## Sample Company

## First Visit Assessment

**Protecting a Family Business Legacy -** the Doe family, as business owners, will face three major liquidity challenges in the future:

1. Inheritance tax resolution with the IRS is due within 9 months of major shareholder’s death

2. Family Equalization between Members in Management versus Passive Shareholders

3. Succession Planning & Retention of Business Bank Line of Credit

At the core of most successful families, is a family business, and looming over the horizon is the inevitable passing of the baton from one generation to the next; succession planning and the development of a successor acceptable to all family shareholders is a challenge.

Upon the passing of the business founder, Federal inheritance taxes will be due and given the fragility of bank lending practices, the company’s bank line of credit could also be in jeopardy. Since life insurance death benefit is tax free, it provides a dollar to dollar backup to debt obligations and other liquidity demands such as Federal and State taxes which are paid with after tax dollars.

## Current Ownership & List of Shareholders

John Doe, age 75 46.0%

Jane Doe 4.0%

Jim Doe 16.33%

James Doe 16.33%

Janet Doe-Smith 16.33%

Historically, a family member and other shareholders have been bought out at book value.

### Inheritance Tax Challenges

Current estate taxes have an exclusion of $5.0 MM per person or a total exclusion of $10.0 MM per couple. The inheritance tax rate will change by YE end 2012, in about 15 months.  Given the country’s deficits and substantial national debt, politicians will likely lower the exclusion from $5.0MM to $3.5MM or less and raise the tax rate from 35% to at least 45%.

At time of death, the IRS will assess a tax on the estate and will allow only nine months to structure a payment resolution. The IRS assessment will be based on estimated economic value of the owner’s interest in the business. Estimating the selling price is based on fair market value study and a comparative sales analysis. Effectively, the IRS will use the same valuation tools used by business appraisers to resolve disputes related to estate and gift taxation, divorce litigation, allocate business purchase price among business assets, establish a formula for estimating the value of partners' ownership interest for buy-sell agreements, and many other business and legal purposes.

Alternatively, the IRS will take into account minority status and illiquidity of a private company in adjusting the valuation of shareholders ownership interests.

### Future Business Value

The Sample Company posted record revenue in the first quarter of 2011. As a base case assumed 6.0% growth in revenue and the company’s ability to sustain its margins in projecting the following growth scenario and corresponding business value assuming six times EBITDA. Alternatively, there is great risk that inflation will become a factor. A 6% inflation rate combined with 6% of organic growth, the Company’s revenue would grow at 12%. Applying the rule of 72, the Company’s revenue would double every 6 years under such a scenario.

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### IRS Taking an Increasingly Aggressive Stance

Given the Federal Tax Deficits, we see a more aggressive and active IRS. In fact, both states and the Federal Government are desperate to raise tax revenues and are going to greater lengths to uncover failure to pay taxes. For example, the IRS is currently pursuing real estate transfer records from states to search for people who have failed to meet IRS gifting and estate taxes. See attached article on IRS pursuing state records.

### Conflicting Trends

The Doe family is at risk of seriously disadvantaging themselves and their future offspring. While the family business continues to grow its value is rising geometrically, the family’s exposure to inheritance obligations is reaching a critical mass. Alternatively, the head of the family is approaching an age in which he may become uninsurable.

Recapitalizing the company to pay the inheritances could severely undermine the business, and that is assuming that the US banking industry is healthy enough to provide a loan of this magnitude and/or that the company’s future balance sheet is healthy enough to support a loan of such size.

## Life Insurance Advantage

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 insurance is the antidote.

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

To facilitate the family’s estate planning strategy, we have access to proprietary technology developed by a third party firm, that can generate a customized longevity mortality curve that provides an objective basis of analysis for the family and the family patriarch to facilitate more precise planning. The report empowers the family to make better decisions.