

Estate Planning for Business Owners and Their Families

How Can I Provide for an Equitable Distribution of My Estate Among My Children? – Part One

Parents normally want to give equal amounts of their estates to their surviving children, regardless of how active each child is in the business. The problem with including this provision in a will is that each child may get not only an equal amount of the business, but also an equal amount of the non-business assets.

This arrangement ignores the fact that the owner may have already given large portions of the business to the business-active child; it also ignores a typical planning objective of giving the entire business interest to those children active in the business, while giving the rest of the children a disproportionate share in the balance of the estate.

Aurora Scaffolding rented and installed scaffolding systems on commercial sites. Like many construction-related firms, its economic fortunes rose and fell with unnerving regularity. However, its founder, Mike Jones, was a survivor – not only of the ups and downs of his business, but of a disabling injury at age 51. That experience made him a true believer in the estate planning process. Consequently, he found himself in his advisor's office shortly after his release from one of the local hospitals.

Mike arrived with a list of objectives he had carefully prepared. He wanted to begin an immediate transition of management – and ultimately control – to his youngest son, Patrick, who had been working in the business for almost five years. Mike was motivated not simply out of a desire to benefit Patrick, but more importantly to provide a mechanism for getting money out of the business for Mike's own benefit upon his planned departure in five years. There were no other likely candidates to buy his stock, so the fact that Patrick wanted to eventually own the business enabled Mike to make that decision earlier than he had planned.

Because Mike had neglected to obtain adequate disability income insurance, his second objective was to ensure that he would have adequate monies available to him in the event of another disabling injury.

Mike also described his other objectives (which happened to be estate planning based) as being the following.

- *He wanted to provide a comfortable income for him and his wife, Sharon, during his lifetime. Mike also wanted that income to continue for Sharon in the event of his death.*
- *Primarily at her insistence, he wanted to provide an equitable distribution of the estate to his other son after both he and his wife died.*
- *Finally, he was reluctant to pay any estate taxes.*

These concerns are typical of most business owners – retirement income, disability income, family income for surviving family members, fair distributions of the



This issue brought to you by:

**Bill McQueen and Alan
Creedy**
Succession Planning
Associates
alan@alancreedy.org

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family's estate among children, and minimization of estate taxes. Aren't these also your concerns?

Mike's Exit Planning Advisor began addressing his concerns by structuring them within The Seven Step Exit Planning Process™ – Setting Exit Objectives, Determining Business Value, Maximizing Business Value, Transferring Ownership and Other Financial Resources, Business Continuity, and Personal Wealth and Estate Planning. This comprehensive process is driven by Step One – Setting Exit Objectives. Mike's advisor specifically approached his questions above in regard to his estate plan by first quantifying Mike's objectives and creating a comprehensive Exit Plan that included meeting his stated lifetime objectives, as well as his estate planning objectives. In the next Exit Planning Review™, we will look specifically at how Mike and his Advisor Team created a comprehensive Exit Plan that not only included his estate plan, but also addressed the issues associated with distributing business and non-business assets to both of his business active and non-business active children.

If you have any questions about creating an estate plan prior to your business exit, please contact us to discuss your particular situation. We can help guide you through the process of creating an estate plan that not only helps meet your estate planning goals, but also supports your overall exit plan.

Subsequent issues of The Exit Planning Review™ provide unbiased and advertising-free information about all aspects of Exit Planning. We have newsletter articles and detailed White Papers related to this and other Exit Planning topics. If you have any questions or want additional Exit Planning information, please contact us.

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