THE PERIODIC TABLE OF BUSINESS PLANNING ELEMENTS

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Private Placement Life Insurance	Non ESOP/ ESOP Plan	Sales People Compensation	Managing Taxes in C Corp Sale	Family Business Transition	Tax Management of Internal Sale	3rd Party Sale	Asset Allocation Strategies

Financial planning / Retirement
Value creation in the business
Financial and capital structure
Tax and wealth transfer planning
Asset protection / Risk management
Exit planning
Harvesting financial value
Investment management

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Grand Prairie Financial
LEADING THE WAY

The Periodic Table of Business Planning Strategies

DEFINITIONS AND NOTES

1. 401(k) Plan. An employer-sponsored retirement plan named after the section in the tax code that creates the plans. These plans allow employees to defer part of their pay without tax until the money is withdrawn at retirement. 401(k) plans are an important mechanism for business owners to take money out of the business in advance of retirement.
2. Cross Tested Profit-Sharing Plan. A multi-tier employer-sponsored retirement plan which allows different benefit structures for different employees or owners. These plans require annual testing to avoid discrimination among the various tiers.
3. Defined Benefit Plan. An employer sponsored retirement plan, typically including pension, that offers specific benefits in the future, for which the employer is obligated to pay. These plans have become less common than defined contribution plans, which have fixed upfront funding requirements.

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4. Combined Profit Sharing and Defined Benefit Plan. A combination of employer-sponsored plans that allows integration of a profit sharing/401(k) plan with a defined benefit plan. Often this program has design elements that dramatically favor the owner of the company.
5. Funded SERPs. Supplemental Executive Retirement Plans can be used to fund pension benefits in excess of traditional pensions. A funded SERP has funding set aside in a trust to pay this obligation. A SERP is one possible mechanism for payout of a business owner in transition.
6. Commercial Real Estate Ownership. Owning the real estate in which a business operates is a way for the business owner to retain additional cash from the business, build up equity and diversify holdings. The income from commercial real estate is sometimes more valuable in retirement than the income stream of the main business.
7. Private Placement Life Insurance. Insurance or annuity products that allow for customizable investment options within the contract. Contracts are individually written for each investor and are customized for their use. Private placement contracts are available in the United States and in international jurisdictions.
8. 401(k) Shadow Program. A form of a defined contribution program for highly compensated employees who are not able to fund their standards 401(k) because of discrimination issues that arise in the company's standard defined contribution plan.
9. Non-Roth IRA. A method for accumulating money using after tax dollars and having the money grow tax deferred and if properly handled distributed tax free. Variable life insurance contracts are used for this strategy.
10. Roth IRA. In contrast to traditional IRAs, a Roth IRA does not qualify for a tax deduction at the time the contribution is made. Accumulation of Roth IRAs is tax free, and distributions are tax free when made. There are income limitations for contributions to be made to a Roth IRA.

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11. Open Book Management. This management practice opens up key financial and operating measures to employees. In addition to eliminating employees' misperceptions about the actual profitability of the business, it focuses employees and management on improving company performance. It often is combined with a key metric bonus plan and a total quality control plan.
12. Total Quality Control. The practice of Total Quality Control brings together a team from all functional areas of the firm to improve quality from the customer's perspective.
13. Key Metric Bonus Program. Establishing a Key Metric Bonus Program starts with identifying the right metrics—the measures that drive customer satisfaction, company performance or sales—then establishing a bonus program that rewards improvements in the key metrics.
14. Bonus Compensation Design. Designing the right compensation structure, both base and bonus, can have a major impact on ability to attract and retain high quality people. Once people are on board, the compensation design can also be structured to encourage work toward specific outcomes.
15. Non-ESOP/ESOP Plan. This term describes equity incentive plans such as phantom stock, stock options, stock bonuses and stock purchase plans. Like an ESOP, these other plans create an incentive for employees that allows them to participate in future growth of the company. The non ESOP/ESOP often is a form of an open book management program that rewards employees for key metric improvement in the company.
16. Key Metric Measurement Program. Establishing a Key Metric Bonus Program starts with identifying the right metrics—the measures that drive customer satisfaction or sales. Key Metric Measurement is the first step in implementing a Key Metric Bonus Program. Often this program is started with looking at return on sales, return on equity, return on assets and EBIDA (earnings before interest, depreciation and amortization) as a starting point.

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17. Client Profitability Measurement. This process segments the business's results by client group or individual client in order to identify more profitable and less profitable clients. The goal is to replicate the more profitable clients.
18. Product Line Profitability Measurement. This process segments the business's results by product line to identify more profitable and less profitable products. The goal is to replicate the more profitable products.
19. Client Marketing to AAA Clients. Following identification of the most profitable clients, this process aims to expand sales to the most profitable existing clients or to clones of those clients.
20. Identifying Intellectual Property. Many business owners are unaware of what constitutes their intellectual property—the know-how that is behind their business. Identifying this important asset is the first step toward (1) not giving it away too cheaply, and (2) maximizing its value.
21. Sales Metrics and Controls. Sales metrics are the specific measures that management selects to ensure that sales people are calling on the right customer and potential customers. Sales controls ensure that sales people stop calling on the wrong customers and potential customers. Identifying sales metrics and controls takes some work, but the payoff in increased profits can be substantial.
22. Identifying Niches. A niche market is a subset of a company's market that has some kind of common feature. More productive referrals, economies of scale in understanding the customer's business, and other commonalities can make niche markets very profitable. Still, not every group of potential customers with something in common makes a niche. Identifying niches can be challenging.

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23. ESOP Recapitalization. An Employee Stock Ownership Program is a plan that allows employees to become owners of the business. The recapitalization is often a conversion of some portion of the stock from common to preferred stock. This is often the first stock that is sold to the ESOP which allows for higher tax deductions and if structured appropriately, tax deferred treatment to the selling owner.
24. Preferred Stock Recapitalization. Although technically equity, preferred stock is an interest-bearing instrument that follows debt in priority but precedes common stock. The business can issue preferred stock in exchange for cash, then gift common shares to the younger generations, effectively deferring taxation on the value of company appreciation.
25. Corporate Recapitalization. Changing the capital structure of a business (the proportion of debt, preferred stock, and equity) is called a recapitalization. Each recapitalization has a specific goal—taking cash out of the business for the owner's needs, for example.
26. Asset Based Borrowing. Asset based borrowing refers to borrowing against the value of an asset. Borrowing can be against the value of equipment, property, or a pool of receivables or inventory or both. Lenders establish an advance rate for each type of asset, typically 50% for qualifying receivables (not over 60 days) and 70% for inventory. Different advance rates may apply to raw materials, work in process, and finished goods.
27. Mezzanine Debt Structure. Mezzanine debt refers to debt that is so completely subordinated to other debt in the business that it is almost equity. Because its subordinate position in the capital structure makes it riskier than the other debt in the business, mezzanine debt has a higher interest rate and may also carry the option to convert to equity.

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28. Managing Taxes in C-Corp Sale. C Corporations are double taxed on sale. There are methods and companies who will purchase the stock of the corporation to limit the taxes that are paid on an asset sale within a C Corporation.

29. Family Limited Partnership (FLP). FLPs are a form of business entity that can be utilized to facilitate the transfer of assets. Ownership interests are divided into General Partner (GP) and Limited Partner (LP) shares. GPs maintain control of the entity even though they may own a small percentage of the total FLP. LP interests have ownership but no control. Because the LPs have no control over their interests FLPs often receive significant valuation adjustments when valued by appraisers. This allows the LP units to be transferred or sold at less than their full monetary value. FLPs also enjoy strong creditor protection and are therefore effective for family asset protection purposes.

30. Domestic Captive Insurance. Most businesses pay large premiums for insurance. When the business and the premiums are big enough, it makes sense for the business to own its own insurance company. This “captive” insurance company can be more flexible and responsive to the needs of its parent. It also gives the parent access to the reinsurance market.

31. CRT with C-Corporations. A Charitable Remainder Trust allows an individual or couple to make a gift, or a series of gifts, normally of appreciated assets, receive a charitable income tax deduction for the present value of the gift and to receive an income stream of a percentage that is based on the value of the trust assets. This is used as a method of getting cash out of a C Corporation without paying a second level of tax and allowing the owner to have a supplemental retirement account.

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32. NIMCRUT Planning. Net Income with Makeup Unitrust (NIMCRUT) is a special type of charitable remainder unitrust where the trust distributes the "net income" that the trust assets earn within the trust. If the trust does not earn enough income to pay the stated income percentage payout, the trust creates an "IOU" account that it can pay later when the assets earn more income. These trusts are often used when a donor has other income currently but would like income later such as during their retirement. Trust assets can be managed to produce income or not. The NIMCRUT is often used with C Corporation's to provide a supplemental retirement account for the owner of the company where income is drawn after the business is sold.
33. International Captive Insurance. In addition to the benefits of domestic captive insurance (see above), international captives have the regulatory leeway to provide other kinds of protection.
34. C&S Corporation Combinations. Using multiple corporate structures allows specialized asset protection as well as segregating corporate functions. This allows management to use each corporation in a manner that maximizes tax management as well as asset protection.
35. Family Business Transition. This succession management process is how the owner of a closely held business determines who will take over the business and how and when the transition will take place. Family transition strategies combine tax planning, family planning and corporate capital structure to give the company the best opportunity to prosper during the next generation.
36. Shareholders Agreement. This contract among the owners includes agreements with respect to operation of the business, financial procedures, employment and compensation, voting, and so forth. Often a shareholders' agreement will incorporate a buy/sell agreement which covers death, disability, and retirement issues as well as governance and compensation design for owners of the company.

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37. Risk Management Audit. An effective risk management program identifies the biggest risks facing the company and establishes a plan to keep those events from happening (e.g. safety programs) or to mitigate their negative impact. A risk management audit reviews the risk management program versus its outcomes to assess the program's effectiveness. Periodic audits of the risk management program are essential to get the maximum benefit from the program.

38. Health Savings Accounts (HSAs). Health savings accounts offer a way for consumers to pay for current healthcare expenses and save for future expenses using pre-tax dollars. HSAs are only available to consumers who are covered by a high-deductible insurance plan. Funds must be held in a separate bank account, from which healthcare expenses are paid. Compared to traditional insurance, HSAs offer more flexibility in how the funds can be used. Compared to zerobalance reimbursement accounts, HSA funds are not forfeited at year end but rather stay in the consumer's account to pay for future expenses. An HSA can be an attractive benefit alternative for employees.

39. Domestic Asset Protection. Asset protection involves setting up legal entities, trusts, and other instruments to protect your assets against the claims of future creditors. Domestic asset protection makes use of US law to achieve these goals.

40. International Asset Protection. Asset protection involves setting up legal entities, trusts, and other instruments to protect your assets against the claims of future creditors. International asset protection expands beyond domestic law to make use of offshore entities governed by international law.

41. S ESOP. An ESOP that owns a Sub Chapter S Corporation. The portion that the ESOP owns will be tax free. If the ESOP owns 100% of the stock of the Sub Chapter S Corporation, there will be no Federal and in most instances, state income taxes due.

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42. Tax Management of Internal Sale. Understanding the tax ramifications of how a sale is made to managers or family in a business transfer. Using appropriate strategies that will limit the entire tax cost of the transaction often include changing capital transactions to ordinary income transactions. The result will be a higher sale price for the seller, lower net costs to the selling owner and less taxes paid on the entire transaction.
43. Factoring Companies. Factoring companies purchase receivables at a discount. The all-in cost of this type of financing is higher than asset based borrowing but can provide important liquidity for a company that is unable to qualify for other financing.
44. Non-Funded SERP. Supplemental Executive Retirement Plans can be used to fund pension benefits in excess of traditional pensions. A SERP is one possible mechanism for payout of a business owner in transition. A non-funded SERP has no funding set aside to pay this obligation. As a result, the SERP holder is dependent on the continued financial success of the company which granted the SERP.
45. Purchasing Companies. A separate company that is set up in an internal business transition that will purchase supplies and merchandise for the selling company. The selling owner will use the revenue created in the new company to fund retirement and living benefits for them that are tax advantaged. This company will qualify for treatment that a management company does not under the tax code.
46. Golden Handcuffs. Compensation paid to encourage a key employee to stay with a firm. Often the employee loses rights to the compensation if they leave.
47. Recapitalization and Flip. A two-part transaction that restructures the capital structure of a company, generally allowing the owners to take out cash, then selling the company to a new set of investors.

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48. Family Business Constitution. A written document that outlines the principles and policies of a family business.
49. 3rd Party Sale. Sale of a business to someone outside the business. Outside buyers might be competitors, financial investor, larger companies, private equity groups or publicly traded companies.
50. Management Buyout. Purchase of a business by members of the existing management team. These sales are often used when a third-party buyer is not available, or the selling owner of the company is concerned about the legacy of their company after they sell.
51. Stay Bonus. A stay bonus is a program that compensates key people for staying with the company if the owner dies, becomes disabled or sells the company.
52. Key Employee Bonus Program. A program to provide incentives to key employees to stay with the company. This program often comes with vesting schedules that encourage employees to stay for an extended period with their employer. Often is used as a method to make it more expensive for competitors to hire away key managers and employees.
53. Passive Investment Strategies. Investment in funds that track the market. Selection of a passive investment strategy recognizes the difficulty of outperforming the overall market without taking on risk of loss greater than the market risk.
54. Hedge Funds. Funds that use alternative investment strategies. Hedge fund strategies range from very conservative to very aggressive. There are many different types of funds that go by names such as market neutral, long short, currency swaps, etc.

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55. Direct Real Estate. Investments in real estate may also offer diversification and increased return to a portfolio. Investors may choose to own specific properties, shares in a company owning real estate, or shares in a REIT (real estate investment trust). All of these are direct real estate, as opposed to owning a business (not in the real estate business) that owns its building.

56. Asset Allocation Strategies. Asset allocation is the process of dividing an investment portfolio into the portion in various types of investment (stocks, bonds, cash, global securities, US securities, and so on). The risk profile of the investor drives the optimal asset allocation. Asset allocation decisions drive more than 90% of the performance of a portfolio (Brinson, Hood & Beebower, Financial Analysts Journal, 1986; Brinson, Singer & Beebower, Financial Analysts Journal, 1991).

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