THE EXIT PLANNING REVIEW™

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Equality and Fairness in Transfers to Kids

Stan Briggs was perplexed when he told his advisor, "My son, Patrick, has worked in the business for the last twelve years. In that time, the business has tripled its revenues and its profits. I've started to think about scaling back my activity and I realize how important it is (for my own retirement income) that Patrick be motivated to continue to grow the company profitably. Since I'd like to have him own the business someday, is there a way to start transferring it to him now? It seems unfair to make him pay for all of the business value since he created so much of it and since he is so important to my financial security. My son, of course, agrees wholeheartedly with this analysis but I'm not so sure that his mother and sister are on the same page. What issues do I need to consider?"

Equal vs. Fair

First, Stan must determine if his son is already paying for the business through "sweat equity" (more working hours, greater risk and lower compensation than he could have earned elsewhere). If so, any reduction in the purchase price is not a gift, but rather recognition of Patrick's contribution.

Second, are Patrick's efforts adding value to the business? If so, should Patrick have to pay for his efforts by receiving a reduced share of Stan's ultimate estate?

Third, if Patrick's involvement in the business is critical to Stan's retirement, Stan should consider tying his son to the business using "golden handcuffs," such as awarding ownership if Patrick stays to run the business—and the business stays profitable.

Fourth, in many business-owning families, every child is offered the opportunity for involvement in—and ultimately ownership of—the family business. Many times, however, only one child forgoes the allure of the "outside world" to commit to working in the sometimes uncertain and illiquid world of a closely held business. (Not to mention that having you for a boss should have some payoff!)

Lastly, analyze the transfer issue in light of your own goals. Be certain that any transfer to children will satisfy your exit objectives. Explore with your advisors other issues and concerns that may arise as you begin to transfer ownership to a child. For example, how much money will you need after you leave your business? What, if anything, needs to be done for your key employees or for your other children? Temper and qualify all transfers to children in light of your over-arching exit objectives. In short, make certain the transfer of ownership to a child is also a good business and retirement decision.

Using Advisors

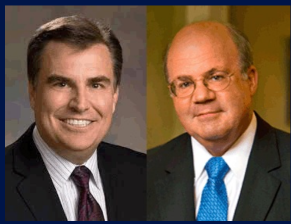
When considering a transfer of your business to a child, don't underestimate the value of using experienced consultants and advisors. Their counsel, experience and input are perhaps never more important than when dealing with your own family. The need for independent, non-emotionally-charged advice can be critical. Having worked with other family businesses, these consultants along with your other advisors can offer practical advice.

Decision Framework

- First determine the level of contribution your business-active child has made to the value of the business.
- Second, determine the contribution that child must continue to make to ensure the achievement of your exit objectives. Those determinations can form the basis of what is "fair" with respect to both the business-active child and the other children.
- Third, use your advisors to help explain, guide and implement the transfer of the business.

We are happy, as always, to assist you with analyzing the issues involved with a transfer of ownership to children.

Subsequent issues of The Exit Planning Review™ provide balanced 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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