

AHFA ANNUAL MEETING

The Hermitage Hotel
Nashville, TN
November 4, 2023

Resnick Succession Group

Resnick Succession Group

1. Nationally Recognized Business Succession, Estate Planning, and Life Insurance Advisory and Implementation Firm
2. Educational Presenters to over 250 Business Organizations
3. Co-Founders of the Elizabethtown College Family Business Center and Law School Lecturers

Will This be Your Reality?

- 1. Will You Work Decades to Build a Successful Business only to eventually lose it?**
- 2. Will There at Some Point in the Future, be Infighting Within Your Family?**
- 3. Will Your Family and Business Legacy be one to be Remembered?**

Controlling the “Controllables”

1. Being Proactive with Planning
2. Protecting Business / Family

A Leading Cause of Business Failure.....

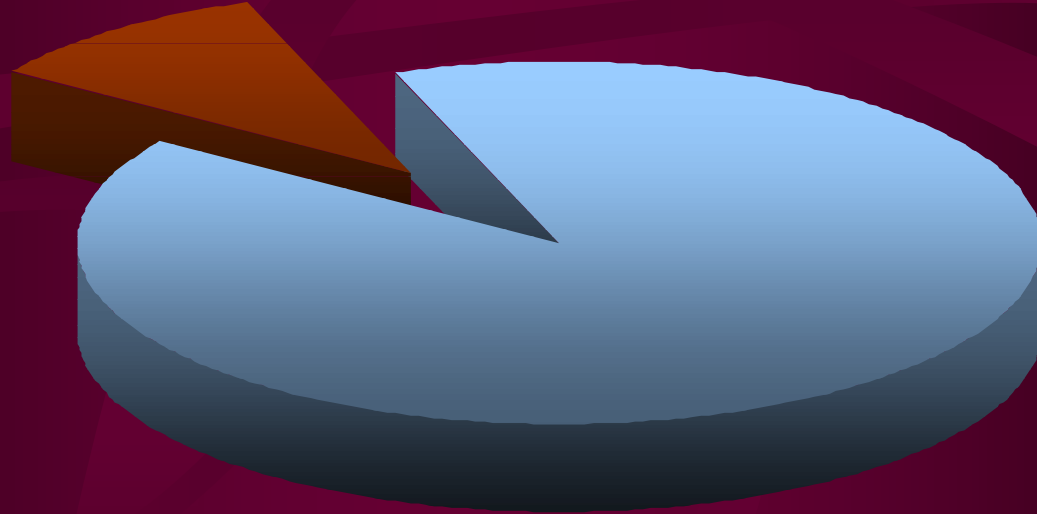
**INEFFICIENT, INEFFECTIVE AND
NON-EXISTENT BUSINESS
SUCCESSION/ESTATE PLANNING!**

What is Succession Planning?

A Deliberate and Systematic Effort
by a Company to Ensure
Leadership/Ownership Continuity

23.3 Million U.S. Businesses

10% Public/90% Private



Business Succession Checklist

Item #1

**Define Personal Goals and Vision
of the future / Identify Successor**

Item #2

Techniques to Reduce or Eliminate Estate Taxes

***Tax Cuts and Jobs Act of 2017
to be discussed**

Item #3

**Sufficient Liquidity Positioning to Avoid
the Forced Sale of the Company and
Provide for Estate Equalization**

Item #4

Business Interests Transfer Techniques to Help Achieve Succession Goals

Item #5

**Independent Review of Existing
Legal Documents and Life
Insurance Contracts to Confirm
they will Actually Meet Objectives**

Often Missed Business Succession Component

Inability to Retain Key Executives/Employees

Planning Coordination

Confirm consistency of your
Business Succession Plan AND
Personal Estate Plan

The Tax Cuts and Jobs Act of 2017

An Inside Look

- **2023 Estate/Gift Exemption Amount is \$12.92m/individual and \$25.84m/married (during life, death or combination)....indexed for inflation**
- **Tax Rate 40%**
- **Permanent?? Major Change is Coming**

COMPLACENCY = LOSS OF ASSETS

***\$5-6 million** - This is approximately where the exclusion amount will be starting January 1, 2026.

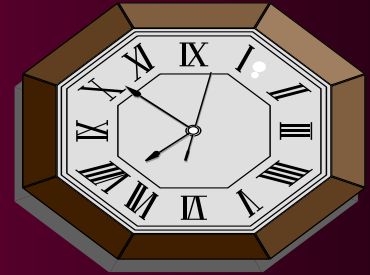
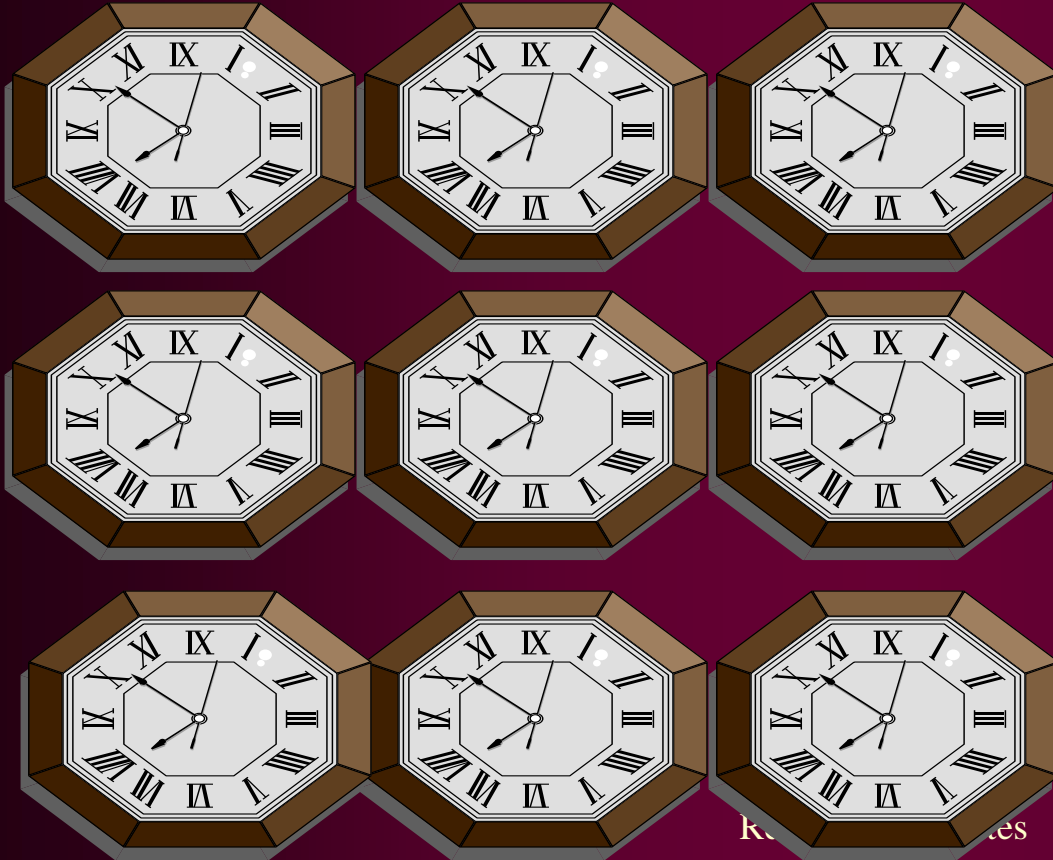
*Exact amount TBD

FACT

**BUSINESS SURVIVAL IS NOT
GUARANTEED.....EVEN IF THE
BUSINESS/ESTATE IS BELOW THE
FEDERAL EXCLUSION AMOUNTS!**

Building Business/Assets

Preservation of Assets



Most Common Mistakes

- Complacency / Frustration
- Unrecognized Estate Size and Tax Hit
- Poor Liquidity Position
- Improperly Arranged Life Insurance
- Lack of Specialized Planning
- Unable to Retain Key Personnel

Essence of Business Succession and Estate Planning

- Assets – Both business and nonbusiness
- Assets to go to whom you want, when you want, and how you want
- Current Plan – Are you 100% certain this will happen?

Estate Planning Liquidity Needs

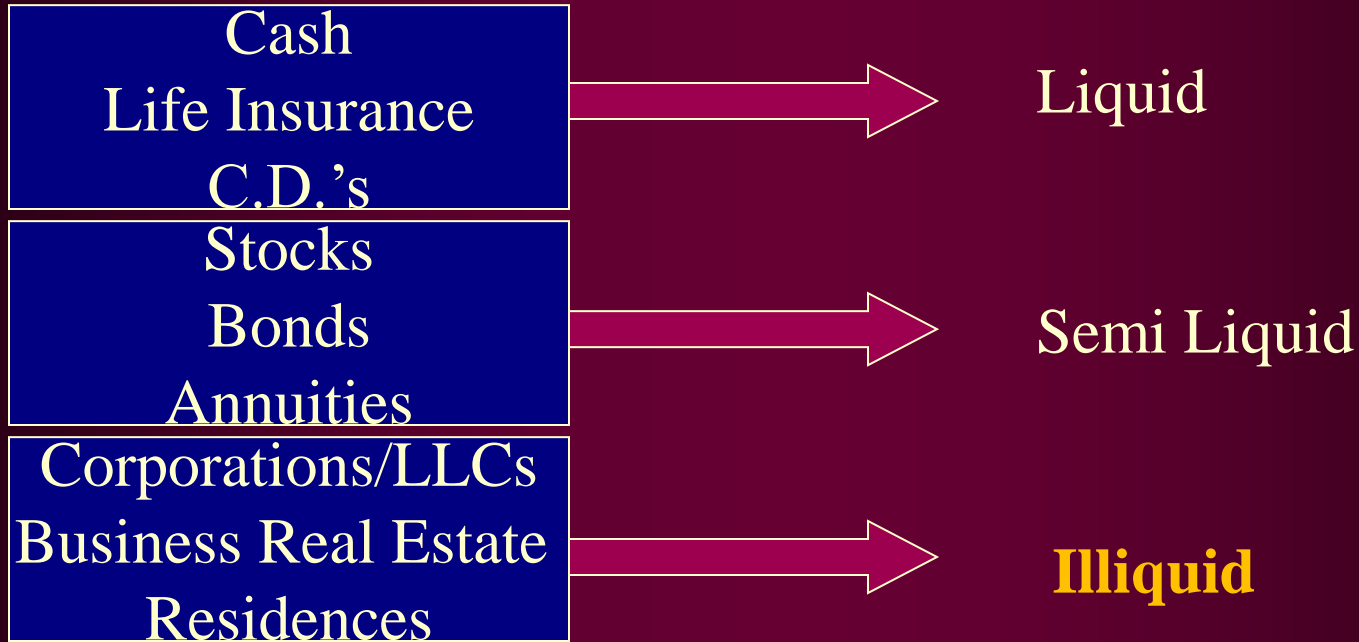
- Administration Expenses
- State Estate/Inheritance Taxes (depending on state of residency)
- Federal Estate Taxes (due within 9 months)
...often Deferred to Second Death
- Family Income Needs

Succession Planning

Liquidity Needs

- Buyout of Business Interests
- Capital to Strengthen Business at Transition
- Replacement of Key Executives
- Deferred Compensation Arrangements

Sources of Liquidity



PAYMENT METHOD

Cash



- Reduces Total Bequest to Family
- Reduces Funds Family May Need for Current and Future Expenses
- Future Earnings on Funds are Gone
- Capital to run Company is Gone

PAYMENT METHOD

Sale of Illiquid Assets

- Reduces Total Bequest to Family
- Complete Loss of Future Income
- Unlikely to Receive Fair Value

PAYMENT METHOD

Life Insurance

- Least expensive method to pay estate taxes and other required obligations
- Death Benefit May Be Estate and Income Tax Free if Ownership is structured correctly
- Preserves Assets - including the Business
- Maintains Family Harmony

Life Insurance Ownership

Maintaining Estate Tax Free Status

- Irrevocable Trust
- LLC
- Adult Children

**LIFE INSURANCE
MISTAKES RESULT IN
TREMENDOUS LOSS OF
CAPITAL**

Life Insurance is an ASSET

Commonly, the second largest ASSET for business owners is the face value of their life insurance.....

Major Problem!!

Most Business Owners Do Not Understand their Second Largest Asset. This often leads to Significant Business Succession and Estate Planning Problems.

IT IS
FINANCIALLY CRITICAL TO
COMPLETELY
UNDERSTAND THE
CONTRACTUAL LANGUAGE
IN YOUR POLICIES

What Type Did/Do You Acquire?

- Term
- Universal
- Variable
- Variable Universal
- No Lapse Universal
- Indexed Universal
- Whole Life
- Whole Life / Term Blend

CONCERN AND CAUTION

- Variable
- Universal
- Variable Universal
- No Lapse Universal

Variable Life

Universal Life

Variable Universal Life

The following items are NOT guaranteed

1. Premium
2. Cash Value
3. Death Benefit

Insurance Company Safety/Policy Selection

- Was your life insurance acquisition based upon strict due diligence?
- Do you know the Comdex Score of your insurance company(s)...have you ever heard of a Comdex Score?
- Are you certain, with all the changes in the marketplace, that you have policies with the lowest *net cost*?

“I thought Life Insurance was Tax Free”

- Income and Estate Tax Situations
- Ownership of Policy must be structured correctly
- **Pension Protection Act of 2006!!**
- More.....

There Must Be Complete Understanding of:

Type of Policy

Company Financial Safety

Policy Design

Policy Ownership

Potential Tax Traps

Valuation

Important for Lifetime Gifts and Testamentary Transfers

Fair Market Value

What a Willing Buyer Would
Pay a Willing Seller, Neither Being
under a Compulsion to Buy or Sell
and Both Knowing All Relevant Factors

Valuation

IRS Revenue Rulings

Key Ruling - 59-60

Earnings
Capacity
Book Value
Dividend
Capacity
Marketability

Risk Closely
Held

Market Factor
Publicly Held

**Minority
Discounts**

Control
Premium

Properly Structured and Properly Funded Buy-Sell Agreements!!

Buy-Sell Agreement Key Components

- Language that addresses all contingencies
- Valuation
- Funding

What are the Choices to Fund a Buy-Sell Agreement?

- **Borrowing**
- **Installment Method – Commonly Used**
- **Life Insurance**

Advantages of a Formal Buy-Sell Agreement

- Surviving Owner maintains Continuity of Ownership and Management
- Decedent's Estate / Family Converts Unmarketable, Non-Liquid Business Interest to Cash
- Provide Fair and Reasonable Price

Types of Buy-Sell Agreements

- Entity Redemption
- Cross Purchase

Entity Redemption Plan

- Al and Bob Form Corporation & Each Contributes \$500,000
- 10 Years Later Corporation is Worth \$10,000,000
- Al and Bob Enter Into a Stock (Entity) Redemption Agreement
- Corporation Becomes Owner and Beneficiary of \$5,000,000 Policy on Both Al and Bob

Entity Redemption Plan

Al Dies:

- \$5,000,000 Death Benefit is Paid to the Corporation
- Corporation pays \$5,000,000 to Al's Estate
- Al's Estate Redeems Stock Back to Corporation
- Bob's Stock is Now Worth \$10,000,000
(Same # Shares, Twice the Value)

Entity Redemption Plan

- Bob Decides to Retire and Sell Corporation for \$10,000,000
- Bob Must Pay Capital Gains taxes on \$9,500,000 (\$10,000,000 Minus Original Cost Basis of \$500,000)

Cross Purchase Plan

- Al and Bob Form Corporation & Each Contributes \$500,000
- 10 Years Later Corporation is Worth \$10,000,000
- Al and Bob Enter Into Cross Purchase Plan

Cross Purchase Plan

- Al is Owner and Beneficiary of \$5,000,000 Policy on Bob
- Bob is Owner and Beneficiary of \$5,000,000 Policy on Al

Cross Purchase Plan

Al Dies:

- Bob is Paid \$5,000,000 from Policy on Al's Life
- Bob Pays Al's Estate \$5,000,000 for Al's Stock
- Bob now Owns \$10,000,000 of Company Stock

Cross Purchase Plan

- Bob Decides to Retire and Sell Corporation for \$10,000,000
- Since Bob bought Al's Stock for \$5,000,000 and had \$500,000 Original Basis...
- ...Bob Pays Capital Gains Taxes on \$4,500,000
- **RESULT.... Tax Savings on \$5,000,000**

Successful Transition for Al's
Family and Bob.....Right?

MAYBE NOT!

WHY???

**The Buy-Sell Agreement was
Never Updated.....**

What's Changed?.....Plenty!

Al and Bob each had a son, Al, Jr.
and Bob, Jr. working in the
business each wanted their own
son to have future ownership

Let's Talk about Al's son's Ownership Future

Not a Very Long Discussion!

Previous Example is only one
of Multiple Traps that Exist in
Many Succession Plans

SPECIAL CASE STUDY

YOUNG FAMILY AND ABC, INC.

ESTATE/SUCCESSION PLAN

Case Facts

- Parents, Louie and Louise Young, Ages 65 and 63 - Both Active
- Three Children:
 - Joe, Age 33 and Unmarried
 - Moe, Age 30 and Married to Nora
 - Helena, Age 27 and Married to Ken
- Louie, Louise, Joe, Moe 25% each of ABC
- Fair Market Value of ABC, Inc. is \$7,000,000
- Louie and Louise Estate Valued at \$10,000,000

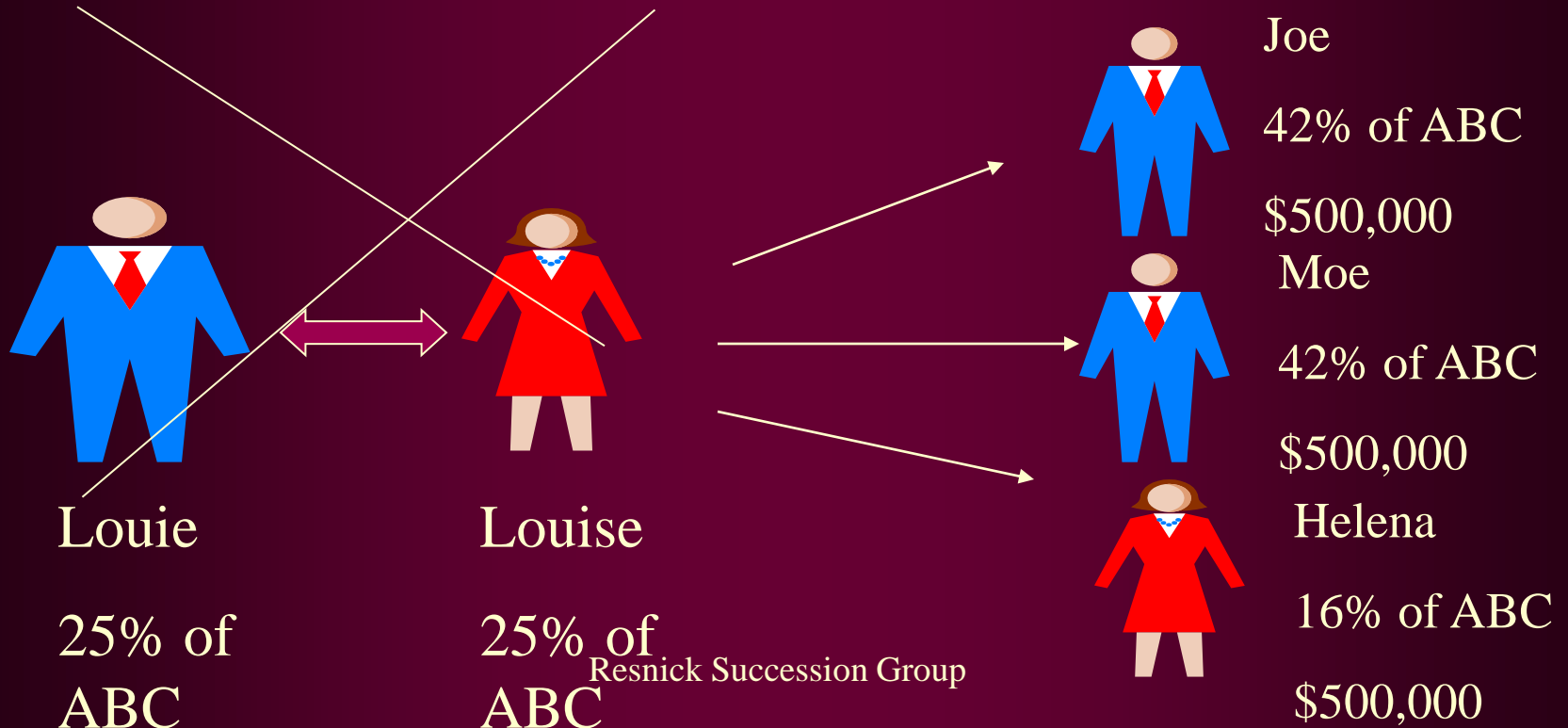
Current Plan

- Louie and Louise have Basic Wills
- At Second Death, Estate is Distributed Equally among the Three Children
- There is no Buy-Sell Agreement
- Children, Moe and Helena have Simple Wills
- Joe, – Single – No Estate Planning

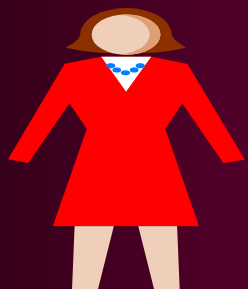
Goals

- Distribute the Estate Fairly Upon the Last to Die of Louie and Louise
- Assure that ABC, Inc. is Run by the Two Sons, Joe and Moe, Who are Active in the Business
- Provide Non-Business Assets to Daughter, Helena

Results of Current Plan after Death

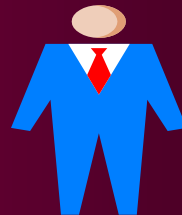


Results of Current Plan At Moe's Subsequent Death



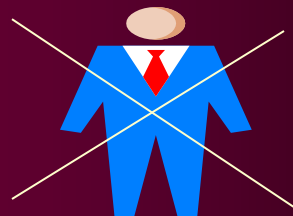
Nora

42% of ABC



Joe

42% of



ABC

Moe



Helena

16% of

ABC

Young Family and ABC, Inc. Business Fallout

- Nora and Sister-in-Law Helena Together Control ABC, Inc. and can sell the Company
- Joe, the President of the Company, has Lost Control of ABC, Inc.
- Company Culture Erodes - Who is Running ABC, Inc.?

Family and Business Fallout

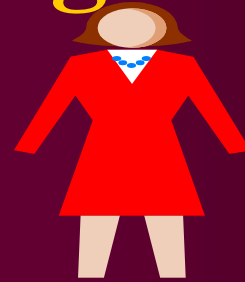
- Nora and Sister-in-Law Helena Together Control ABC, Inc. and can sell the Company
- Joe, the President of the Company has Lost Control of ABC, Inc.
- Company Culture Erodes - Who is Running ABC, Inc.?

Solutions/Step-One

Cross Purchase Agreement



Louie



Louise



Joe



Moe

Assets Transfer
to Survivor at
first death

Brothers
Purchase
Shares at
Second Death

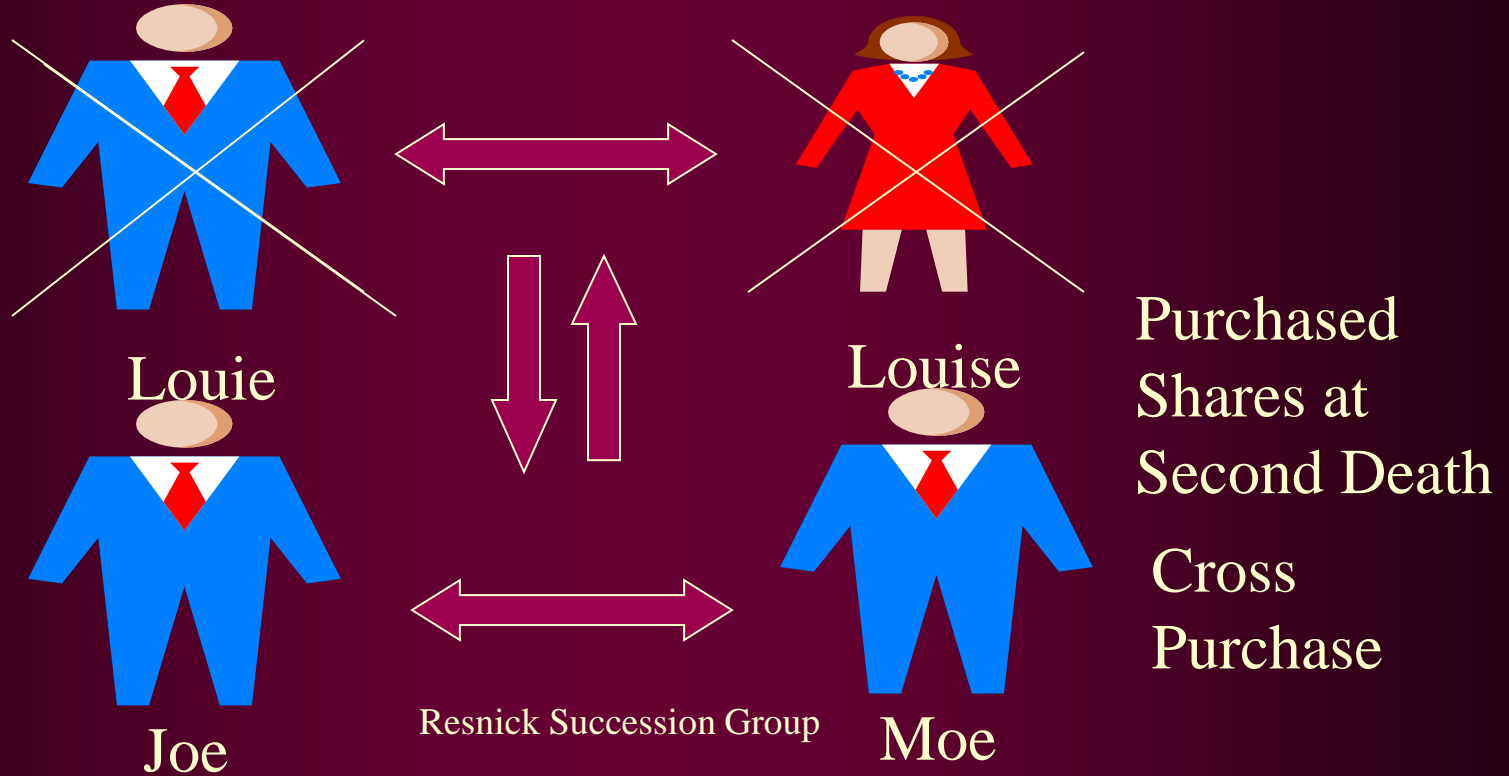
Cross
Purchase

Resnick Succession Group

Solution/Step Two

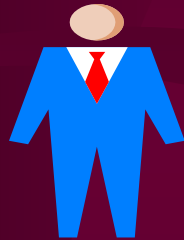
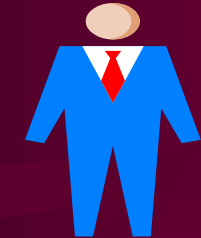
- After Sons, Joe and Moe Buy Shares, Their Parents' Estate Has \$3,500,000 in **Newly Created Liquid Assets**
- Parents now Have the Ability to Increase Cash Distribution to Helena

Results of New Plan



Possible Solution

Totals



Joe

\$1,500,000

50% of ABC

Moe

\$1,500,000

50% of ABC

Helena

\$2,250,000

0% of ABC

Resnick Succession Group

Summary of Key Points....

Know more than you have
'something in place' – you
must know exactly what
you have

Being **Proactive** – Annual Reviews
and Adjustment for Material Changes
– Tax Law, Business, Family

Importance of Independent, Objective Assessment of Existing Planning

1. Confirm your planning is accurate
2. Discover any concerns now, not
after it's too late

Follow-Up

- Complete and turn in Questionnaire and Buy-Sell Agreement Checklist for individualized discussion
- 30 Minute Complimentary Consultations

CONTACT INFORMATION

www.resnicksg.com

**Terrance K. Resnick
Resnick Succession Group**

470 Lee Place

Exton, PA 19341

(484) 879-4674 / (717) 991-3911 cell

terry.resnick@resnicksg.com