



Krim Associates

Estate, Investment and Business Planning Specialists

Financial Considerations For Business Owners

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The situations presented herein are hypothetical, and individual results will vary.

Trust Disclosure

Trusts should be drafted by an attorney familiar with such matters in order to take into account income, gift and estate tax laws (including generation skipping transfer tax). Failure to do so could result in adverse tax treatment of trust proceeds.

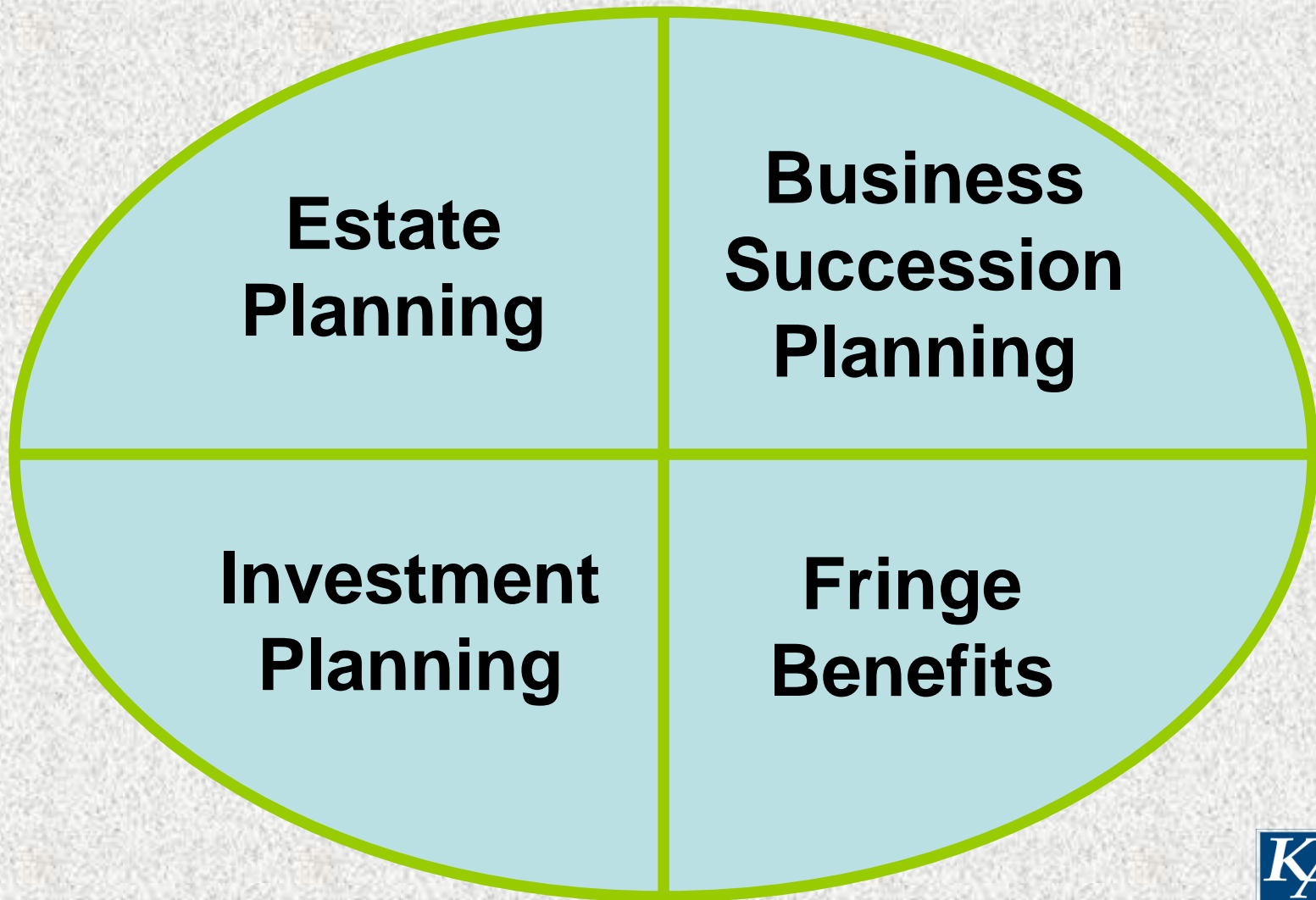
QTIP = Qualified Terminable Interest Property

GST = Generation Skipping Transfer Tax

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The Four Components of Planning



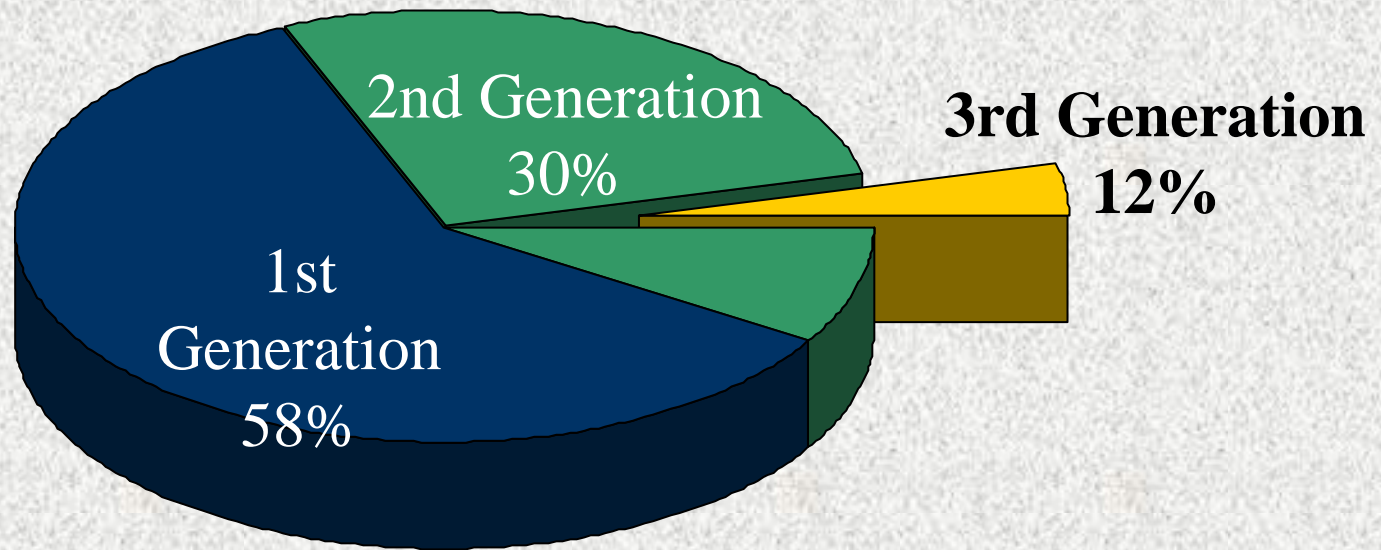


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Common Mistakes Small Business Owners Make & How to Address Them

The Fate of the Family Business

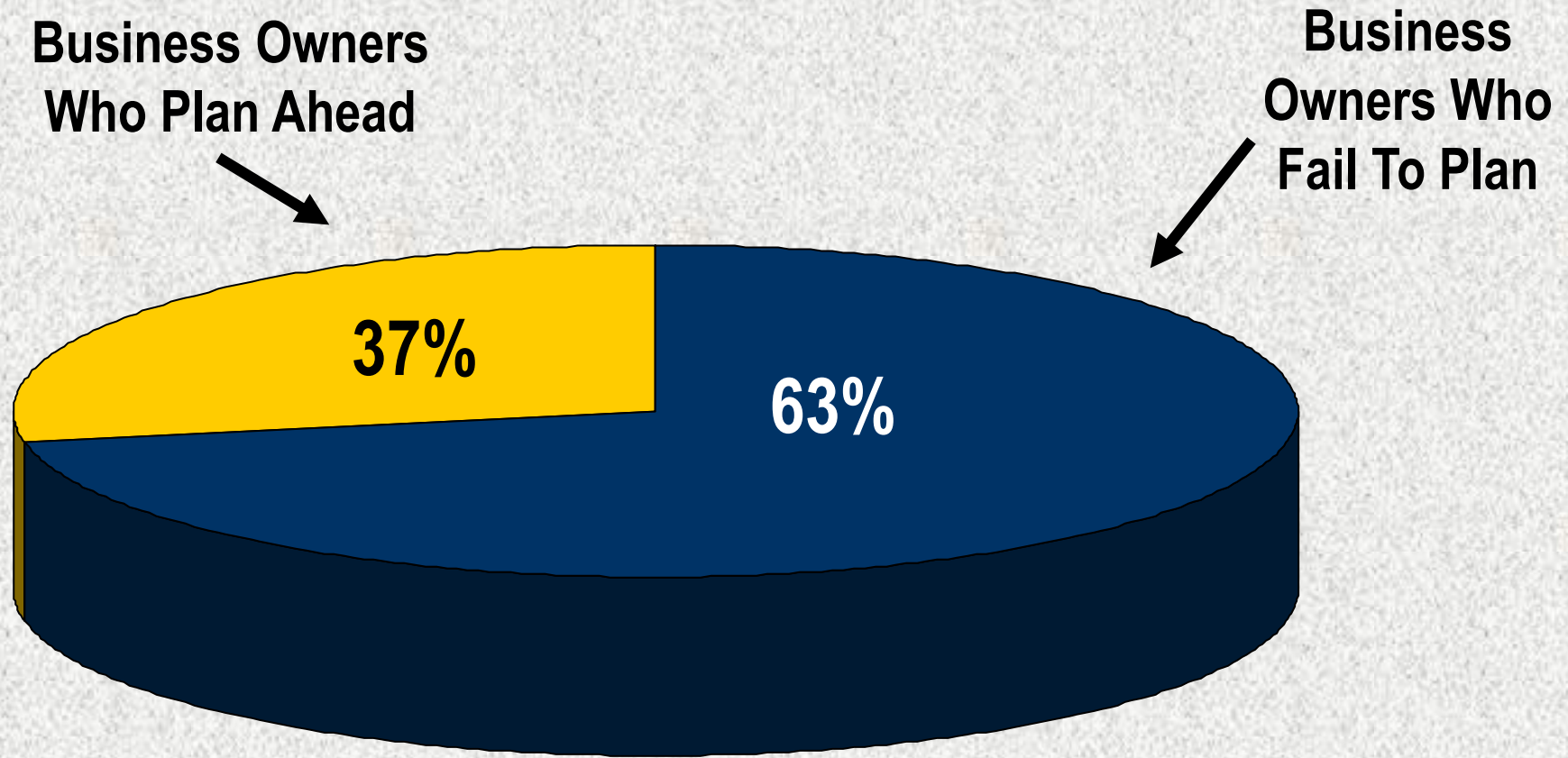


Source: Family Firm Institute web site (www.FFI.org), 2005.



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Failure to Plan



Source: Family Firm Institute web site (www.FFI.org), 2005.



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Common Mistakes of Business Owners

- Do not Establish a business disruption plan
 - Business Overhead Expense
 - Key Man Life & Disability Insurance



Common Mistakes of Business Owners

- Do not Provide protection to their families should an unexpected disability or death occur
 - How long will personal savings carry you and/or your family
 - How much is your business worth without you?



Common Mistakes of Business Owners

- Do not consider the value of adding a benefit plan
 - Early on business is running lean & mean and benefits seem cost prohibitive
 - As business grows it's important to add benefits such as health, disability, life insurance, LTC, retirement
 - Employee retention
 - Reduce Tax Liability



Common Mistakes of Business Owners

- Do not set aside savings outside of their business
 - All is good while the business is successful, however...
 - What happens if the business fails or the value when it's time to sell is a lot lower than initially planned



Common Mistakes of Business Owners

- Do not consider their business as part of a diversified portfolio
 - Should be considered an investment like stocks & bonds.
 - What's the risk of investing additional capital into your business
 - Don't put all your eggs in one basket



Common Mistakes of Business Owners

- Not developing an exit strategy
- Waiting too long makes it harder to control the outcome



Business Planning Issues

Business Retirement Planning & Investment Planning



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Business Retirement Plans

- Benefits the Business Owner because it provides more liquidity at retirement and it helps with employee retention
 - Individual IRAs/Roth IRAs
 - SEP
 - Sponsored by the employer
 - Have to make contributions for everyone
 - Minimal paperwork
 - Rigid eligibility (ie part-time, seasonal)



Business Retirement Plans (Cont.)

- 401-k
 - Sponsored by the employer
 - Paperwork needs to be filed/fiduciary responsibilities
 - Discrimination Tests
 - More Flexibility with Employee Coverage
- Cash Balance Plans
 - Companies with higher income employees
 - Can tax defer a lot more income



Investment Planning

- Managing Your Investment Risk
 - Understanding your time horizon and optimizing your mix accordingly
- Consider creating a pension with part of your investments
 - Fixed Indexed/Variable Annuities
 - Alt uses of Life Ins. – Tax Advantaged Inc
 - Other Structured Products



Estate & Business Succession Planning

- Does the owner have a will and/or trust strategy
- What happens to your equity in the business if you pass away or are disabled
 - Your partners spouse is your new partner
 - Expensive legal battles
 - Do you have an agreement to address
- Golden Handcuff/Deferred Compensation strategies



Risk Management

- Life Insurance/Key man, LTC, disability

