



Get In or Get Out: Farm Business Entry & Exit Strategies

Sustaining NY's Farms

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Introduction



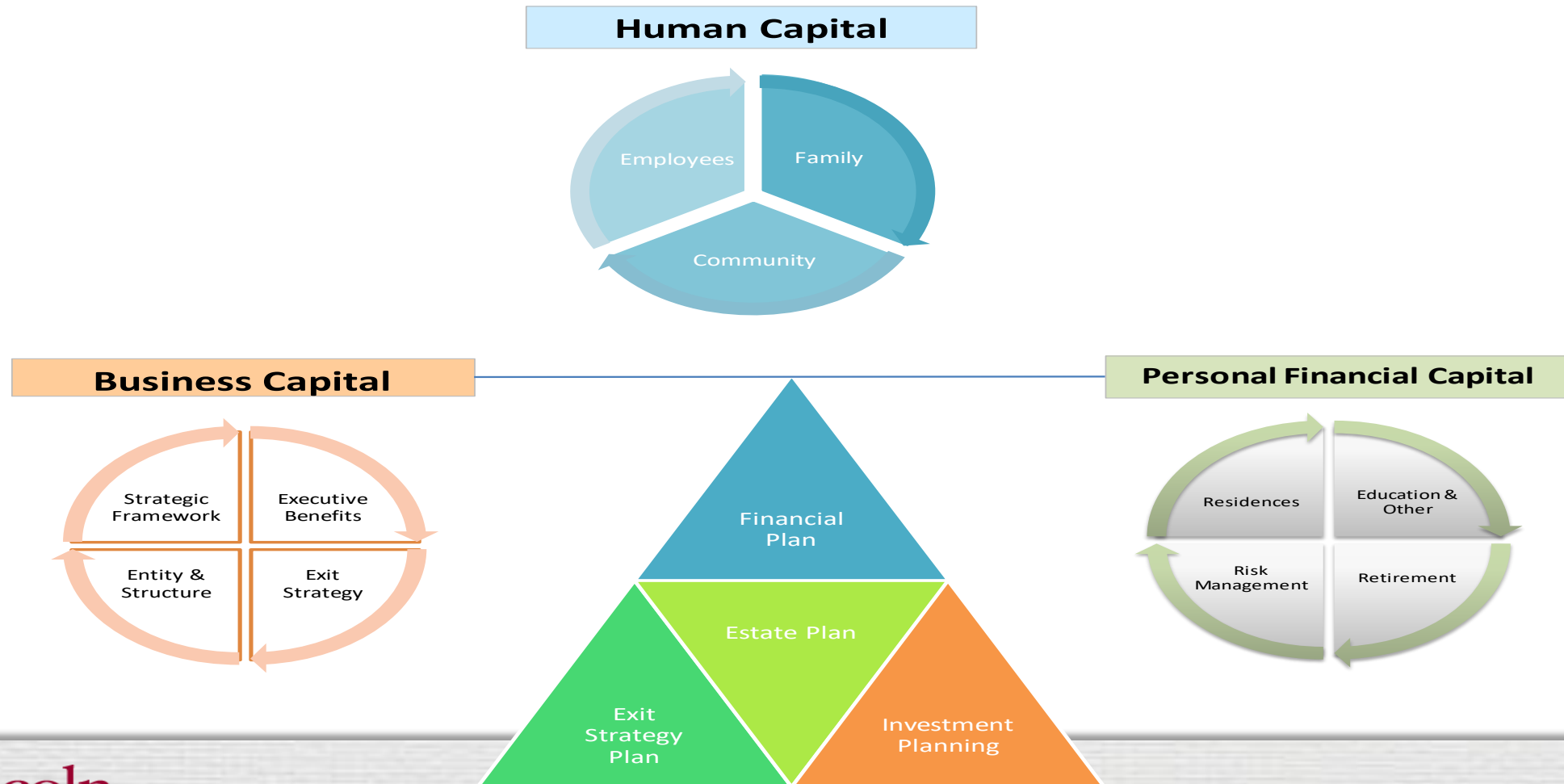
		Importance	
		Low	High
Urgency	High	Not Important Urgent	Important Urgent
	Low	Not Important Not Urgent	Important Not Urgent

The things we will discuss today fall here.

These things, if not done, can create a major crisis once they occur, with no planning.



Integrated Capital Strategies



Agenda



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1. Business Owner Planning
2. Equity Transfer Planning
3. Personal Financial Planning
4. The Financial Planning Process



Business Owner Planning

- Entity Structure
- Business Culture & Strategy



Primary Considerations

1. Liability Protection to Owners

- Do liabilities (debt/other) of the business pass through to the owners?

2. Income Tax Attributes

- Do profits/losses pass through to owners or taxed to the entity?
- Tax treatment for buy-seller or after assets pass through estate

3. Restrictions on Ownership (for S-Corporations)

Entity Structure



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S-Corporation

- Pro's
 - Self employment tax benefit
- Con's
 - Tax inefficiency of stock sale
 - Buyer needs \$1.67 pre-tax to net \$1.00 to pay seller
 - Seller gets \$1.00 nets \$.75
 - Step-up in basis of stock – not business assets
 - Lack of flexibility (profits, growth, distribution, ownership)

Limited Liability LLC

- Pro's
 - Tax efficiency of LLC sale (underlying assets can be deductible)
 - Step-up in basis can be allocated to business assets
 - Greater flexibility (profits, growth, distribution, ownership)
- Con's
 - Self employment tax cost on all earned income



Common Entity Structure:

- Operating Asset Ownership:
 - Best owned by those actively involved
 - LLC is preferable due to greater flexibility and favorable tax attributes
- Land Ownership:
 - Tends to be best to hold this separate from operating assets
 - Can be effective (create income) for retired or passive owners
- Every situation is unique – every solution should be customized!



Impact of 2018 Legislation

- Section 199 domestic production activities is repealed
- Bonus Depreciation : 100% bonus depreciation for assets acquired from 9/28/17 through 12/31/22
- Section 179 Increased to \$1,000,000 (with phaseout starting at \$2.5M investment)
- New Section 199A – Pass through entities/ C corporations
 - 20% deduction on pass through income
 - 21% flat C corporation tax rate

Don't jump into a conversion from one tax status to another: Each situation is different and needs to be carefully reviewed with your tax advisor.

In many cases, the decision is irreversible and we may see corrective legislation and/or regulations.



As the business grows and continues beyond the founding generation, it becomes imperative to articulate and record the business culture and strategy.

This helps keep the key stakeholders aligned and focused on moving the business forward.



Key Questions Answered

- What does it mean to be part of this business?
- What behaviors are acceptable or desired?
- Where are we going?
- How will we get there?



- **Shared Core Values:** What values are important to us?
- **Business Mission:** What is our primary business purpose?
- **Business Vision:** What does success look like?
- **Strategic Initiatives:** How should we focus our resources?
- **Action Plan:** **Who** needs to do **what** by **when** to carry it out?



ABC Inc.

Strategic Framework - Updated 3/13/17

Culture

Shared Vision

Why we exist. Where we are going.

ABC Enriches the lives of those who live, learn, heal, and play in the environments we create. We believe that the quality of people's experiences, the depth of their interactions, vitality, and dignity can be enhanced through creative design that is sensitive to their wellbeing.

Shared Values

What we value and how we behave.

**Thought Leadership
Excellence
Integrity
Engagement
Collaboration
Social Responsibility
Innovation
Fun**

Mission

What we do.

Through our collaborative design process, ABC works diligently to understand our clients mission, culture, and the specific needs of the community they serve. Empowered with this insight and informed by research-based knowledge, ABC engenders thoughtful and innovative design solutions, tailored to each project's unique goal.

Strategic Priorities - How will we succeed? (3-5 Year Priorities)

Enhance Our Business Development and Marketing Processes

Improve Our Sales and Design Processes

Enhance Our Financial Capital

Cultivate our Culture

Develop our Human Capital



Equity Transfer Planning

- How to **Get In?**
- How to **Get Out?**



Why Exit Planning?

At some point, you **ARE** going to leave your business.

The question is **When?**

And on what **Terms?**





Your equity is (potentially) my debt

Assume business with 2 equal owners

Assets \$10,000,000

Debt \$ 4,000,000

40% leveraged

Equity \$ 6,000,000

Owner A \$3,000,000

Owner B \$3,000,000

Exit Strategies



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If Owner B terminates

Assets \$10,000,000

Existing Debt \$ 4,000,000

Buyout Debt \$ 3,000,000 (B's Equity)

Total Debt \$ 7,000,000

Equity \$ 3,000,000

Owner A \$3,000,000

Owner A owns 100%, but
now is 70% leveraged



Assess three forms of Readiness

1. Personal Readiness
2. Business Readiness
3. Market Readiness

Who is the likely or desired buyer?

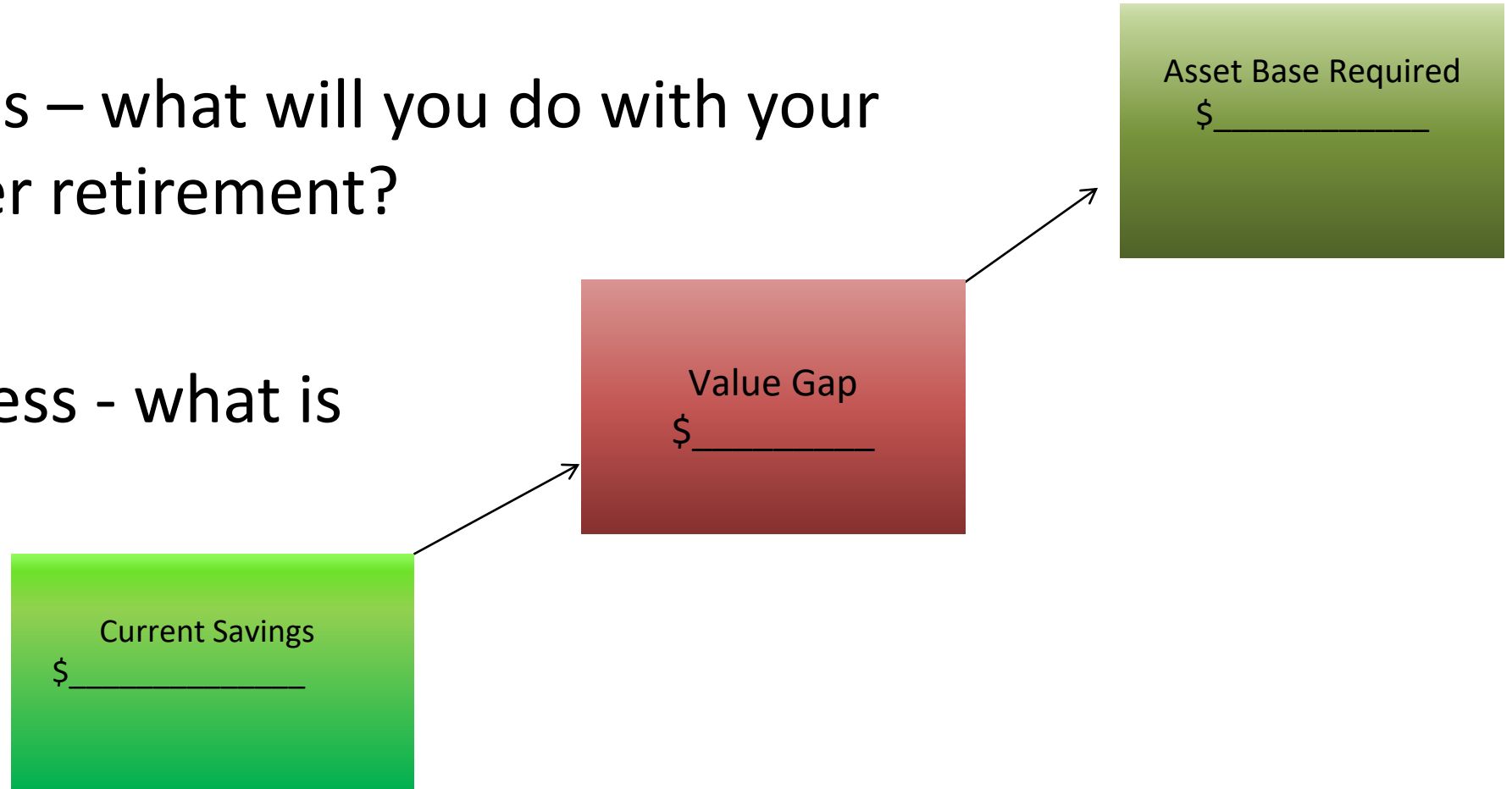
1. Internal – Partner, manager, business heir
2. External – sale to third party

Personal Readiness



A) **Mental** Readiness – what will you do with your time and talent after retirement?

B) **Financial** Readiness - what is your Value Gap?





Business Readiness

- How well can the business function without you there?
- Can the balance sheet and cash flow withstand the required equity withdrawals?



Market Readiness

- Do you have something the market wants?
- Do economic conditions support needed capital?
- Do you have a backup plan?



Buy-Sell Agreements



Buy-Sell Agreement defines the liability

When is the agreement triggered?

- Death, Disability, Retirement, Termination, other

Who buys?

- Entity, other owners, combinations

How is the price determined?

- Agreed to annually, financial statement value, appraisal

What are the payment terms?

- Down payment, note term and rate, collateral, guarantees

Buy-Sell Agreements



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How to Fund the liability?

- Death
- Disability
- Retirement
- Termination of Employment
- Divorce & other Creditor

Entry Strategies



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Three ways to acquire equity

- 1) **Buy it** from Senior Generation
- 2) **Gifts or Inheritance** from Senior Generation
- 3) **Earn value** from “sweat equity”



Buy it from Senior Generation

- Tax implications can be significant
- Cash flow and leverage issues can be significant



Gifts or Inheritance from Senior Generation

- Timing of transfers
- Risk of working a long time with no transfer
 - Someone changes their mind
 - Some event (ie long term care) adversely impacts the assets or cash flow



Earn value from “sweat equity”

- Stock (or equity) Bonus Plans – taxable event
- Stock Options (Corp)
- Profits Interests (LLC)

- Stock options and profits interest offer Tax Deferred Growth (if structured properly)



Personal Financial Planning

- Financial Independence
 - Retirement
 - Risk Management
- Investments
- Estate Plan
- Tax Strategy overlay



Financial independence means that:

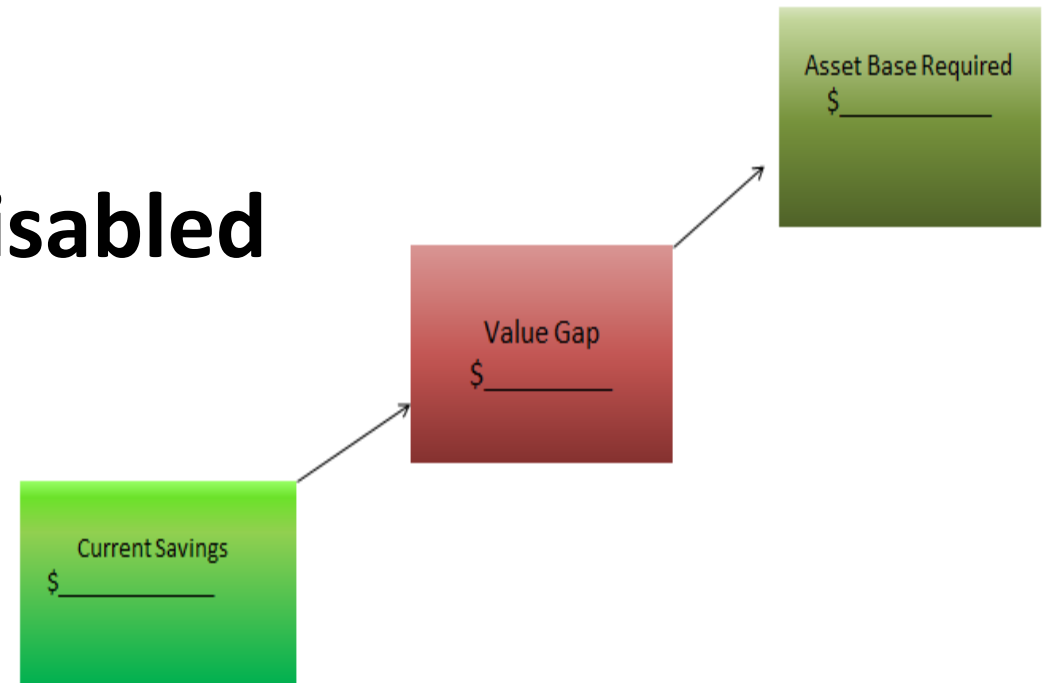
- You have the financial resources to meet your goals.
- You are no longer dependent on a paycheck.
- If you are working – it is because you want to



Determine the **capital needed** to provide for your family:

To replace income:

- In **retirement**
- If either spouse becomes **disabled**
- If one spouse **dies**





Additionally, identify sources of capital to provide funds for:

- **Education** for children/grandchildren
- **Other goals** (i.e. travel, vacation home, etc.)
- **Gifting** to family or charity
- If either spouse needs **Long Term Care**

Estate Planning



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Goals and Issues

1. **Income for spouse**
2. **Estate and Income Taxes**
3. **Family Legacy** (children/grandchildren)
4. **Estate Equalization** - Business vs non-business heirs
5. **Charity**



Documents Needed

1. Will

- Direct what happens to your assets
 - **Who** will inherit **what**?
 - **When** will they inherit?
 - In **Trust** or **outright**?
- Named representatives
 - **Executor, Trustees, Guardian** for minor children

2. Trusts (if applicable)

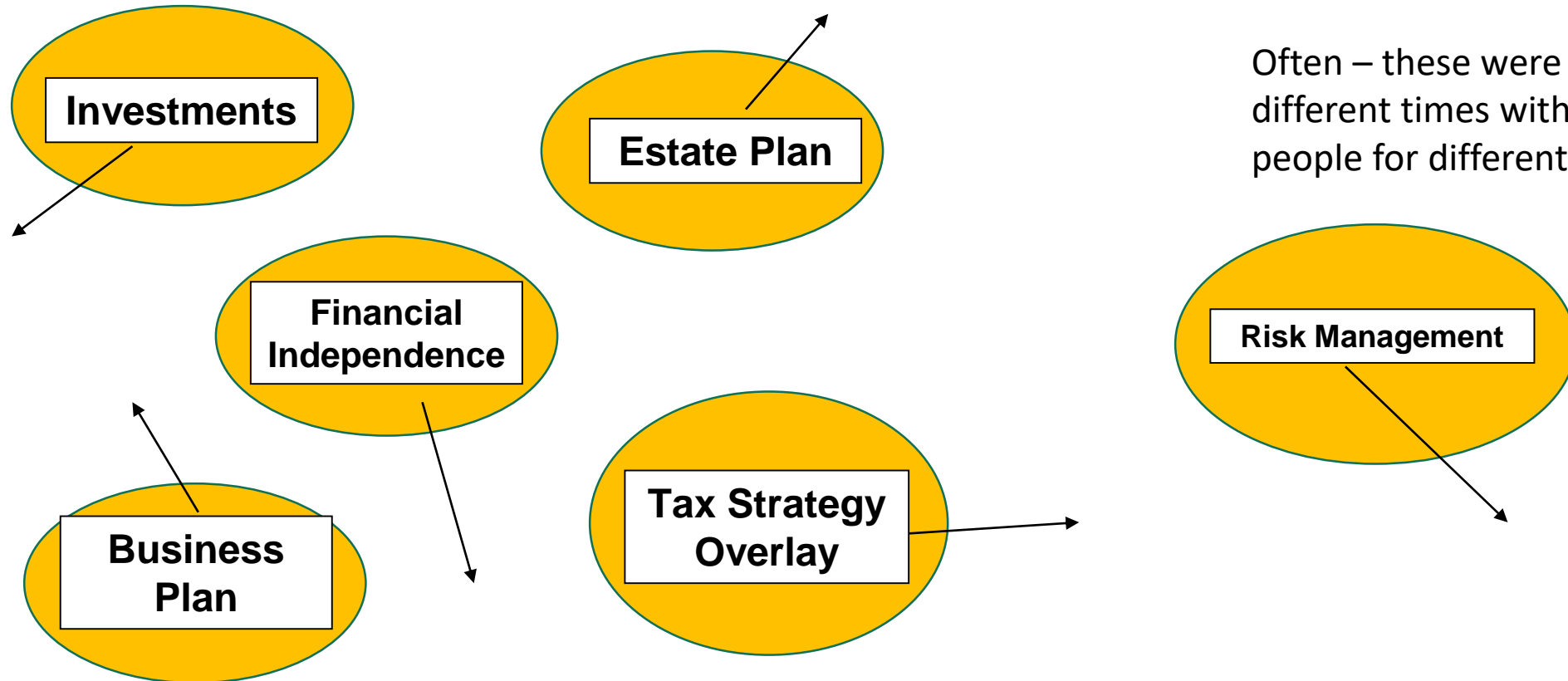
3. Powers of Attorney – Agent for legal transactions if incapacitated

4. Health Care documents – Living Will and Health Care Power of Attorney



The Financial Planning Process

What has been done?

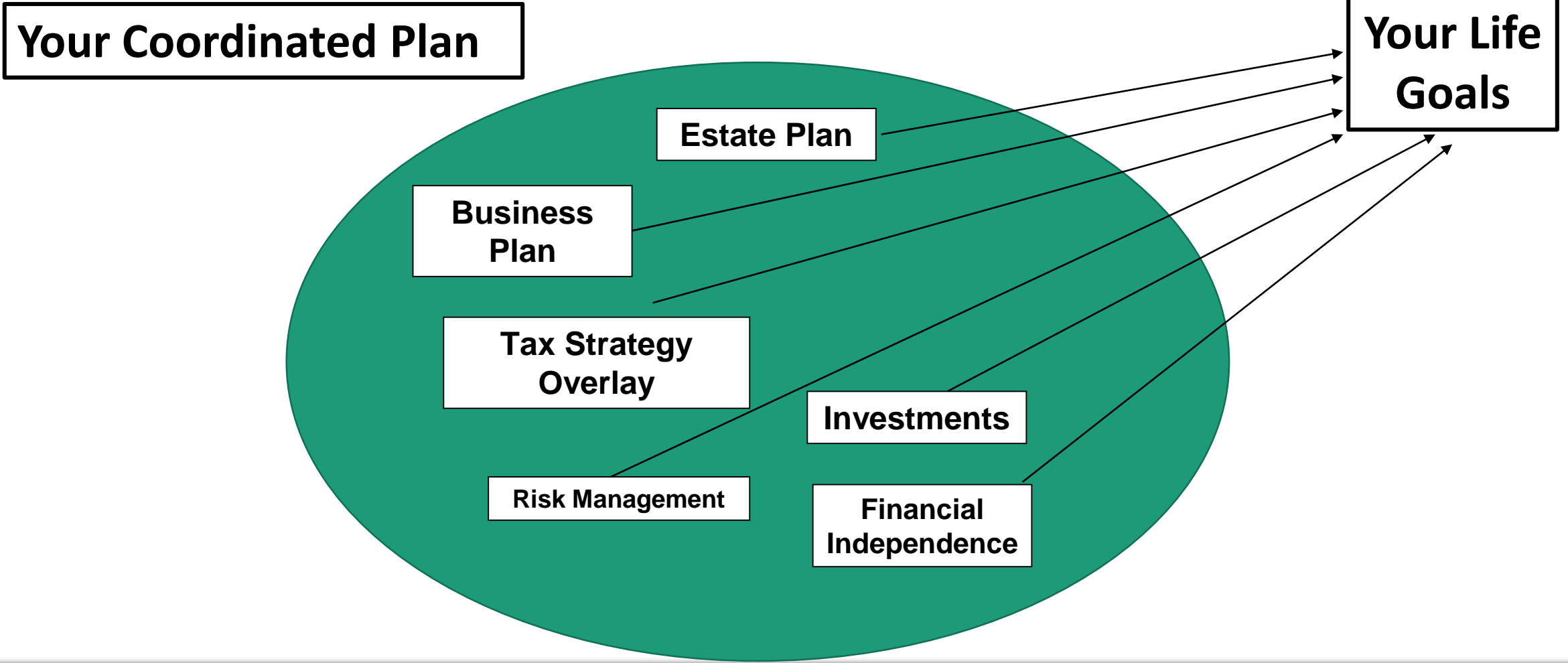


Often – these were done at different times with different people for different purposes

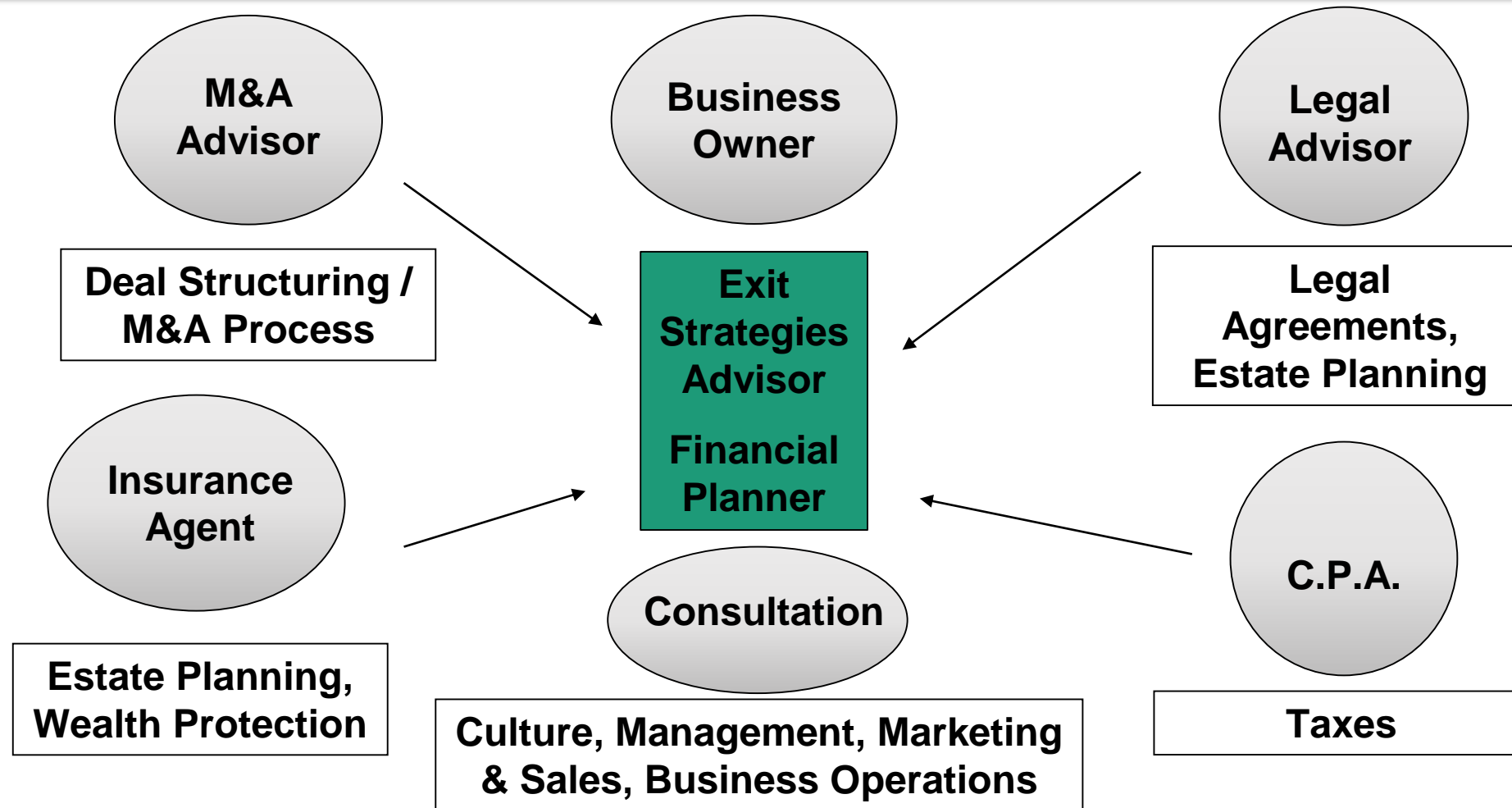
What We Do



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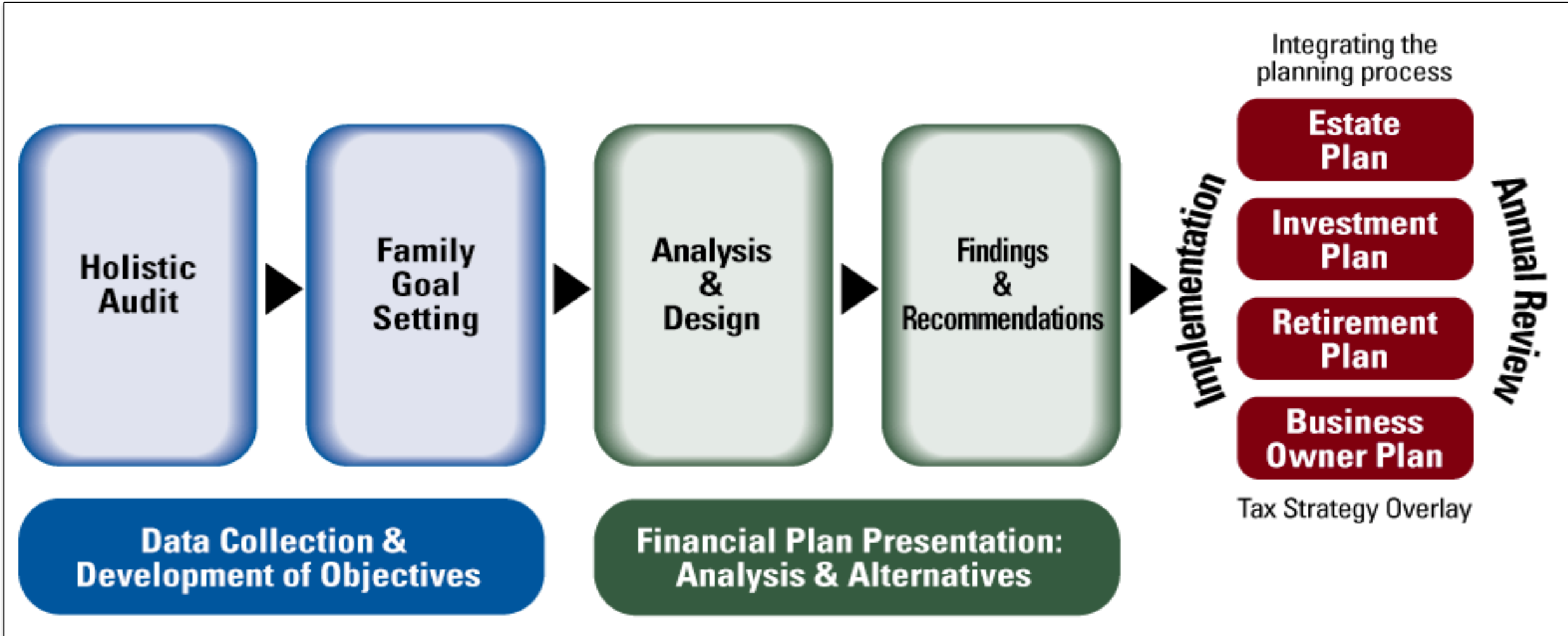
How We Do It



The Financial Planning Process



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Do you have any questions?

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