Handling Objections in the Business Owner Marketplace

1. **Cash flow.** "I want to buy the permanent insurance, but cannot afford the premium."
   Possible responses:
   a. I can show you a way to pay for the insurance with no additional outlay of money from existing cash flow (e.g., asset allocation, split dollar, executive bonus, premium financing, etc.). Let's see what the best solution may be for you.
   b. We can help you to determine if using business dollars to pay for personal insurance needs would be a viable solution.
   c. We may be able to use tax deductible dollars from business contributions to your company's qualified plan, or existing funds in the plan, to help you protect your family. Let's do an analysis.
   d. Cash value life insurance is not a cost, but an asset that will be reflected on your books.

2. **Buy Sell:** "I do not need a buy sell agreement because I trust my partner like a brother."
   Possible response:

3. **Buy Sell:** "I think a buy sell agreement makes sense, but I do not believe we have to fund the agreement with life insurance."
   Possible response:
   You do not have to fund the contract with life insurance or any financial product. However, when the buy sell is triggered by any number of events, one party will have to come up with the funds to buy the other party out. If you do not have the cash to pay the purchase price, you have two options; borrow the money from a third party or pay the purchase price in installments. The problem with either option is that the seller will have a huge obligation to repay the loan or pay the installment obligation with interest. The buyer will usually have to generate a certain amount of sales, pay taxes and then have enough money to pay the obligation. Having life insurance makes economic sense as a way to ensure that funds are available in the future without draining business or personal assets and cash flow, so that both parties (the seller and the buyer) are protected.

4. **Family Business Succession Planning:** "Why can't I simply just give my business to my child or sell it to him or her at a reduced price?" *Possible responses:*
    a. The good news is that you can give away your business during life or at death, and sell it to anyone at any price you want. But, under the tax law as it is, the maximum amount that you can give is $5 million without adverse gift tax consequences ($10 million for a married couple) (amounts are increased annually for inflation). Any amount over that threshold (except for small annual gift exclusions) means you will be liable for gift or estate taxes. If you sell a business to a child at a reduced price, the IRS will treat the transaction as part sale and part gift, so you still may have to pay a gift tax.
    b. If you do not file a gift tax return, you do not start the statute of limitations, so the IRS could find out about the gift years later, and you could be liable for back taxes, interest and penalties. If you file a gift tax return, the IRS may audit the return and may question the value since they are aware that people sometimes sell property at reduced rates to their children or other family members.
    c. Even if you could give the business or sell the business at a reduced price to your child, what about your other children? Will they feel cheated? Do you intend to give the majority of your wealth to one child?
    d. If you just give the business or sell the business at a reduced price to your child, will you have enough to maintain your lifestyle during your retirement years?

5. **Family Succession Planning.** “How will the IRS ever know the value of my business?” *Possible responses:*
    a. In the event an estate tax return has to be filed, the executor is required to list the fair market value of the business and file financial statements for the past 5 years. This may initiate an audit, and how the IRS ascertains values may well differ from what you believe it is worth.
    b. There are many public cases on record, where an executor undervalued a business that was contested by the IRS. On average, it took about 7 years to settle the litigation between the estate and the IRS, and in many cases, the value established by the Tax Court was much higher than the value established by the executor.
    c. Your executor will have a fiduciary responsibility to list all of your assets at fair market value. Your executor may also be held personally liable for any estate taxes that your estate may owe, particularly upon a misrepresentation of asset values. Do you want to expose your spouse, family member or friend that you nominate as executor to this potential liability?

6. **General Business Planning.** “I rely on the advice of my attorney and accountant before I make any decisions.”

    Potential responses:

    a. Almost all of my business clients rely on a team of advisors before making important decisions. If I have your permission, I can contact them and review my recommendations with them. I welcome their input and am confident they will agree with my recommendations.

b. As we have indicated, your current plan (buy sell, succession plan, qualified plan, etc.) is outdated. Few attorneys and accountants specialize in this area, and even when they do, they often do not communicate with each other. You wind up getting “piece meal” advice, which is not in your best interests. I will act as your quarterback to ensure that your plan accomplishes your goals. While I am happy to work with your advisors, if needed, sometimes it is best to simply retain a specialist to get the work done. The specialist does not have to replace any of your existing relationships, but will get the job done quickly and efficiently. I can work with the specialist to ensure that your needs and goals are met, and to keep you apprised of events as they happen.

c. Can I assume your planning is not outdated, and that you’re satisfied with how your advisor is doing his or her job? Your advisors have an obligation to make sure your business and family are protected if something happens to you or your business partner. If you feel they are not getting the job done, let’s find someone who can do the work.

7. **The Entrepreneur.** “I am going to build this business up in the next few years and sell it, so why do I need any long term planning and insurance?”

   Potential responses:

   a. Selling the business may take longer than you think. Selling a business also requires careful planning. You don’t wake up one day and have a buyer, so you need to plan and anticipate who the buyers may be. They could be your current business partners, your employees, your family, or perhaps, even your vendors or competitors. You may even wind up keeping all or a part of the business as a long term investment. So, short term planning may turn into long term planning.
   b. My job is to evaluate risk to you, your business, your business partners and investors, and to ensure that you and your family are adequately protected from unforeseen events. If something happened to you or your partner in the short term, it may affect the value of your interest and cause unforeseen problems to you and your family.
   c. If you wind up selling this business and buying another, your risk exposure will not go away, so why not have the protection that can apply to this business or any other business you buy or start?

8. **Family Business Transfer.** “My advisors informed me that my family can pay estate taxes in installments over a 15 year period, so why do I need life insurance?”

   Potential responses:

   a. Your advisors may be correct provided your estate qualifies for the extension. In order to qualify, there are very stringent requirements that must be met, and most of the time, they are not met. Even if your estate qualifies, the extension only applies to the estate taxes attributed to your business, not to the balance of your assets. Furthermore, do you really want your family to be saddled with a liability exposure for 15 years?

b. If your executor elects to pay in installments, the tax and interest still has to be paid, which can cause a financial hardship for your family. In addition, the IRS will place a lien on the business until the tax is paid. That will severely restrict the amount of credit that can be obtained, particularly at a time when the most valuable asset to the business, you, is gone. Also, if a payment is missed, the IRS can accelerate all of the tax liability. Do you really want to burden your family with this tax burden?

Please consult with your Guardian Financial Representative if you have any questions concerning this document.

These are just a few objections that you may hear in the business planning marketplace, but prepare yourself and anticipate.

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Guardian Financial Representatives may call the Business Resource Center for Advanced Markets, at 1.800.871.7780, Option 3, for additional information.