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Planning for Business Succession

Business owners are often preoccupied with the day-to-day concerns of running and growing their companies, so **business succession** planning can often be overlooked, until it's too late. What would happen to *your* business if you were unable to work due to disability, or an unexpected death? Would your co-owners, managers, employees, and family members have the guidelines and tools in place to maintain your business?

Tips for Success

While there are many ways to approach succession planning, here are some basic steps to help you create a comprehensive plan:

1. Start now. Your family's financial future may depend on a sound succession plan. Get an early start, and follow the process through to completion.

2. Assemble a team of professionals. Because business succession planning involves many areas, obtain assistance from your team of qualified estate planning professionals, including your attorney, accountant, tax advisor, and insurance professional. They can work together as a team to help you develop a plan to achieve your objectives.

3. If you want your business to continue after your death, choose an appropriate form of ownership. The *form* of business you choose has tax, liability, legal, and business implications. If your business is established as a **sole proprietorship** or a **partnership**, it may be more difficult to transfer ownership after your death. To help ensure business continuity in the event of your death or incapacity, or that of one of your partners, consider converting to a **corporation**. Corporate status provides for the "perpetual existence" of the business, as well as limited liability for business owners.

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Permanent Life Insurance: Offering Benefits at Any Age

With life expectancies on the rise, many Americans can expect to live 20 to 30 years in retirement. For many people, the perception of retirement may lead to thoughts of pursuing passions and accomplishing long-standing goals, such as exotic travel or new business pursuits. However, with so many dreams to fulfill and a growing number of retirement years to plan, an early start to retirement planning has never been more crucial. So, regardless of your age, it is important to begin planning today for your future financial independence and that of your loved ones.

As you create your retirement plan, you may find that the inclusion of **permanent life insurance**, also known as **cash value life insurance**, may be beneficial. Permanent life insurance can offer protection to your family during your working years when financial obligations may be greatest. This type of insurance can be valuable in the long term, because the younger you are, the more affordable it may be. In addition, the longer the policy is held, the greater its potential future value may be. Here are some ways in which permanent life insurance may help safeguard your financial outlook in retirement:

1. Lifestyle benefits. Building assets to generate sufficient income is a major concern of many people planning for retirement. As

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Planning for Business Succession

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4. Choose and groom your successor carefully. It is important to select a successor while you are still active because grooming your successor and familiarizing him or her with the finer points of your business may take years. Choose someone who can step into your shoes easily and help facilitate a seamless transition. A successful transition to new leadership depends equally on the person you select, as well as the training and experience you provide.

5. Create a business "will" and a buy-sell agreement. The business will is a comprehensive planning tool that can detail, in step-by-step format, your plans for the continuation of your business, including your management plan. In your business will, you may also name your successor.

An important adjunct to a business will is a **buy-sell agreement**. A buy-sell agreement obligates one party to *buy* and the other to *sell* his or her interest in the business following a triggering event, such as the owner's death or disability. A buy-sell agreement can be structured as an entity purchase (redemption) agreement, a cross-purchase agreement, a hybrid (combination) agreement, or a "wait-and-see" agreement. Your planning team can assist you in selecting the most appropriate structure for your buy-sell agreement.

6. Consider funding your buy-sell agreement with insurance to enable your chosen successor to buy the business. Although a buy-sell agreement can help ensure that your business will remain with your family or business partners in the event of your death or disability, adequate funds must be available to meet the requirements of the agreement. **Life insurance** is a funding vehicle that can help ensure adequate liquidity should a qualifying event force the sale of an ownership interest. **Disability buy-out insurance** may also be purchased on the owners to fund the purchase of the business specifically in the event of a disability.

7. Establish a dollar value for each owner's share. For most small, closely held companies, it is not easy to put a dollar value on the business. You may need to obtain an independent appraisal of your business to help formulate your buy-sell agreement.

8. Develop an estate plan to ensure adequate liquidity to help pay estate taxes and other final expenses. Without prior planning, there may be no provision or funds available to pay estate taxes, which could be significant. You may want to consider purchasing enough life insurance to help cover the cost of estate taxes.

In addition, consider **transferring** part of your business ownership to family members involved in the business using certain gifting or sale techniques. While relinquishing control of your business can be challenging, it can help reduce your assets, thereby reducing your potential estate tax liability.

9. Discuss your plans with all involved parties. By letting your family and management team in on your business succession plan, such as who will take over as owner and head of the company and why, you can help to minimize stress and confusion for your successor and your family.

10. Review and update your succession plan as needed. Once your plan is established, review it periodically with your team of professionals to address any changes that may be required. If a major change occurs in your business or personal life, review and revise your plan, as is necessary.

The time you take today to plan for business succession can help ensure that your wishes will be fulfilled when the time comes to transition into new ownership. Your family members and business associates will also benefit from your thoughtful consideration of their future needs. $

Paying for College with Help from Uncle Sam

When thinking about funding sources for your children's college education, you may assume your family earns too much to qualify for Federal grants, loans, and work-study job assistance. However, families with higher incomes are frequently eligible to receive some form of financial aid from the Federal government.

The U.S. Department of Education (DOE) uses a formula for calculating financial aid eligibility that considers a range of factors in addition to income and assets, including family size and other financial obligations. When assessing a family's ability to pay for college, the Federal government recognizes only a small percentage of parents' assets as potential contributions, while other types of assets, including home equity and savings in IRAs and 401(k) plans, do not factor into the qualification formula.

Filing the FAFSA

Even if you expect to cover your child's college costs through sources other than Federal aid, it is usually worthwhile, if not required for you to complete the Free Application for Federal Student Aid (FAFSA) as the initial part of the process. In addition to determining your family's eligibility for Federal assistance, the FAFSA is the primary qualifying form used by many college, state, local, and private financial assistance programs.

The first step in applying for financial aid is filling out the FAFSA, which is distributed and processed by Federal Student Aid, an office of the DOE. Hard copies of the FAFSA are often available at high school guidance offices, libraries, or post offices, or by calling the Federal Student Aid office. The simplest way to complete the FAFSA is by applying online at www.fafsa.ed.gov. Filling out the form online will alert you to mistakes or omissions; it can also expedite the processing time by one to two weeks.

The documents you will need as a parent to complete the FAFSA include your Federal income tax return and W-2 forms from the previous year, current bank statements, records of untaxed income, such as Social Security or veteran benefits, current business and investment mortgage information, and investment records. If you are divorced and are the child's custodial parent, only information about your own household's income and assets, including any child support and alimony, are required by the FAFSA. While some colleges look at the financial resources of the noncustodial parent in determining the student's need, the Federal government does not.

The Student Aid Report

When filling out the FAFSA, you may request that your financial information be sent to up to six colleges. If your child intends to start college next fall, it is advisable to file the FAFSA as soon as possible after January 1, because deadlines for submitting FAFSA information can be early in the year for some colleges and state awards programs.

Within a few days to a month after it is filed, you should receive by postal mail or e-mail a form known as the Student Aid Report (SAR). On the SAR, you will find the Expected Family Contribution (EFC), an estimate of the amount of your family contribution toward the student's college expenses for the year. The colleges you listed on the FAFSA will use this figure as a basis for determining the amount and type of any financial aid you will receive.

If financial need is determined, the schools that admit your child as a student will prepare a financial aid package covering all or part of the difference between your family's EFC and the cost of the college. Depending on your family's income and the resources of the institution, colleges may offer more or less aid than the difference between the EFC and the cost of attendance.

The type of Federal aid your child receives is largely based on family income. Lower-income students may be awarded grants that do not need to be repaid, such as the Pell Grant or the Federal Supplemental Educational Opportunity Grant (FSEOG), and additional assistance may be available in the form of a Federal work-study job.

Besides these awards, students may be eligible for subsidized Federal loans, such as the Perkins Loan or the Stafford Loan. These loans must be repaid by the student, but the government pays the interest while the student is in school and during grace and deferment periods.

In addition, your family may be offered an unsubsidized Stafford Loan, which must be repaid by the student, or a PLUS Loan, which is in the name of the parents. Interest accrues on these unsubsidized loans from the time the funds are disbursed, though payments may be deferred until after graduation.

When loans offered by Federal programs prove insufficient to cover the actual costs of your child's education, you can apply for a private education loan. However, these loans tend to have higher interest rates than government loans. To learn more, visit www.studentaid.ed.gov or www.fafsa.ed.gov. $

Property Ownership Issues Facing Unmarried Couples

When it comes to owning property, unmarried couples face some unique financial and estate issues. For example, if one partner dies, property does not automatically pass to the surviving partner, as it would to a spouse. And, if one partner transfers property to the other partner, there could be tax consequences. Understanding these matters is the first step in protecting your property. Consider the following information concerning these three types of property: 1) income, 2) property with a deed of title, and 3) untitled possessions.

Income

When you first enter a relationship, you have the sole right to your personal income. However, in many states, a spoken or implied agreement to share income with your partner may support his or her claims against you if you separate. This is the basis for many palimony suits. Without a written contract, you could spend a great deal of time and money contesting your rights in court.

Property with a Deed of Title

Unmarried partners who share property with a deed of title such as real estate, bank accounts, vehicles, and securities may choose between two legal forms of ownership: **joint tenancy with right of survivorship** or **tenancy in common**.

Joint Tenancy with Right of Survivorship. When you own property as joint tenants, you share equal rights to the entire property. Unless you have divided the cost equally, it is wise to document how much you have each contributed. Otherwise, there is no proof if one partner paid more than the other. According to the law, you are both equal owners, and if the relationship ends, you could each receive half of the property. On the upside, because you don't own separate shares, creditors may find it difficult to claim joint property, although laws vary from state to state.

Most states recognize the right of survivorship, although some may require that it be stated explicitly in the title or deed. This means that, upon the death of one partner, the property would automatically pass to the surviving joint owner, thereby avoiding **probate**.

Joint tenancy is easy to establish. You simply state both names on the title or deed and note that ownership is by joint tenancy with right of survivorship. Both signatures are required to sell the property, which could create problems if the relationship ends or one partner becomes incapacitated without having named a **durable power of attorney**.

Of course, jointly owned property has trade-offs, as well. It may be subject to both estate and gift taxes. The entire value of the property is included in the estate of the first to die, unless records can prove the surviving partner contributed to the cost. In addition, any property one partner transfers to the other partner could be subject to gift taxes. Be cautious about adding your partner's name to an existing deed. Unless there has been a fair exchange of value, the Internal Revenue Service (IRS) may consider this a gift, and tax it accordingly.

Tenancy in Common. In most states, property purchased by two or more co-owners automatically creates a tenancy in common, unless the title or deed states otherwise. A tenancy in common allows you to own unequal shares of a piece of property. Because percentages are stated on the title or deed, property held this way might be an easier target for creditors, since a claim can be issued against a specific share of the property.

Tenancy in common allows you to give or sell your share to anyone at anytime without the co-tenant's consent, although property transfers without a fair exchange of value may be subject to gift taxes. Unlike joint tenancies, tenancies in common are subject to the probate process when one owner dies.

Untitled Possessions

Who gets the TV? Who gets the microwave? To avoid these questions, it's best to own personal possessions separately. Keep records of your receipts. If you do purchase items together, document who owns each item. Written records provide the best evidence of ownership, should the relationship end.

Protect Yourself Put It in Writing

Without laws to guide the division of your property, it is important to keep detailed records and put all agreements in writing. While you may feel ambivalent about broaching the issues of property ownership, taking these steps now can help avoid tax problems later and ensure fair disposition of your property in the event of separation or death. $

Shielding Your Finances from Disaster

Whenever catastrophic events occur, they clearly demonstrate that our communities and livelihoods can be unexpectedly destroyed in a matter of minutes. In the aftermath, many victims of natural disasters struggle to get back on their feet financially. While there is no way to completely prevent a natural disaster, there are steps you can take to protect yourself and your family from financial difficulties should you be forced to evacuate your home in an emergency.

Here are some strategies to help prepare for potential disasters:

Store important documents in an "evacuation box." Gather and make copies of all your key financial and personal documents, including passports and birth certificates, marriage licenses, wills, property deeds, insurance policies, mortgage records, car titles, and stock and bond certificates. Make copies of the front and back of all credit cards and driver licenses. Then make a list of all your account and credit card numbers, as well as a written and photographic inventory of all your valuables. Be sure to have enough cash or travelers checks to last your family about three days.

Keep all essential documents in a bank safe-deposit box located away from your home or in an airtight, waterproof, and fireproof safe or container that can be easily taken with you in case of an evacuation. Inform family members or trusted friends of the box's location in case you are unable to personally retrieve it.

Maintain liquidity. Avoid tying up all of your assets in real estate or investments that cannot be tapped without paying penalties. Keep the equivalent of three to six months' income in a savings or money market account. You may also want to have on hand several credit cards with high available balances, or arrange in advance a line of credit for an emergency. If you have a 401(k) account with your employer, find out whether your plan allows you to take a loan out against your savings.

Protect your property. If you live in an area that is vulnerable to natural disasters, consider ways to mitigate potential damage to your property. Depending upon the type of disaster likely to strike in your location, you may want to take precautionary measures, such as anchoring the foundation and roof, installing hurricane shutters on windows and glass doors, adding fire-resistant siding, securing items that could fall or blow away, moving electrical panels and furnaces to upper levels, installing smoke detectors, and clearing brush from around the house. If uncertain, ask a building inspector to recommend structural

or other types of improvements. By taking protective measures, you may be able to negotiate a reduction in your homeowners insurance premiums.

Purchase adequate insurance coverage and review your policies regularly. Many people who have lost their homes to disasters learn that their insurance policies do not cover the cost of rebuilding. If you have homeowners insurance, check your policy annually to ensure that it covers the actual replacement cost of your home and its contents. This is especially important if the value of your home has risen significantly or if you have made improvements to the property. Be aware that your policy may not cover damage due to specific causes, such as flooding. If the insurance you need is not available through private companies, find out if state or Federal insurance pools would provide coverage.

In addition, you may want to consider disability income insurance coverage to provide a source of income in case you are injured in a disaster and unable to work for a period of time. If you receive health benefits through your employer but lose your job, you may keep your coverage for a specified period of time under Federal COBRA laws. Also, make sure that your life insurance coverage is sufficient to meet the needs of your family. It may be possible to withdraw some or all of the cash value from a permanent life insurance policy, if necessary. However, access to cash values through borrowing or partial surrenders can reduce the policy's cash value and death benefit, increase the chance the policy will lapse, and may result in a tax liability if the policy terminates before the death of the insured.

Don't wait until disaster strikes—the time to prepare is *now*. Consider consulting a legal professional about the potential benefits of additional protection, such as trusts, powers of attorney, or living wills. $

Becoming a Better Negotiator

Whether closing a sale, haggling over a price with a supplier, or discussing a raise with an employee, business owners negotiate nearly every day. While you may already be an effective negotiator, consider the following strategies to help maximize your negotiating skills.

Negotiating does not have to be a zero-sum game. When two parties enter into negotiations, they are both looking to create something of value that did not exist before. Instead of taking an adversarial approach, think about how both parties can arrive at a mutually beneficial solution. Without abandoning your own interests and objectives, consider the interests of your negotiating partner. Reflect on what your priorities might be if you were in your partner's shoes and how you can best accommodate those priorities.

Do Your Homework

Before approaching the bargaining table to negotiate an important deal, make sure you are fully prepared. If, for example, you are attempting to sell a product at a certain price, have evidence on hand to justify your price, such as information or testimonials about the quality of the product relative to similar products in the marketplace and about the prices of equivalent products offered by competitors. If necessary, practice with a business partner or coworker, asking for feedback and advice on how you can improve your arguments and presentation.

Find out as much as you can in advance about your negotiating partner so that you can explain in detail why what you are offering is ideally suited to meet his or her specific needs. It may be tempting to focus solely on the virtues of your company or product, but many clients will see through a one-size-fits-all sales pitch. In the course of your presentation, concentrate at least as much on your client's needs as on the product or service offered. Your client will know if you have done your homework.

When you are the customer, come to the negotiating table with your questions about the offer as well as information about the prices for similar products or services available elsewhere. Have in mind an ideal price and how much you would be willing or able to deviate from that price if, for example, you were offered a volume discount, a maintenance contract, or free delivery.

Keep an Open Mind

As you approach the negotiating table, be sure to keep an open mind. Listen carefully to what your negotiating partner has to say, and think about whether you can offer a greater degree of flexibility than you initially anticipated. If necessary, ask for additional time to think about the terms before entering into an agreement.

The deal you are negotiating may be a big one. So be aware of any hidden agendas, and do not allow yourself to be pressured into signing a contract you do not fully understand. If you are attempting to close a sale, do not insist that a client make an immediate decision if he or she is not ready to do so. While pitching aggressively to get the sale may be effective in the short term, it may jeopardize your relationship with the client, and may damage your reputation for solid business practices.

Inevitably, some negotiations come to an abrupt halt when neither side is willing to compromise further. However, this may not be the end of the story. Even if you are unable to strike a deal, avoid showing any anger or irritation. Psychologically prepare yourself for the possibility that the initial round of negotiations may not go your way, and envision yourself gracefully accepting a negative outcome. Kindly and professionally, let your negotiating partner know how much you appreciate the time he or she has taken to discuss the transaction, leaving the door open for future communication. Even a session that ends in a deadlock can be useful in building a relationship that could result in future cooperation.

Negotiations with other business professionals can be tricky. But if you are prepared before you come to the table and remain open about the outcome, you can improve your negotiating skills and your chances of building your business. $

The Importance of Domicile in Your Estate Plan

Increased mobility in today's society has changed the way we live, work, and play. Compared to previous generations, it is now quite common for work and recreational activities to cross state lines, resulting in ownership of property and formal relationships in more than one state.

When you consider the terms **domicile, statutory residence**, and **residence**, they may seem similar at first, but it is important to understand how they are different. Your ***domicile*** is the state where you maintain your permanent residence and intend to return to for prolonged periods. An individual can have only one legal domicile at a time. A ***statutory residence*** is the place where you live and work; you are subject to the income tax for that state. If you are a statutory resident of one state, while claiming a domicile in another, your domicile state may also require you to file a tax return. Your ***residence*** is any place (or places) where you live; the term "residence" bears little or no legal significance.

Estate Planning

Where your will is **probated** is determined by your domicile. If your domicile is unclear at your death, several states may be able to claim you as a domiciliary and tax your estate accordingly. Keep in mind that estate tax laws vary by state, and state laws may differ from Federal laws. In some states, your spouse may be taxed on a portion of his or her inheritance that, in another state, would pass to him or her free of state estate tax. Some states exempt smaller estates and certain property from the probate process. Other considerations may also apply.

In addition, your choice of domicile can affect your overall financial plan, especially regarding property ownership. Not all states define property ownership in the same way. Some allow married couples to own property and income separately. In other states, known as community property states, married couples share ownership of all assets acquired *during* the marriage, but each spouse may own previously acquired property separately.

Further, your choice of domicile can affect your state income tax. Your income may be taxed in your state of domicile, the state where you earn income, or both. If you change your domicile during the tax year and both your present and former domiciles tax income, you may have to file partial-year tax returns in both states.

Establishing or Changing Domicile

You can take certain steps to establish your state of domicile. In general, your domicile is not determined by the length of time you spend in a state. You may establish a domicile when you first occupy a property, or you may spend decades in a place and never call it your domicile. If you marry a person domiciled in another state, you may be able to claim your spouse's domicile as your own, even if you never visited that state.

If you have moved, your "true" domicile may hinge on the *number* and *significance* of the contacts you have in your former and present state. Here are other significant factors for you to consider:

- **Retention of "historical" home.** If you have moved, have you sold your long-time residence in a former state?
- **Business relationships.** In which state are your significant business contacts located?
- **Location of property.** Where is most of your significant real and tangible personal property located?
- **Social connections.** Where do you maintain civic, religious, or family connections?
- **Time spent.** Where do you spend the majority of your time?

While you may feel your *intent* is clear, it is most likely that your *actions* will determine the evidence of your intentions. Consequently, simple acts such as registering to vote in a new locale, changing your automobile registrations and driver's license, resigning from organizations in your former state, and joining organizations in a new state may also be viewed as evidence of intent to change your domicile.

Because your choice of domicile can affect your overall estate planning, be sure to consult your professional legal and tax advisors for specific guidance on your unique circumstances. $

Permanent Life Insurance: Offering Benefits at Any Age

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life expectancies increase, your existing assets must support you for an unspecified number of years. Permanent life insurance may help ensure that a surviving spouse will be financially sound with tax-free income from the death benefit provided by the policy. Additionally, couples may choose to access the cash values to supplement retirement income or to pursue a lifelong goal. However, any cash value that is not repaid will reduce the policy's death benefit amount.

2. Burial expenses. End-of-life medical and burial expenses can be significant. Unfortunately, without life insurance coverage or any pre-planning in place, surviving family members may have to pay these expenses from their own assets. The proceeds of a life insurance policy can be used to help cover these expenses.

3. Estate protection. Many people are concerned about the legacies they will leave their heirs. Permanent life insurance can create an instant estate for the named beneficiary. It can also provide funds to help cover the cost of estate taxes. Asset transfers to beneficiaries other than a spouse that exceed the **applicable exclusion amount** ($5.45 million in 2016) may be subject to substantial estate tax, and insurance policy proceeds may be used to help pay these taxes. With proper preparation, you and your loved ones can help ensure that family heirlooms and property remain in the family and will not have to be sold quickly to pay estate taxes.

How It Works

Provided that policy premiums are paid on time, a permanent life insurance policy can provide coverage for your entire lifetime. In fact, for certain policies, benefits include premiums that may never increase, benefits that never decrease, and a policy that cannot be canceled regardless of changes in your health.

Permanent life insurance policies offer death benefits that are free of income tax, as well as a tax-deferred cash value component. This means that a portion of premium payments to a permanent life insurance policy is used to build cash value, which can be borrowed, often on a tax free basis, for a variety of uses. Retirees may use cash values to help cover educational expenses for younger generations, supplement retirement income, pay for travel, start a new business venture, or even purchase a second home.

It is important to note that distributions of cash value will have an impact on the policy. Distributions under a policy (including cash dividends and partial/full surrenders) are not subject to taxation up to the amount paid into the policy (cost basis). However, if the policy is a Modified Endowment Contract, policy loans and/or distributions are taxable to the extent of gain and are subject to a 10% tax penalty. Access to cash values through borrowing or partial surrenders can reduce the policy's cash value and death benefit, can increase the chance the policy will lapse, and may result in a tax liability if the policy terminates before the death of the insured.

Many permanent life insurance policies also offer non-guaranteed dividend payments, which can be paid when the insuring company's expenses are lower than originally projected. Dividends can be used for a variety of purposes, including as a source of income or as a means to buy additional coverage or to cover existing premium payments.

Permanent life insurance policies may offer a variety of benefits to you and your family throughout your lifetime. In addition to the knowledge that your designated beneficiary (ies) will receive the proceeds of the policy upon your death, you may also have the ability to access the cash values before that time. A permanent life insurance policy can be an important component of an ongoing, long-term financial strategy at any age.

Note: Guarantees are based upon the claims-paying ability of the policy issuer. Life insurance policies contain exclusions, limitations, reductions of benefits, and terms for keeping them in force. Your financial professional can provide you with costs and complete details. $