

TRUST & ESTATE ADMINISTRATION ESTATE PLANNING FOR BUSINESS OWNERS



Planning for the succession of your closely held business allows you to strategically guide the transition in anticipation of retirement, or in the event of disability or death. Effective estate planning for business owners can help maximize the value of the business, minimize taxes (income and estate), provide for the survival and continuity of the business, and preserve family harmony.

First Business Trust & Investments will work with you and your team of trusted advisors to help realize your goals and assist with a successful transition in the ownership of your business, in whatever form that takes.

Congress has also made permanent a portability provision that effectively permits a surviving spouse to utilize a deceased spouse's unused estate tax exemption, which the survivor can then use in addition to his or her own lifetime gift and estate tax exemption.

Current tax law (2020) provides business owners with an ideal environment in which to accomplish effective succession planning:

- \$11,580,000 unified gift and estate tax exemption (\$23,160,000 per married couple);
- \$15,000 annual gifting exclusion;
- 40% estate and gift tax rate on amounts in excess of the exemption amount;
- historically low interest rate environment; and
- continued availability of valuation discounts for minority interests and/or lack of marketability.

VALUING YOUR BUSINESS

One of the most important steps in effective estate planning for a business owner is to determine the value of your business. Your business may be the most valuable asset in your estate. Because of the lack of an open market, arriving at an appropriate value for stock in a closely held business can be a complex undertaking, often best facilitated by a business valuation expert.

MINORITY DISCOUNTS

You may wish to consider transferring stock in your closely held business to family members in small, non-controlling blocks during your lifetime. For gift- and estate-tax purposes, the value of minority interests may be discounted. Although utilizing minority discounts with gifting strategies can be an effective way to transfer business interests at a lower tax cost, these transfers are heavily scrutinized by the IRS. Therefore, we advise you to work with your attorney and tax advisor to implement strategies that best accomplish your unique business and personal estate planning goals.

BUY-SELL AGREEMENTS

If you plan to sell your business to a family member, partner, key employee, or an outside party, you will probably use a buy-sell agreement to help avoid unexpected surprises and ensure a smoother transaction. A buy-sell agreement will address all terms of the sale, including timing, allocation of liabilities, identification of assets excluded from sale, etc. These terms will be discussed and negotiated with the involvement of both parties' attorneys until all of the details are hammered out and agreed upon.

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HOW FIRST BUSINESS TRUST & INVESTMENTS WORKS WITH BUSINESS OWNERS

As a business bank, it is central to our mission to provide trust services to individuals who hold businesses as a major asset in their estate. Many of these individuals will not sell their business during their lifetime, but will plan to hold their business interests in trust. Unlike many corporate trustees who will not accept the risk of keeping closely-held stock or business interests in trust, we have processes in place to help our clients manage risk while allowing the family to maintain control over what may be their most valuable asset.

At First Business Trust & Investments, we manage closely held stock, limited liability company membership interests, and business partnership interests by annually assessing the financial health of the business. We evaluate all aspects of the company, including:

- nature of the business and its history;
- financial condition of the company;
- economic outlook of the industry in general;
- book value of the company stock or interest;
- earnings capacity;
- dividend-paying capacity;
- stock prices of similar companies that are publicly held; and
- management strength and experience.

As a corporate trustee, First Business Trust & Investments contributes significantly to the business owner's ability to effectively plan for the future management and disposition of business interests. Our staff's professionalism and expertise is second to none, with degrees and work expertise in corporate and estate planning law, business administration, tax and accounting, investments, and real estate administration. Our demonstrated commitment to small and mid-size business owners provides the assurance that we will operate as an integral part of your team of trusted advisors, and help you achieve your estate planning goals.

WANT TO LEARN MORE?

Let's talk. Contact your First Business representative today.