

TRUST & ESTATE ADMINISTRATION

ESTATE PLANNING FOR

BUSINESS OWNERS



Whatever type of business you own, you need to arrange in advance for the transfer of your business or partnership interest at your retirement, incapacity, or death. Effective estate planning for business owners maximizes the value of their business, minimizes taxes (income and estate), provides for the survival and continuity of the business, and preserves family harmony.

First Business Trust & Investments will work with you and your accounting and legal teams to accomplish the following critical steps for effective business succession planning.

Current tax law permanently sets the federal estate tax exemption amount at \$5.0 million per individual, as indexed for inflation. That means that in 2017, estates that exceed \$5,450,000 will pay a tax rate of 40% on every dollar above the exclusion amount. The federal gift tax is integrated with the estate tax and will also be imposed at 40% with a \$5.0 million exemption, as indexed for inflation.

Congress has also made permanent a portability provision which effectively permits a surviving spouse to inherit 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 provides business owners with an ideal environment in which to do effective succession planning.

- \$5.45 million unified gift and estate tax exemption (\$10.9 million per married couple)
- 40% estate and gift tax rate
- Historically low interest environment
- Continued availability of valuation discounts for minority interest and/or lack of marketability and popular planning techniques utilizing grantor trusts

BUY-SELL AGREEMENTS

If you plan to sell your business to a family member, partner, employee, or an outside party, you may wish to consider using a buy-sell agreement to help avoid unexpected surprises and make the transaction smoother. A buy-sell agreement:

- Provides for an orderly transfer of the business
- Permits present co-owners and family members to continue in their business roles
- Allows a fair market price for the business (or a formula for determining it) to be agreed upon today
- Provides funds for the purchase
- Lets you plan your estate and taxes ahead of time

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. Usually, the opinion of one or more independent appraisers is necessary.

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 minority discounts can be an effective way to transfer business interests at a lower tax costs, these transfers are heavily scrutinized by the IRS. Therefore, we advise you to work with your attorney to implement strategies that accomplish your unique business and personal estate planning goals.

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 want to 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 partnership interests in trust, we have processes in place to help our clients, manage risk, and to help the family maintain control over what is probably the most valuable asset in their financial portfolio.

At First Business Trust & Investments, we manage closely held stock or business partnership interests by annually assessing the financial health of the business. We look at factors such as:

- The nature of the business and its history
- The financial condition of the company
- The economic outlook of the industry in general
- The book value of the company stock
- The company's earnings capacity
- The dividend-paying capacity
- Stock prices of similar companies that are publicly held
- 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 disposition of business interests. Our staff's professionalism and expertise is second to none with degrees and work expertise in law, business, accounting, tax, investments, and real estate. Our demonstrated commitment to small and mid-size business owners provides the assurance that we will operate as an integral part of your business's team of professional experts, and help to ensure that your estate planning wishes are met.

WANT TO LEARN MORE?

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