Wealth Management Tips for Family Businesses

Treating Children In and Out of the Family Business Equally

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If you own a family business, chances are you expect your children to eventually succeed you in owning and running the business. As a parent, you probably want your estate divided among your children as equally as possible upon your death.

But what happens if not all your children are active in the company? It makes sense to leave the business to the child or children who are capable of managing it. That leaves you with a big challenge: how to balance the distribution of your assets so your other children get their fair share. One obvious solution would be to leave non business assets of equal value to the children who are uninvolved in the company. But if the family business comprises the bulk of your estate, there may not be enough assets outside of the business to give everyone an equal share, especially after paying estate taxes.

Strategies

There are a number of financial planning techniques that you can use to equalize inheritances among your children.

- **Life Insurance.** By purchasing life insurance, you can provide a ready source of cash to buy assets from, or make loans to, the estate and provide for those children who won't inherit the business. Placing the insurance in an irrevocable life insurance trust can keep the proceeds out of your taxable estate, if the trust is properly structured. The trustee could then be directed to distribute cash from the trust to the children who are inactive in the business.
- **Buy-Sell Agreements.** Another way to raise cash is to arrange for the sale of a part of your business in the event of your death or disability. Through proper structuring of a business redemption or cross-purchase agreement - two types of buy-sell agreements - you can create a market for your business. While there are several ways to fund these agreements, many businesses and individuals use life insurance.
- **Leasing Business Assets.** Another strategy is to leave real estate or other business property to the children who don't participate in the company. The rental stream from the lease provides the cash to balance out the inheritances among the children. A lease agreement should be formalized to ensure continuity of rental flow. Generally, the lease should be signed when preparing your estate plan. And be sure to set the rent at fair market value.
- **Providing Equity.** By giving a part of the company to your children who aren't involved with it, but limiting their power, you can also equalize values. For instance, you can give them nonvoting dividend-paying preferred stock, nonvoting common stock, limited partnership interests, or other equity interests. Unfortunately, you will also be exposing them to the risks of the business.

Providing equally for your children is never an easy task, especially when your primary asset is the family business. The child or children who will receive the business seemingly have a favored position. But by reviewing the various options with your insurance and tax advisors, you can design an equitable arrangement for all your children.

For more information on this and other wealth management strategies, please contact Richard Krim, ChFC or Scott Krim, CPA.

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