Cynthia King

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LPL Financial
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Àf you saw a heat wave, would you wave back?ÀWe certainly have summer in full swing now.ÀI hope you are having a great time and enjoying the warm weather!

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InterestingÀFacts!

$279,000

Cost of a street legal car with collapsible wings that is capable of flying at 1,400 ft.; 100 models were ordered during presale.

Dividing the Family Pie-Are Equal Slices Best?

When planning the division of your assets, you may believe in a policy of "share and share alike." This is perhaps the easiest method, and often the way to avoid conflicts and complaints of favoritism. But does equality necessarily equate to fairness? After all, fairness is only relative, especially when one considers factors such as age, talents/skills, interests, needs, and degrees of material success. A more practical approach to the division of assets may be one in which you recognize and compensate for differences in the abilities and needs of your children, even at the risk of producing some conflict. Through your estate plan, you have a chance to provide a measure of fairness that your children may not otherwise have found in their own lives.

To emphasize the point, consider the following scenarios:

> **1. Disparity in Age**: Assume you have two children, ages 22 and 14. Should you split your estate in half, even though the 22-year-old has been through years of private school education and college and the 14-year-old has just started high school?

2. Income and Net Worth: Assume your daughter becomes a partner in an investment banking firm and quickly builds up $3 million in assets, while your son becomes a sales manager who earns $30,000 per year. Should you leave your estate in equal parts to your son and daughter?

3. Previous Giving: Assume you have given your 24-year-old son $100,000 worth of stock in your business as an inducement for him to work with you. You have not, however, given your 18-year-old son a similar gift. Should you divide the assets in your estate on an equal basis?

4. Investments Given to Children: Assume you have given one child stock in Company XYZ that has risen in value to $300,000. You have given another child stock in Company BCD, which has gone bankrupt. How should you then allocate the balance of your assets?

In all of the above examples, an equal division of property has the potential to create or perpetuate unequal results. This is not to say you cannot choose an unequal result, but it does point out the need for financial and estate planning that leads to reasoned decisions about how you leave your property.

Listen First

Fortunately, there are ways for you to achieve fairer results. Your first step should be to speak with your children. You may choose to speak with each child individually or hold a family conference. (Obviously, you will have to serve as proxy for your very young children.) Help them to verbalize their hopes, dreams, and expectations, as well as their worries, concerns, and frustrations. By listening first, you may gain valuable insights into how you can divide your estate constructively without causing jealousy and resentment. The decisions may be difficult to make, but in the long run, your family will appreciate your goal of trying to reach an agreement that addresses each child's individuality.

Business Continuation: 10 Steps to Success

Business owners are often so busy with the day-to-day issues of running and growing their companies that the issue of business succession is often overlooked or left on the "back burner" until it's too late. What would happen to your business if you died or were unable to work due to disability? Would your co-owners, managers, employees, and family members know what to do, and would they have the guidelines and tools needed to maintain your business?

Ten Steps to SuccessÀÀÀÀ

While there are many ways to approach succession planning, there are some basic steps that can help create a comprehensive plan:

1. **Start now!** Your family's financial security may depend on a sound succession plan. Get an early start, and follow the process through to completion.
2. **Assemble a team of professionals**. Because business succession planning involves a number of different areas, obtain assistance from all of your business and estate planning professionals, including your attorney and accountant, as well as your tax and insurance professionals. Meet with them, preferably together, to review your succession plan requirements. They will work with you to achieve your objectives.
3. **If you want your business to continue after your death**, choose an appropriate form of ownership. The form of business you choose has tax, liability, legal, and business implications. If your business is established as a sole proprietorship or a partnership, it may be more difficult to transfer ownership after your death. To help ensure the business continuity in the event of the death or incapacity of you or one of your partners, consider converting it to a corporation.

Corporate status provides for the "perpetual existence" of the business, as well as limited liability for business owners.

4. **Choose and groom your successor carefully**. Choosing and grooming a successor may take years, if you want to familiarize him or her with the finer points of your business. Thus, it is important to select a successor while you are still active in the business. Choose someone who will be able to step into your shoes easily and help to facilitate a seamless transition. The successful transition to new leadership will depend on the person you select, as well as the training and experience you provide.
5. **Create a business "will" and a buy-sell agreement**. The business will is a comprehensive planning tool that can detail, in step-by-step format, your plans for the continuation of your business, including your management plan. In your business will, you may also name your successor. An important component to a business will is a buy-sell agreement. A buy-sell agreement can obligate one party to buy and the other to sell his or her interest in the business following a triggering event, such as the owner's death or disability. A buy-sell agreement can be structured as an entity purchase (redemption) agreement, a cross-purchase agreement, a hybrid (combination) agreement, or a "wait-and-see" agreement. Your planning team can assist you in selecting the most appropriate structure for your buy-sell agreement.
6. **Consider funding your buy-sell agreement with insurance** to enable your chosen successor to buy the business. Although a buy-sell agreement can help ensure your business will remain with your family or business partners in the event of your death or disability, adequate funds must be available to meet the commitments of the agreement. Life insurance is a simple funding vehicle that helps to ensure adequate liquidity should a qualifying event force the sale of an ownership interest. Disability buy-out insurance may also be purchased on the owners to fund the purchase of the business specifically in the event of a disability.
7. **Establish a dollar value for each owner's share**. For most small, closely held companies, it is not easy to put a dollar value on the business. You may need to obtain an independent appraisal of your business to help formulate your buy-sell agreement.
8. **Develop an estate plan** that assures adequate liquidity to help pay estate taxes and other final expenses. Without prior planning, there may be no provision or funds available to pay estate taxes, which may be significant. You can avoid that situation by purchasing enough life insurance to help cover the cost of estate taxes.You may also wish to consider transferring part of your business ownership to family members involved in the business using certain gifting or sale techniques. While relinquishing control of your business may be a challenge, it can help reduce your assets, thereby reducing your potential estate tax liability.
9. **Discuss your plans with all involved parties**. By letting your

family and management team know the basic details of your business succession plan, such as who will take over as owner and head of the company and why, you can eliminate any surprises. The business succession planning process can save your successor and your family a great deal of hardship.

10. **Review and update your succession plan as needed**. Once your plan is established, review it periodically with your team of professionals to address any changes that may be required. If you have a major change in your business or personal life, be certain to immediately review your plan and revise it, as necessary.

The time you take today to plan for business succession can give you peace of mind that your wishes will be fulfilled when it comes time to transition your business to new ownership. Your family members and business associates can also benefit from your business succession planning.

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What Comprises Your Estate?

Although you may not own a castle, do you know which of your "treasures" will be included in your estate? Federal estate taxes can take a large chunk out of the assets you hope to leave your heirs. Federal estate taxes will generally be due if the sum of your net taxable estate at your death exceeds your individual estate tax exemption.*
Regulations relating to the taxation of property owned at death contain a catch-all definition stating that the "gross estate of a decedent who was a citizen or resident of the United States at the time of his death includes the value of all property-whether real or personal, tangible or intangible, and wherever situated-beneficially owned by the decedent at the time of his death." What does this mean? The first step in understanding the potential implications of the Federal estate tax is to know what major items comprise your estate. Consider the following points:

- Personal assets. Most people are aware that their personal property, savings, real estate, and retirement plans, as well as the proceeds of any life insurance policies they own, are included in their estates.

- Rights to future income. What may be less well-known is that rights to future income, such as payments under a deferred compensation agreement or partnership income continuation plan, may be includable in your estate. These rights are commonly referred to as "income in respect of a decedent (IRD)" and may be includable at their present cash value.
- Business interests. Interests in any business you own at death, whether as a proprietor, a partner, or a corporate shareholder, may be includable in your gross estate.

It is important to note, however, that the value of Social Security survivor benefits,received as either a lump sum or a monthly annuity, is not includable in your gross estate.

Reassess Your Goals

Determining what may be included in your gross estate may require professional analysis. Periodically, it may be wise to have your estate reevaluated to help protect your beneficiaries and heirs from having to choose between fulfilling your wishes and meeting Federal estate tax requirements. Bear in mind that certain estate planning documents, coupled with adjustments to property ownership arrangements, can help minimize estate taxes and maximize estate tax credits. Consult with your qualified financial, legal, tax, and insurance professionals to help ensure your current decisions are consistent with your long-term estate planning goals.

* Under current law, the Federal estate tax in 2012 has an exemption of $5.12 million and a top tax rate of 35% until the end of 2012.

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