**Small Business Challenges -** In this time of economic turmoil, it seems that almost everyone is being affected by the credit crunch, but small businesses owners seem to have been impacted to a greater degree. While Wall St. is on the road to recovery with Fortune 500 companies posting improving earnings, main street is still struggling. Small businesses are hard pressed to gain access to credit, and in order for businesses to thrive, financing is required.

**Lack of Financing & Liquidity -**  Record number of small business loans were declined. Owners are spending their retirement funds, savings and reaching their credit card peak in order to continue running their businesses. Price hikes, including energy and fuel prices are affecting business operating cost structure and operating margins.

What defines a small business is based on perspective, a money center bank defines small business with revenues of $250.0 million or less, while a regional bank might define a small business with revenues of under a $10.0 million. Most small businesses are under capitalized since they don’t have access to equity capital and are reliant on bank financing.

**Estate and Succession Planning -**  **A family owned business faces common intergenerational issues, including succession planning, family equalization, estate taxes and liquidity challenges.**

In 2009, an individual had an estate tax exemption of $3.5 million, while a married couple with planning had a combined exemption of $7.0 million; estates above this level are subject to estate taxes that could be as high as 55%. The death of the business founder can trigger substantial estate tax liabilities.

Upon death of the owner, an estate must be settled. Taxes are due within nine months. Given the lack of liquidity of small business, this could result in a family liquidity crisis.

It can also result in a management vacuum. Small businesses need succession planning. A succession plan can take years to execute, and require substantial capital for buyout purposes and working capital funding. A succession plan can be funded by a key man life insurance policy.

##

## Life Insurance & Liquidity

**Life insurance has unique characteristics that allow it to grow tax deferred and upon death is tax free. Since loan principal and taxes are paid with after tax dollars, life ins. is the antidote.**

Upon death, an estate must be settled and estate taxes are due in nine months. Without liquidity, the estate would be forced to sell assets to satisfy estate taxes. Privately owned businesses are subject to an illiquidity discount factor, that in a weak economy is exacerbated.

Life insurance provides liquidity when needed, and it can be used to equalize the estate among family members.

Some family members may want to take management responsibility of the business, while others want liquidity. To separate the business for equalization purposes is typically not feasible. Life insurance can be used to equalize the estate with non-operating family members.