to a group of key employees was also out of the question. None had been groomed to take on this type of responsibility and nothing had been done to fund this type of buy out.

Both owners were too young to have business active children so their only option was to liquidate.

Jim and Tim's highly- profitable company had little worth beyond the value of its tangible assets. After the sale of those assets, dozens of the employees lost jobs, the business disappeared and Jim and Tim left millions of dollars on the table.

How do you avoid Jim and Tim's fate? By engaging in a proven Exit Planning process that you control. An Exit Planning process that begins by asking yourself the questions that follow. Your Exit Plan will be created as you answer each of the following questions affirmatively:

1. Do you know your exact retirement goals and what it will take—in cash—to reach them?
2. Do you know how much your business is worth today, in cash?
3. Do you know the best way to maximize the income stream generated by your ownership interest?
4. Do you know how to sell your business to a third party and pay the least possible taxes?
5. Do you know how to transfer your business to family members, co-owners, or employees while paying the least possible taxes and enjoying maximum financial security?
6. Do you have a continuity plan for your business if the unexpected happens to you?
7. Do you have a plan to secure financial independence for your family if the unexpected happens to you?

These questions are almost misleadingly simple to ask, but to

answer them affirmatively requires thought and action on your part.

Creating and implementing your Exit Plan is the most important business and financial event of your life.

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Issue 2

Setting Exit Objectives (Step One)

"When a man does not know which harbor he is heading for, no wind is the right wind." So said Seneca almost 2,000 years ago. Today, speaking to business owners he would likely say, "Exit Planning for business owners must start with knowing your exit goals and objectives; otherwise, failure is most likely inevitable."

Why is Seneca's wise counsel so true today? In this first and most indispensable of The Seven Exit Planning Steps™, owners form their goals and objectives. But what should an owner's objectives be and why is it so vital to fix them before taking the next Step?

I recently met with Ben, the owner of a 45-employee plastic extrusion company. He had long thought of transferring his business to a son and a key employee but had done little to prepare for that transfer. After years of procrastination, at age 58, he was finally ready to retire.

"Ben, it's helpful that you've decided on two of the critical Exit Objectives all business owners must face and answer. You've determined how much longer you want to work in the business. It seems you want to leave sooner rather than later. And second, you have decided to whom you wish to transfer the business, in your case your son and a key employee. But you still need to determine a third, critical, Exit Objective, how much money do you want or need when you leave the business? And, does that money need to be in cash or would you accept a promissory note?"

Like many owners, Ben had two choices. First, he could retire now and sell the company for cash — but not to his son and key employee. They had no cash and no bank would lend an amount even close to the amount of money necessary to close the deal. If Ben wanted to sell now and achieve financial goals, he would have to sell to an outside third party with sufficient cash. His alternative was to sell the company to his son and key employee —

knowing he would have to wait six to ten years to receive the entire purchase price.

Ben's situation illustrates why setting *consistent* and *achievable* objectives early in the Exit Planning process is so critical.

The three principal objectives common to nearly all business owners (and the questions that must be answered in setting these objectives) are:

1. Leaving the business on your timetable. How much longer do you want to remain active in the business?
2. Leaving the business financially stable. Think of financial stability as a stream of after-tax income, adjusted for inflation. How much income will you need for the rest of your life after you leave the business? Do you want to be cashed out when you leave the business or are you willing to receive the purchase price over many years?
3. Transferring the business to a particular person. To whom do you want to transfer the business? To a child? Key employee? Co-owner? Or perhaps to an outside party who can pay top dollar for the company?

If you don't answer these questions and thereby set your basic Exit Objectives, you may end up like Ben. He was left without a means to exit his business in style because he wanted to transfer the business to a key employee and he wanted cash. Your failure to set consistent and achievable objectives can leave you without the means to exit your business as well. If you prefer to "leave your business in style" you must formulate specific, consistent, attainable goals and objectives. Your Exit Objectives are the foundation for all subsequent planning, or in Seneca's words, "the harbor you must head for."

Know, however, that *few owners reach their objectives*. Why? Because they don't have a plan to achieve them. They are too hurried, too focused on their businesses, and they don't know how to go about planning. Most owners understandably lack Exit Planning experience—they don't even know where to start. We suggest you begin your Exit Planning process by working with experienced advisors. Financial and insurance advisors often have the software and experience necessary to help you determine your financial needs based on your current net worth.

Future issues of this newsletter will discuss other common ownership objectives as well as how to resolve conflicts between objectives.

Watch for our next issue of **The Exit Planning Review™**. We will discuss Step Two of The Seven Step

Exit Planning Process™ — Determining Business Value.

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Issue 3

What Is My Business Worth? (Step Two)

For many owners, the answer to one question determines their eagerness and ability to leave their companies: "How much is my business worth?" This question is indeed critical and answering it is the second step of your seven-step Exit Plan.

Take Ron Nee, the owner of Landscaping Supply Company, as an example.

Ron was ready—and had been for several years—to sell his company but he felt it was worth little more than its net asset value—his industry's rule of thumb when valuing his type of company. While that value was not inconsiderable (\$2 million), Ron wanted more. So, he continued to work in the business well past the point where he found it to be either fulfilling or energizing. In doing so, Ron committed a serious but common ownership mistake: working after the fun and challenge are gone on the mistaken assumption that the company can't be transferred for sufficient value.

Because Ron failed to get a proper and professional business valuation, he also failed to realize that his business could have been sold for significantly more money than his industry's "rule of thumb." And these failures were cumulative, for, in the end, he failed to exit his business when he wanted and for as much money as he wanted and needed.

How can you avoid Ron Nee's predicament?

- Understand first that there are different types of valuations, performed by different types of valuation advisors, for different reasons.
- Appreciate that different appraisers charge vastly different amounts for a valuation; and
- Realize that the questions you need to ask now are what type of valuation do you need and who should

perform it? The answer depends on how ready you are to leave your business.

If you are ready to exit the business now, (meaning last Friday) you need more than just a thumbnail sketch of value. You need a thorough valuation which includes a marketability component: Can your company be sold today at its appraised value?

Only an experienced appraiser active in today's merger and acquisition marketplace can give you an accurate answer to that question.

Only an accurate answer can tell you if your business is as ready to be sold as you are ready to leave it.

In Ron Nee's case, he followed our recommendation, hired a certified valuation analyst whose thorough valuation included what the business would be worth in today's mergers and acquisitions market.

Expect to pay \$5000 to \$15,000 depending on the complexity of the valuation and whom you select to value the company.

On the other hand, *if you and your business are several years away from ownership transition, a full-blown valuation may well be unnecessary. Instead you need a value approximation or range of value — a "ballpark estimate" of what your business is worth today. Think of an annual valuation as a test of whether the business is on track and of the distance to the station.*

Depending on the size of your business and the need for certainty, your financial advisor or CPA can provide this type of valuation approximation for a modest fee; in fact, your financial advisor may not charge anything to provide you a range of value.

Had Ron Nee started with a "ballpark" valuation, he would have discovered his business was likely worth significantly more than he thought. He could then have paid a professional valuation expert to determine the value and marketability of his company which would have opened the door for him to sell his business at that time.

"Ballpark" valuations, thorough valuation and marketability appraisals all have their place. Don't skimp on paying for an accurate valuation, but don't get one before you need it.

Why is a valuation necessary in this early stage of your Exit Planning? Simply because you and your financial and tax advisors must be able to determine if your financial objective can be met by a sale or other transfer of your company, to whom and when. Only a current business valuation can supply this vital information. Remember that the recent collapse of the mergers and acquisitions marketplace teaches us the valuable lesson

that it takes *both* a strong company and a strong market to maximize business value.

Bottom Line: If you can realize your financial and other objectives today based on the current value and marketability of your business in today's market, why delay your exit?

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Issue 4

Working On - Not In - Your Business (Step Three)

A number of years ago, I met with Diana Duff, the owner of Major Machining, Inc. (MMI), a machine shop. She wanted out. I suspected that her severe case of "early onset burnout" was due to the departure of her 3-man management team six months earlier. These employees had not just left the company, they had set up a competing machine shop funded by the many MMI customers they took with them.

MMI was in shambles — it had no value because its owner had ignored the most important Value Driver-key employees. Duff could —and should— have considered a variety of tools to motivate and keep the company's top employees.

What are Value Drivers? And why are they so important to you and your company? Value Drivers are the various characteristics of a business that *professional buy-out experts believe drive business value upward and for which they are willing to pay top dollar*. It is vital for you to know what these value drivers are if you want to successfully exit your business.

In Steps One and Two of The Seven Step Exit Planning Process™, you establish your Exit Objectives and determine the value of your business. Driving business value upward is a necessary step if, as is so often the case, you determine that the value of your company is not sufficient to satisfy your financial objective. During this third Step, you create the additional business value and cash flow necessary to achieve your financial objectives.

To increase business value, you must target those same elements of a business that professional buy-out experts believe drive a business's value upward and for which they are willing to pay top dollar. These elements — characteristics that both reduce risk and improve return— are commonly referred to as "Value Drivers."

Value Drivers come in two varieties: generic (common to all industries) and industry specific. The generic Value Drivers are:

- A stable and motivated management team;
- Operating systems that improve sustainability of cash flows;
- Operating profit margins at least as good as industry average;
- A solid, diversified customer base;
- Facility appearance consistent with asking price;
- A realistic growth strategy;
- Effective financial controls; and
- Good and improving cash flow.

Your industry also has specific or unique Value Drivers. For example, if you have a distribution company, a potential purchaser would look at the strength of the manufacturers you represent, the number of inventory turns per year, and the level of technical expertise your salesmen possess.

For MMI, a number of Value Driver tools and techniques could have been used to motivate and keep key people. These tools included:

- Stock option, purchase or bonus plans subject to forfeiture if the key employees left prematurely;
- Non-qualified deferred compensation plans —with vesting— to encourage key employees to stay;
- A richer benefit package; or
- A defined succession plan which included the key employees.

All of these tools can be designed not only to motivate and keep your top people —an essential Value Driver itself— but to reward them based on their efforts and success in driving business value upward. Look at your own business. Do you have an incentive system that:

- Is substantial in the eyes of the key employee?
- Has written performance standards, the attainment of which by the key employee not only results in a bonus to the key employee, but also increases the value of the company?

■ Is part of a defined, written plan, communicated to the key employee?

■ "Handcuffs" the key employee to the business by making it difficult for him to leave the business without forfeiting significant financial benefits?

As you can see from MMI's example, creating and fostering Value Drivers is crucial whether you simply wish to put more money in your pocket every year, or whether you want top dollar by selling your company.

It bears repeating that we believe you should concentrate on Value Drivers because that's what professional buyers deem important and if they deem it important, it probably is. After all, they have considerable experience in analyzing what increases a company's value.

How do you implement Value Drivers in your business?

■ First, learn more about Value Drivers by contacting the provider of this newsletter.

■ Talk to your advisory team members, especially your financial/insurance professional, your CPA, and perhaps business consultant or attorney; and

■ Stand above the fray at least one-half day per month. Look at your business through the eyes of someone interested in buying it. What do you see that would cause you to pay top dollar for your business? What would cause you to pay less for your business? When answering these questions look both at what your business is doing as well as at what it is not. Viewing your business in this way is what we mean by working on your business, not just in it.

By increasing your knowledge, by working with capable advisors, and, most importantly, by thinking about what the business needs to become more valuable, you will put into place the elements necessary to drive the value of your business upward.

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Issue 5

Getting Top Dollar For Your Business (Step Four)

What is a good way for you to get top dollar for your business?

First, your business should be sold to an outside third party, not to an insider such as a child, key employee or co-owner. For outside third parties typically have the cash and the ability to pay a higher earnings multiple for your business.

Secondly, proceed through planning steps prior to putting your company on the market. These steps, (discussed in the previous three issues of **The Exit Planning Review™**) are:

- Setting your Exit Objectives;
- Determining the value of your business;
- And, most importantly, taking action to implement and to enhance the Value Drivers in your business.

Third, once you have maximized the value of your business, undertake the proper sale process which, if properly conducted, can potentially put more money in your pocket.

Let's look at how the sale process itself can make you money.

Basically, there are two ways to sell your company to a third party:

- A negotiated sale; or
- A controlled auction.

Maximizing the amount of cash you receive upon the sale of your company is the business owner's equivalent of hitting the game-winning home run. To hit this one out

of the park, you must know what to do before you approach the batter's box. So, too, with a sale to a third party.

Gary Reese, owner of Reese Diamond Importers, had been approached by a national competitor. Preliminary negotiations led to an offer of \$7 million for the company. Before he accepted this offer, he called me with the good news. I urged him to contact an investment banker to orchestrate a controlled auction — a strategy Gary thought would scare off his suitor. The strategy scared the suitor alright — it offered another million dollars to avoid the auction. Gary subsequently hired the investment banker and sold his company (to another suitor) for \$13 million cash. How?

First, Gary was clear about his objectives. He told his investment banker exactly what he needed financially, when he wanted to exit, how long he was willing to stay and in what capacity and which companies he absolutely would not sell to. Using those criteria, Gary's investment banker developed a buyer profile and began to market the company.

Next, the investment banker developed a Deal Book which told the story of Reese Diamond Importers. Qualified suitors signed confidentiality agreements and were sent the Deal Books. After studying the Books, three suitors entered the controlled auction in which they bid against each other for Gary's company. The auction concluded when Gary selected the suitor that met his financial objectives and other Exit Objectives and signed a non-binding Letter of Intent outlining the terms of the purchase.

The buyer's attorneys completed the Due Diligence process (learning everything about Reese Diamond Importers as they drafted) and negotiated the definitive Purchase Agreement. The closing was held and Gary left the table with \$13 million in cash.

If, as in Gary's case, a sale is properly organized and orchestrated, *the process increases the amount of cash an owner receives.* In other words, Step Three, "Working On-Not In-Your Business," increases your sale proceeds by making your company inherently more valuable. Step Four increases the cash you take from the closing table by properly managing the Sale Process.

Contrast the sale method used to sell Gary's business (a controlled auction) with the negotiated sale. In a negotiated sale, a buyer has identified your company for acquisition and you have decided to sell to that buyer. The buyer controls the timing, the cash, and generally has more leverage in negotiations.

A controlled auction introduces your company to a pre-selected list of qualified buyers. The key to a controlled

an auction is to have multiple buyers, bidding for your company at the same time, each having identical information and each being financially qualified to acquire your company. As a seller, you get top dollar when these buyers compete against each other for the opportunity to purchase your company.

Controlled auctions are not a one-size-fits all proposition. They work best when:

1. the size of the company is in the mid-market, large enough to attract the interest of multiple buyers;
2. an owner's transaction advisors are skilled and experienced in conducting controlled auctions. (This advisor is usually an investment banker or, for smaller deals, a business broker.)

Getting top dollar for your business requires more than having the best possible business to sell. It also requires selling your business using the method best suited to extract top dollar from the buyer's checkbook.

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Issue 6

Transferring the Business to Children or Employees: A Recipe for Disaster? (Step Five)

How do you successfully transfer your business to a child, key employee or co-owner? I feel the most successful method is to follow a recipe which mixes, in equal measure, three key ingredients:

- One part: the ability, experience, and dedication of the prospective new owners;
- One part: a company with strong, consistent cash flow and little debt; and
- One part: a transaction designed to prevent income taxes from eroding the cash flow available to you, the seller.

It should be obvious that a business cannot be successfully transferred unless the new ownership is capable, nor can we expect the transfer to be successful if the business itself lacks the ability to provide an ongoing stream of income with which to pay for the business acquisition. What may not be so obvious, however, is the corrosive affect of income taxation upon the sale of a business to "insiders" -- children, key employees, or co-owners. Let's look at two key facts.

First, *your children or key employees may not have cash to buy you out*. Therefore, any sale will take many years to complete—a potentially risky prospect. Further, *all of the cash used to purchase your ownership must come from one source: the future cash flow of the business after you have left it*.

Second, without planning, the cash flow can be taxed twice. It is this double tax, (usually totaling more than 50 percent) that spells disaster for most internal transfers. Through effective tax planning, however, much of this tax burden can be legally avoided. Witness what Karl Clark did.

Karl Clark agreed to sell his company to a key employee, Sharon Smith, for \$1 million. This value was based on the company's annual \$250,000 cash flow which Karl historically took in the form of salary. While Karl understood that Sharon could not pay \$1 million (nor could she secure financing) he did think that she could buy out the company over a five or six year period, using the available cash flow of the company.

Karl's calculations were way off the mark. The time needed for a buy out was at least 10 years. But why were his calculations so off base? In a word, taxes -- actually in two words, double taxation. Without proper planning, this is what happens if Sharon buys the company (and what can happen to you when you attempt to sell your business to your children or employees):

- 1. Sharon receives the cash flow (\$250,000 per year) and is taxed on it at a 40 percent rate.*
- 2. Sharon pays \$100,000 in taxes (40% of \$250,000). This is the first tax on the business's cash flow.*
- 3. Sharon pays the remaining \$150,000 (net after tax) to Karl.*
- 4. Karl pays a 20 percent capital gains tax on the \$150,000 he has received for the sale of his ownership interest, or \$30,000 in taxes. This is the second tax on the original stream of income from the business. The result?*
- 5. The company distributed \$250,000 of its cash flow but Karl was only able to put \$120,000 in his pocket.*

Without proper tax planning, you too will pay an effective tax rate in excess of 50 percent on the company's available cash flow used to fund your buyout. This is likely to prevent, as it did for Karl and Sharon, a consummation of the sale of the business.

How might you avoid disaster and design your sale to minimize taxes and to maximize the opportunity for success?

1. Plan. Like Karl, you must have a plan that yields you a greater after-tax amount for the sale of your company. Since the cash flow of the company will not change, the key is to provide Uncle Sam a smaller slice of the available cash flow.
2. Use an experienced advisory team, usually consisting of a business attorney, CPA and insurance or financial professional. They must understand the importance of tax sensitivity to both seller and buyer in order to make more money available to you.

3. In addition, you and your advisors must use a modest but defensible valuation for the company. Because a lower value is used for the purchase price, the size of the tax bite is correspondingly reduced. The difference between what you will receive from the sale of your business, at a lower price, and what you want to be paid to you after you leave the business is "made good" through a number of different techniques to extract cash from the company after you leave it.

Tax planning for the sale of your company to an insider takes time, it takes planning, it takes expertise, but it can save a tremendous amount of money. Take time now to begin the planning process:

- Learn as much as you can about how to best accomplish the transfer of your business.
- Seek the advice of your advisory team sooner rather than later.
- Act sooner rather than later. Taking action now will ensure that your business transfer recipe provides a delicious result. Bon appetit!

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Issue 7

Planning for a Rainy Day (Step Six)

There is nothing worse for a business than to have its owner suddenly die . . . especially if it's your business.

Let's look at what can happen when an owner dies.

Joe Carpenter was the 55 year-old sole owner of a successful construction company. Joe hoped to sell his company to a third party in the next 18 months.

What Joe needed was a way to ensure that his company would survive if he died or became disabled during that period. Before he could put any plan into place, Joe was killed in a traffic accident. Soon after his death, key employees left his company for jobs with more certain futures. They feared that the company might not continue without Joe's leadership and personal financial backing.

Their departures caused a decrease in revenues as well as the default on a number of contracts which exposed the company to significant liabilities. Long-time customers grew uneasy with what they perceived to be a rudderless ship and took their business to Joe's competitors. Joe's bank grew uneasy as well and decided to call in his company's debt -- debt Joe personally guaranteed.

Within weeks of Joe's death, his key managers were gone, his company defaulted on a number of contracts, revenues plummeted, customers jumped ship and any prospects of securing replacement financing quickly disappeared.

As you can see, business continuity planning is vitally important to your company. Without a well thought out "survival plan," the consequences to employees, to customers and most importantly, to your family and estate are dire. (Don't think that your estate will escape the notice of your business creditors.)

Fortunately, there are a number of methods sole owners can implement today to avoid the type of business collapse that Joe Carpenter's business experienced.

First, to keep key employees on board after your demise, offer ownership—perhaps via a buy and sell agreement, or offer additional compensation if key employees continue to run the company. The amount of compensation can be directly tied to company profitability and continued success. As an additional incentive, offer these employees a substantial bonus (called a "Stay Bonus") for staying with the company—one that can be funded with insurance and that can be accessed in case of your death.

Second, alert your bank to your succession plans. Meet with your banker to discuss the arrangements you have made and show him or her that insurance to effect these plans is in place. Make sure your creditors are comfortable with your succession plan. Ask them what arrangements they would like to see in place.

Third, create a written plan that states: 1) who should take on the responsibility of running the business; 2) whether the business should be sold (if so, to whom) continued, or liquidated; and 3) who your heirs should consult regarding the sale, continuation or liquidation of the company.

Finally, work closely with a capable insurance professional to make certain the necessary insurance (such as funding the Stay Bonus) is purchased by the proper entity, (you, your trust, or the business) for the right reason and for the right amount.

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EXIT PLANNING REVIEW

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PROVIDED BY
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Issue 8

Preserve Wealth: Give it Away! (Step Seven)

The last step in your Exit Plan is Wealth Preservation Planning. But that doesn't mean you should wait until you are out of the business to begin actively preserving your wealth. In fact, if you wait until the value of your business is converted to cash, it's too late to realize all of the benefits of wealth preservation. The most significant and powerful claimant to your wealth is the IRS—especially in the estate tax arena.

George opened our meeting almost apologetically. "I knew I'd waited too long to begin gifting part of the company to my kids when I met with my CPA. She told me that, based on the company's pre-tax cash flow of \$2 million per year, the company could be worth as much as \$12 million to a third party. I had no idea! Since I don't need that much, I want to transfer at least half the value—at a lower valuation of course—before any possible sale. I'm looking at millions in gift taxes."

George hired a Certified Valuation Analyst (CVA) who valued the business at \$9 million, a conservative but supportable valuation. The company's stock was recapitalized into voting and non-voting stock. Based on current tax case law, the CVA knew that she could justify discounting the value of non-voting stock (or a gift of a minority interest of the voting stock). In her opinion, the minority discount was 35 percent of the full fair market value of the stock. Even with the 35 percent discount, however, a gift of half of the company (now reduced to a gift of approximately \$3 million) would cause the payment of a gift tax of approximately \$500,000.

Like you, George was not particularly keen on paying a tax of \$500,000. So he didn't. And he still gave away 50 percent of the company to his children. He did so by using the biggest lever in the Wealth Preservation Transfer Game: a "GRAT" – a Grantor Retained Annuity Trust.

A GRAT is an irrevocable trust into which the business owner (and the Trustee of the GRAT) transfers some of

his stock.

The GRAT must make a fixed payment (annuity) to the owner each year for a pre-determined number of years (in George's case, four years). At the end of this period, any stock remaining is transferred to the owner's children.

Stock transferred into a GRAT is treated as a gift—the amount of which is the value of the asset transferred *minus* the present value of the annuity which the owner will continue to receive. (George's advisors made sure that the present value of the annuity paid out over four years equaled the value of the stock transferred into the GRAT—therefore **no** gift was made by George.)

Another key to a GRAT's success is the transfer of an asset that appreciates in value and/or produces income in excess of the federal mid-term interest rate (currently about six percent).

Let's summarize what George did:

1. He transferred one-half of a business with a fair market value of \$9-\$12 million to his children in four years using less than \$10,000 of his lifetime exemption.
2. He continued to receive all of the income from the company during that four year period, because the annuity payment to George was designed to equal the amount of income expected from the stock transferred into the GRAT.
3. At the termination of the trust (four years) the trust asset, consisting of one-half of the company, was transferred to trusts for George's children, *free of any gift tax*.

These trusts were in turn established by George when the GRAT was created and contained his wishes regarding when, and if, the children were to receive money from those trusts.

This is *huge leverage*. And best of all, planning techniques such as GRAT's and the careful use of minority discounts, as well as a variety of other estate tax avoidance techniques, are likely available to you and your family.

Your financial and tax advisors can provide you with more information about this aspect of the planning.

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