"SUCCESSION PLANNING: FAMILY GOVERNANCE CONSIDERATIONS, STRATEGIES AND TECHNIQUES AVAILABLE"©

Florida Institute on Federal Taxation ® Conference

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Acknowledgement

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  - The Owner Managed Business Institute, Inc. (Professor Davis).

"THERE ARE A GREAT MANY WILLING TO WORK, AND A GREAT MANY WILLING TO LET THEM."©

"A SUCCESSFUL MAN IS ONE WHO MAKES MORE THAN HIS FAMILY CAN SPEND." ©

"FEW OF US CAN EXAMINE OUR FAMILY TREE WITHOUT FINDING SOME QUEER BIRD IN THE BRANCHES." ©

Sir Thomas R. Dewar

Succession Planning

- In general
  - Largest wealth transfer in history upon the death of the "Baby Boomers."
  - Planning of transfer of wealth and wealth generating assets
    - To Preserve the "family business."
    - Business continuity.
    - To save estate taxes.

Succession Planning

- **Analysis:**
  - ***Who is capable of running the business? Recurring theme.***
  - **Cash flow planning**
    - **Family - How to pay the estate taxes due.**
    - **Business - How to balance the income needs of the different generations and the business.**

Succession Planning

- **Analysis**
  - **Tax Planning –**
    - **Estate and gift tax planning.**
    - **Income tax.**
  - **Control of business?**
    - **Decision Making.**
    - **Control of dividend and cash flow payments.**
    - **Salaries and perks.**

Succession Planning

- Some key questions that ***must*** be asked:
  - *How is the existing business succeeding?*
    - *What is the key to the success?*
  - What makes the business model successful?
    - Product?
    - Service?
    - People?

Succession Planning

- Some key questions that ***must*** be asked:
  - What planning, new products, and/or expenditures will be needed in the future (e.g., new product lines, R&D)?
  - Discuss with :
    - Management
    - Owners
    - Key Customers?

Succession Planning

- Who will be the future owners of the Business?
  - Do they understand the company's financial position and its financial statements?
    - Teach them, to shape expectations.
    - Vs. the Mushroom approach.
  - Do they understand the business?
    - Again to shape their expectations as to cash flow needs of the business.

Succession Planning

- Who will be the future owners of the Business?
  - What are their cash flow needs?
    - Expectations vs. Reality
      - How do expectations match business needs?
  - How & when will they become owners?
    - Lifetime gift?
    - Inheritance?
    - Purchase? Earn out?

Succession Planning

- Who will be the future owners of the Business?
  - Do they work in the business now?
  - Do their children work in the business now?
  - Are any other relatives working in the business now?
    - Must they be protected when the owners change? - Emp. Agreement
    - Protection against in-laws.

Succession Planning

- Key questions
  - *Are all family employees qualified?*
    - *If not, do they have management responsibilities?*
      - *I.e., can they harm the business?*
  - Is the business able to recruit & retain professional managers?
    - What are management's expectations re: Compensation, stock ownership, & dividends? How do they "cash out?"

Succession Planning

- Key questions
  - What are the expectations of future owners? Wk., Sale, Divs.
  - Is there a possibility of a divorce in the founders' generation or the siblings' generation?
    - Avoid having the former son-in-law, daughter-in-law as a partner.
  - When will a transition occur?

Succession Planning

- Key questions
  - Will transition be contingent upon what?
    - Death of prior generation?
    - Expiration of trust term?
  - Will the transition trigger cash flow needs in the business?
    - Contractual agreements? Puts?
    - Gift or estate taxes of owners?

Succession Planning

- Key questions
  - Is active participation of the owners in the business required?
  - Does the business require the contacts and/or personal touch of the founders or siblings?
    - Learning curve – transition
    - Is older generation willing to let go?
  - Does the business have a "succession plan"?

Succession Planning

- Key questions
  - Can/should non-family key employees become owners?
    - Exit strategy for them?
  - Should different classes of shares be created, voting and nonvoting, with or without fixed rate return?
- Should business be sold by founders?

Succession Planning

- Key questions
- Advisors need to provide leadership & counseling.
  - What is role : Professional, counselor, "father confessor."
  - Risky business - *The truth is not always welcome*.
  - Who or whom do you represent?
    - Founders, siblings, business?

What must be done to perpetuate successful family businesses and to sustain the success of business families?

Why?

Family Business Performance

Family-run companies are valued 10% higher by the stock market than non-family companies[1].

Family businesses employ 50%-60% of the workforce in industrialized countries[2].

[1] Anderson, Ronald and David M. Reeb, 2003, Founding family ownership and firm performance: Evidence from the S&P 500

[2] Family companies are ready for the worst, *Financial Times*, October 2001

Family Business Performance

Founder-stage family firms are **19% more valuable** than non-family firms[3].

SHOULD BUSINESS BE SOLD BY FOUNDERS?

Family businesses generate higher

- annual shareholder return,
- annual revenue growth,
- income growth, and return on assets

than non-family firms[4].

[3] Amit, Raphael and Belén Villalonga, 2004, How do family ownership, management and control affect firm value? Evidence from the Fortune 500

[4] *Business Week* study, Family, Inc., November 2003

Family Business Performance

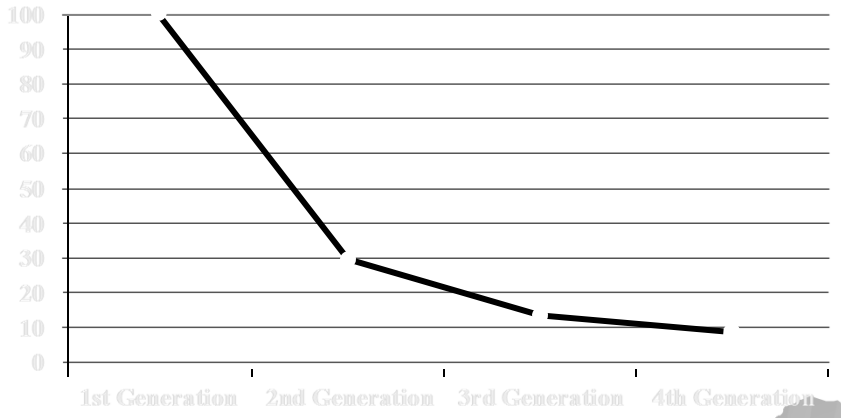
Publicly traded family firms significantly outperform non-family firms in earnings and stock performance. In a 2003 study, family-controlled companies were 5.5% more profitable and achieved a 6.65% better return on assets than non-family companies[5].

[5] *Business Week* study, Family, Inc., November 2003

Family Business Performance

- Why are family businesses valued higher?
  - Sense of stability.
  - ***Shareholders and management think long term.***
  - Family business leaders support aggressive management and do not let family shareholders sway the company's course.

Family Business Mortality



Business Mortality Rate

- **1st to 2nd – 60%.**
- **2nd to 3rd. – 20%.**
- **80% Business Mortality Rate by Third Generation.**
- **You need to have a Succession Plan**
- **It is just not good enough to leave the assets *"in equal shares, one equal share for each of my children who survive me and one equal share, collectively, for the then living descendants of a deceased child of mine"* Equitable, but trouble for family Bus.**

HBS - Lessons from Dynasties

- First generation originates the Dream; Second generation initiates the Dynasty; Third generation establishes Traditions.
- Businesses come and go (Marriott); Business families endure.
- Family discipline, shareholder discipline is key.

HBS - Lessons from Dynasties

- Most family members like to work hard and share a sense of duty to the company. Dewar's observation?
- Family and management are loyal to core values and to people, but can still change the business.
- Deep concern for quality by family and employees.
- Momentum matters; Luck and a challenging environment help; Arrogance is a killer.

HBS - Lessons from Dynasties

- Families grow faster than businesses, there is then a pressure on the business to generate dividends, if income desires not met, sell shares.
- According to surveys only 51% of business owners have a strategic business plan.
  - Only 12% out of the 51% had their plans written down.

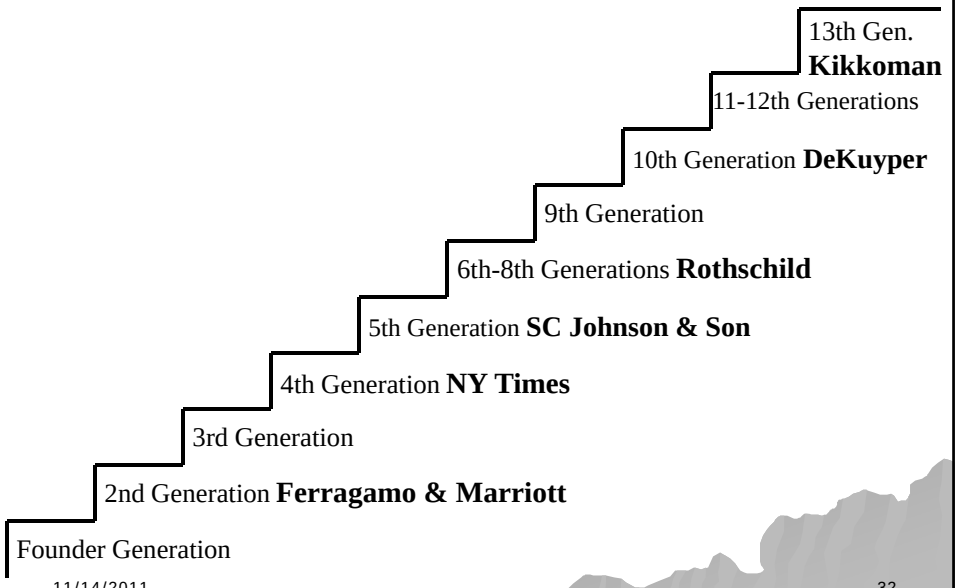
HBS - Lessons from Dynasties

- As family members become *passive investors*, risk taking is reduced.
- As *$$ needs go up*, risk taking goes down and there is less and less dedication to the business.
- When *pride on the business and the family is down*, the desire for $$ is increased. Sales of stock.

Three Generation Rule

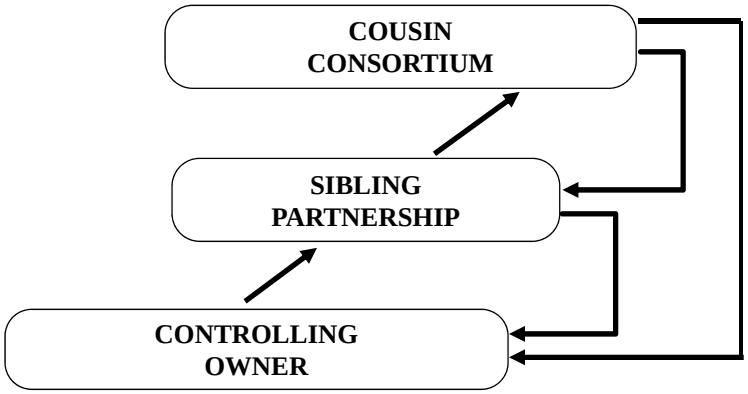
- In U.S.: ***"Shirtsleeves to shirtsleeves in three generations."*** *HBS found some variation of this proverb in 60 countries in which they consulted*.
- In Mexico: ***"Padre Bodeguero; Hijo Millionario; Nieto Pordiosero"*** (Father–merchant; son–millionaire; grandson–beggar)
- Brazilian saying: ***"Pai Rico; Filho Nobre; Neto Pobre"*** (Rich father; noble son; poor grandson)
- Italian saying: ***"Dalle Stalle Alle Stelle Alle Stalle"*** *(*From the stables to the stars and back to the stables in three generations.)
- Chinese saying: ***"From peasant shoes to peasant shoes in three generations"*** and ***"Fu bu guo san dai"*** (Wealth never survives three generations.)

Family Companies in Study



Succession Planning

Three Ownership Stages of the Family Business



From Generation to Generation: Life Cycles of the Family Business, based on an earlier framework by Professor John L. Ward.

Sibling Partnerships

- Control issues
  - Between surviving parents and children. When??
  - Between children and grandchildren.
    - If we do GST planning, who controls the business during the time of the skipped generation(s)?
    - Beware of wealthy teenagers re: marriage, car accidents, etc.?

Sibling Partnerships

- Are siblings, children, and/or grandchildren qualified to inherit business or to work in business?
  - Extremely hard question to make.
    - Can cost you the client!!
  - The "Ins versus the Outs."

Sibling Partnerships

- The "Ins vs. the Outs."
  - The "Plunderers vs. the Parasites" – Classic
    - The "plunderer parasite"- Works (?) in the business but adds no value.
- Dividend vs. Salary payments – Determine Cash flow needs of the family. Business must be first always.

Sibling Partnerships

- Employment in family business – Establish parameters
  - "Institutionalized mediocrity"
  - Are there strategic advantages in having the family work in the company? Is there a value?
  - Can a non-family manager ever feel comfortable working for or supervising a family member?

Sibling Partnerships

- The "Barcelona" employment solution (location of client):
  - Cannot apply until age 25.
  - Can only apply once.
  - Must have University degree.
  - Must have outside management experience – 3 to 5 years.
  - Must speak 3 languages.

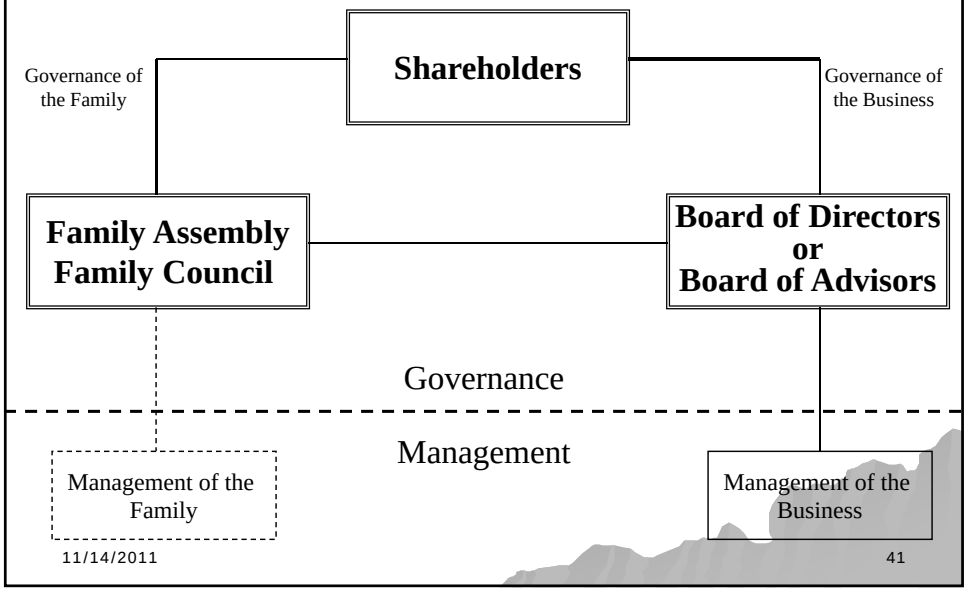
Sibling Partnerships

- Generational wealth expectations
  - Parents owned company and earn $1,000,000. They have 4 children.
  - Each child will own 25% and wants to live at a spending level equivalent to the parents, yet the income producing assets have to be divided 5 ways (?).
    - 4 kids + Uncle Sam!
  - Balancing business cash flow needs versus family cash flow needs.

Succession Planning

- Cousin Consortium –
  - Governance – Board of Directors
    - Family Council
    - Family Assembly
  - Two classes of stock – then go public to keep family control.
    - Provides an out for those who want to sell & yet keep family control.
  - Redemption programs. To prune the "shareholder tree."

Governance of the Family Business System



Some Suggestions

- Shareholders Agreements
  - Management of company
    - Working budgets, operating plan.
  - Board of Directors – "Ins vs. Outs"
    - Size.
    - Powers – How much control in Mngt.?
    - Qualifications. – Schooling, experience, residency
    - Duties.
    - Quorum and Voting – Retained power.
      - With respect to "Major Acts."
      - Vote: Majority, supermajority, unanimity.
      - Time, Notice and Call of Meetings.

Legal Alternatives

- Shareholders Agreements
  - Major Acts:
    - Some of the acts which require ***special vote***:
      - Sale of all or substantially all the assets of the Company;
      - Borrow any money and assume debt;
      - Prepay in whole or in part, refinance, or fix the interest rate on any debt;
      - Incur liabilities exceeding $_____ and which extend beyond a period of one year.
      - Make any expenditures in excess of $___ amount.

Legal Alternatives

- Shareholders Agreements
  - Termination of Agreement (restrictions)
    - By agreement (of whom, officers, directors, all shareholders?).
    - Upon the acquisition of all the issued and outstanding stock by a third party.
    - Upon company going public.
  - Operating Statements and Budgets
    - When & Access by whom?
  - Books of Account
    - Access and how often issued.
    - Decisions as to accounting principles
  - Compliance with securities laws.

Legal Alternatives

- Shareholders Agreements
  - Confidentiality.
    - Defines "Confidential Information" and "Trade Secrets."
      - Customer lists.
      - Client records.
      - Office records.
      - Financial data and market studies.
      - Contracts or agreements with any person or entity.
    - Non Disturbance Clause – Employees.

Legal Alternatives

- Shareholders Agreements
  - Effect of disputes – Who pays legal and expert fees. To control "Outs."
  - Borrowing against stock, are pledges allowed? To avoid "back door sales."
  - Employment. To control "Ins."
    - Working hours. Sets expectations.
    - Titles.
    - Compensation.
    - Vacation.
    - Expenses and perks.

Legal Alternatives

- Shareholders Agreements
  - Divorce and third party creditor provisions - to prevent ex-spouses or creditors in business (LLC is better to accomplish this). Forced Buy-out at $$.
  - Estate planning provisions – Who are Permitted Transferees of shares?
  - Death and Inheritance provisions – Who may inherit? Grandkids, spouses?
  - Disability buy out provisions?
  - Provisions to maintain "S" status.
  - Deadlock: No Litigation, Forced Arbitration, & Right to "Put" Stock.

Legal Alternatives

- Shareholders Agreements
  - Dividend Provisions - Dangerous
    - Forced payment of X% of Company ordinary audited earnings. E.g., 50%
      - Definition of "ordinary earnings."
    - Board may pay less than X% but not less than X - Y%, but only may do so in two consecutive years. E.g., less than 50% but not less than 30%
    - Cannot skip dividends for Z amount of years. E.g., 2 years.

Legal Alternatives

- "Buy-Sell" Agreements - Escape valve – "I want out."
  - Valuation
    - By Formula or multiple.
    - By appraisal or agreement.
      - Who does appraisal?
        - CPAs?
        - Investment Bankers/Bus. valuators?
      - Who appoints?
        - "You appoint CPA, I appoint CPA, and if those two are not in agreement, they appoint a third one."
      - Who pays fees?

Legal Alternatives

- The Double Put (also referred to as the "Shotgun" Provisions)
  - "You 'put' the stock to me at a price & terms, I can then 'put' my stock back to you at the same price & terms."
- "I buy this portion of the business and you buy this other one." §355
- Tag Along, Drag Along Rights, Piggyback Rights. – For Hijackers!

Legal Alternatives

- Right of first refusal – *Impractical?*
  - If X wants to sell then X's IDIT has the right to buy and X's kids. If neither buys, then the other siblings and their IDITs can buy, pro rata.
  - By company. *§§302 & 303, Cash Flows?*
  - Family buy out provisions (by family branches). *To keep control within a branch.*
  - Order of Right of First Refusal.
    - Trusts and FLPs.
    - Then human beings.

Legal Alternatives

- Right of First Offer - *Practical*
  - Better than right of first refusal.
  - Can not sell to 3rd parties at a higher price or on better terms. *KEY*
- Funding – *"Where the rubber meets the road"*
  - If by debt - terms and conditions
  - If by insurance – terms and conditions
    - Who pays premiums?
  - If from company – Cash Flow?

Legal Alternatives

- Other Alternatives
  - Board of Directors with staggered terms
  - Transition from owner managed, to advisory board (for Siblings), to Board of Directors (for Cousin Consortiums).
  - Sell business altogether. *Cash out*.
  - Go public. *Cash out but maybe keep Control – Two types of shares.*
- For Cousin Consortiums - consider Family Councils and for really large families, Family Assemblies.

Legal Alternatives

- Trust managed – Minority % owned by Trust to provide swing vote.
  - Trust may have a family advisory board to manage voting.
- Anoint – One of the siblings to have control of the business.

Tax Issues – Sections 302 & 303

- General Rule - Redemptions received by shareholders on a corporation's stock are dividends to extent of E&P.
- Sections 302(b) and 303 of the Code, however, provide 5 important exceptions to the general rule:

Tax Issues – Sections 302 & 303

- Section 302(b)(1) – "not substantially equivalent to a dividend." *Used in desperation.*
- Section 302(b)(2) – "substantially disproportionate". *Safe Harbor.*
- Section 302(b)(3) – "Complete termination of interest." *Safe Harbor.*
  - But attribution rules are a problem
- Section 302(b)(4) – Redemption occurs due to a partial liquidation of business.

Tax Issues – Sections 302 & 303

- So long as capital gains & dividend rates are the same – The only advantage for the redeemed shareholder of applying Section 302 is to be able to deduct the cost basis. If the cost basis is high, you want to use Sec. 302.
- Conversely, for the shareholders who remain, it is better if the whole thing is a dividend since the company's E&P are reduced.

Tax Issues – Sections 302 & 303

- Section 303 - distributions made in redemption of stock to pay death taxes. Can be used w/302.
  - Due to basis step up, no gain to the estate.
  - Requirements:
    - Value of stock included in the decedent's gross estate > 35% of the decedent's AGE. §302(b)(2)
    - Total Redemption <than the sum of the death taxes + funeral + administrative expenses under Section 2053. §302(a)(1) and (2)

Tax Issues – Sections 302 & 303

- The redemption must occur within the time period specified in Section 303.
  - Within 90 days after the limitations period for assessment of the federal estate tax (3 years after the due date of Form 706).
  - Within 60 days after a Tax Court decision becomes final.
  - If Section 6166 is elected, 15 years after the filing of the estate tax return.

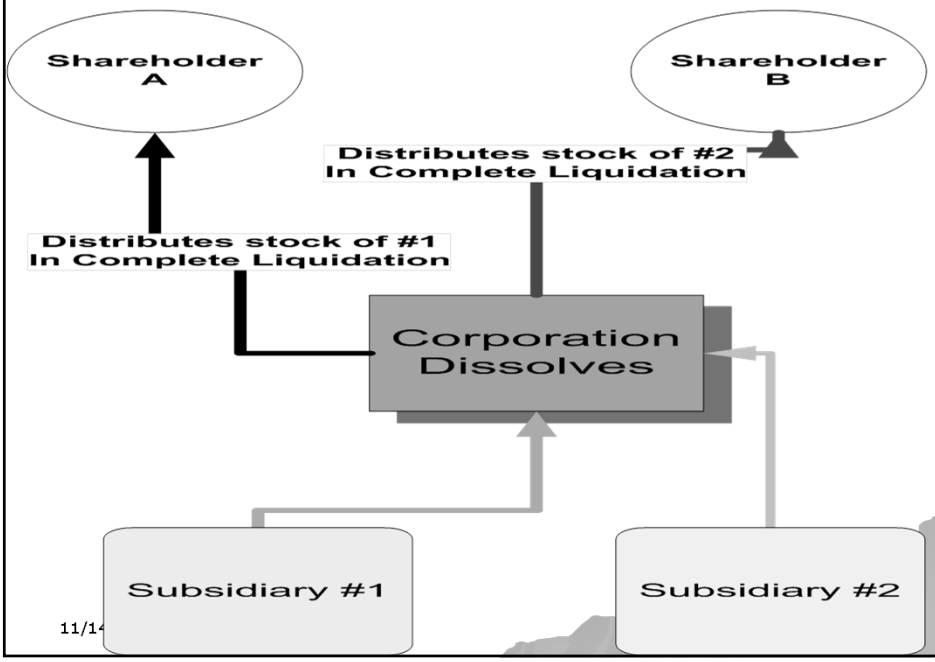
Tax Issues – Section 355

- Section 355 may be used:
  - To solve conflicts among the shareholders by allowing the conflicting shareholders each to take a separate business (e.g., a Split-Off or a Split-Up).
  - You can combine a Section 355 transaction followed by a Section 303 redemption.
  - It may provide an "estate freeze" by splitting-off the business with the greater growth potential to the younger generations.

Tax Issues – Section 355

- **Split-Up –**
  - **A distribution by a Parent Corp. of stock its Subsidiary Corporations in complete liquidation of the Parent Corporation. Parent Dissolves.**
  - **Typically, the Parent distributes one Subsidiary Corporation to one shareholder or shareholder group, and distributes the other Subsidiary Corporation to the other shareholder or shareholder group.**

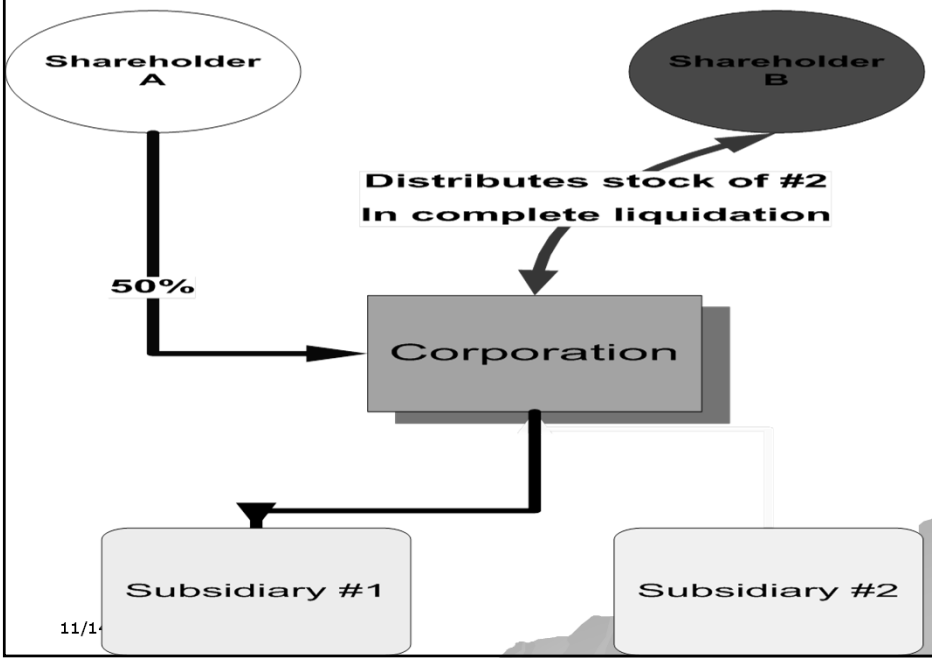
Split Up #1



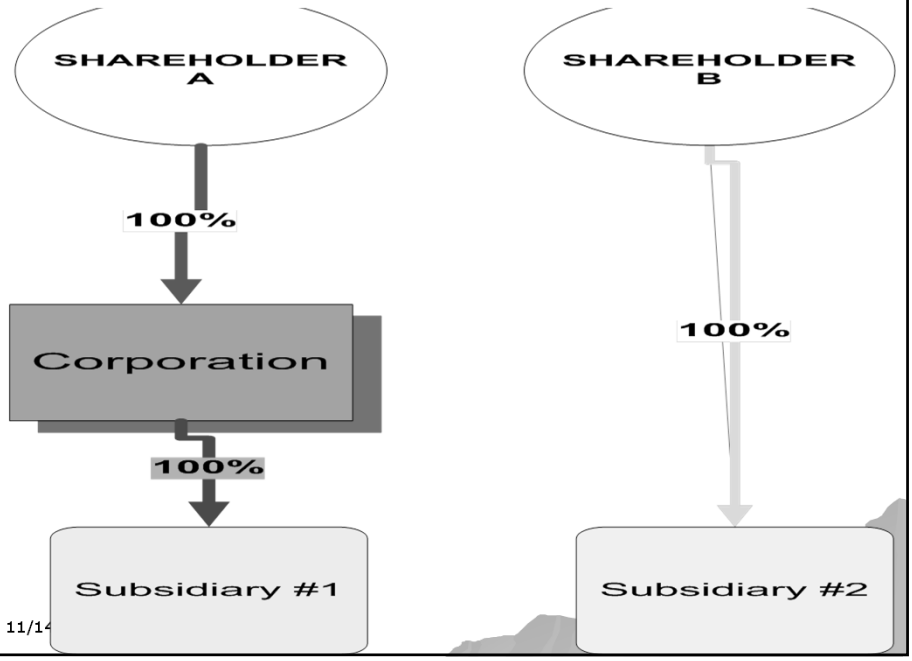
Tax Issues – Section 355

- **Split-Off - When a shareholder or shareholder group exchanges stock in the Parent Corporation for stock in a Subsidiary Corporation, while another shareholder or shareholder group maintains its ownership in the Parent Corporation and receives no stock in the Subsidiary Corporation.**

Split Off #1

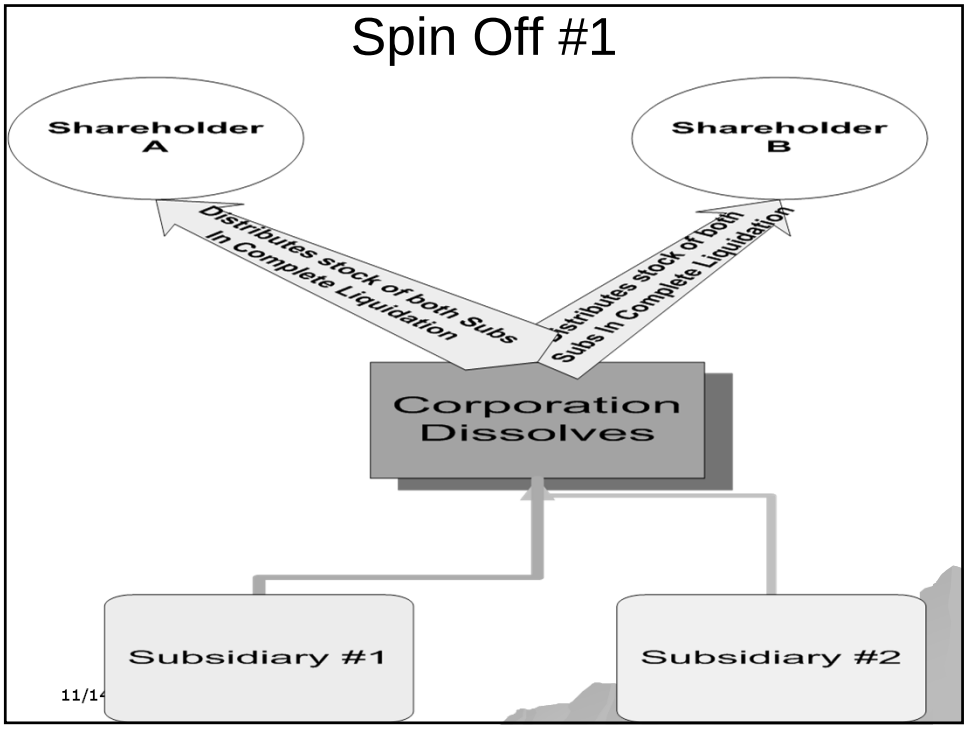


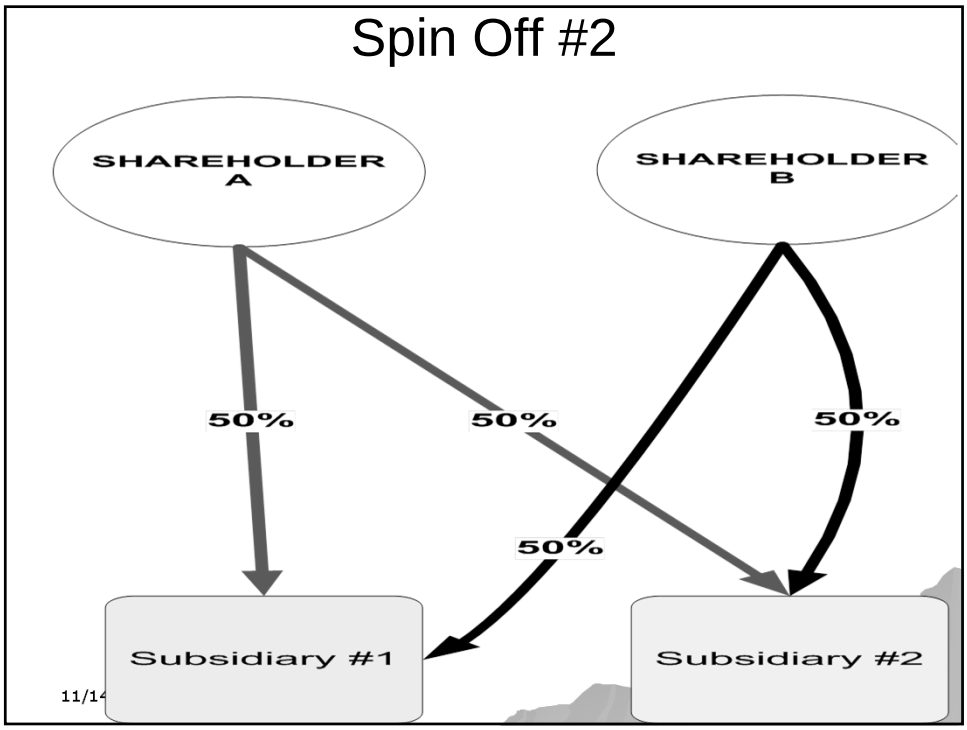
Split Off #2



Tax Issues – Section 355

- **Spin-Off - A Spin-Off is generally a pro rata distribution by the Parent Corporation of the stock of a Subsidiary Corporation to the shareholders of the Parent Corporation.**


Spin Off #1
Shareholder A
Shareholder B
Distributes stock of both Subs In Complete Liquidation
Distributes stock of both Subs In Complete Liquidation
Corporation Dissolves
Subsidiary #1
Subsidiary #2
11/14


Spin Off #2
SHAREHOLDER A
SHAREHOLDER B
50%
50%
50%
50%
Subsidiary #1
Subsidiary #2
11/14

Tax Issues – Section 355

- 355 Transaction v. D Reorg.
  - Straight 355 transaction, the Subsidiary is "old and cold."
  - In a D reorganization, the Subsidiary is created immediately before the 355 transaction occurs, and assets are dropped down into the newly created Subsidiary Corporation(s) by the Parent Corporation in exchange for the stock in the Sub.

Tax Issues – Section 355

- Requirements of Section 355:
  - Control - Parent Corporation must "control" Subsidiary – 80% of the voting stock and 80% of the total number of shares of all classes of stock of the Subsidiary.
  - Device Test - The distribution not used principally as a "device" for the distribution of earning and profits of the Parent, Subsidiary Corporation, or both.

Tax Issues – Section 355

- **Requirements of Section 355:**
  - **Active Trade or Business - Immediately after the distribution, both the Parent and former Sub. must be engaged in an active trade or business, which has been actively conducted for 5 years.**
  - **Distribution - Parent Corp. must distribute all, or at least a controlling interest, of the stock in the Subsidiary Corporation.**

Tax Issues – Section 355

- **Requirements of Section 355:**
  - **Business Purpose – Must have a real and substantial non-tax purpose germane to the business of the Parent or Subsidiary. *Estate planning, by itself, is not a valid corporate business purpose.***

Tax Issues – Section 355

- Requirements of Section 355:
  - Bus. Purpose (Cont.)
    - "Fit and focus" (i.e., to allow certain shareholders to focus on alternate businesses and/or go their own way).
    - "Fit and focus" allows shareholders
      - (1) to divide up the corporation and each take his preferred business,
      - (2) to go their own ways and be able to run each separate business as they wish, and,
      - (3) to do this without recognition of gain.

Tax Issues – Section 355

- Requirements of Section 355:
  - Continuity of Interest - The pre-distribution historic shareholders of the Parent Corporation must maintain a continuity of ownership interest in both the Parent and Subsidiary Corporation for some time following the 355 transaction.

Tax Issues – Section 355

- Requirements of Section 355:
  - Continuity of Business Enterprise - Parent and Sub must continue the active trade or business conducted by them prior to the division.
  - Anti-Morris Trust Rule - One or more persons cannot acquire, directly or indirectly, a 50% or greater interest in either Parent or Sub. within 2 years after the Sect 355 transaction.

Succession Planning – ESOPs

- ESOP
  - A retirement benefit plan created to hold primarily stock in the sponsoring corporation for the benefit of employees until their retirement or termination.

Succession Planning – ESOPs

- ESOPs
  - A liquidity tool because it enables current shareholders to sell highly appreciated closely held stock and net 100% of the proceeds.
    - Under Section 1042, an individual, trust, estate, or partnership can sell its "C" corporation stock to an ESOP and ***defer capital gains tax*** by rolling over the proceeds.

Succession Planning – ESOPs

- Section 1042 rollover is available if the following rules are satisfied:
  - The ESOP ***must own at least 30% of the capital stock*** of the sponsoring corporation immediately after the stock purchase for which the Section 1042 rollover is desired.

Succession Planning – ESOPs

- **1042 requirements:**
  - **The selling shareholder *must have owned the stock for at least 3 years* before the sale to the ESOP;**
  - **The ESOP sale proceeds must be *reinvested in "qualified replacement property"* Like a 1031 exchange.**
    - **debt or equity instruments issued by domestic operating corporations, w/in 15-month period, beginning 3 months before the sale to the ESOP and ending 12 months after the sale to the ESOP.**

Succession Planning – ESOPs

- **1042 requirements:**
  - **Certain filings must be made with the IRS by the ESOP, the sponsoring corporation, and the selling shareholder.**
  - **Section 1042 provides a tax deferral, not a complete avoidance of tax.**
    - **Deferred Gain on the sale of the employer's stock to the ESOP will be taxed when the replacement property is sold at a price in excess of basis. But step up at death eliminates gain.**

Succession Planning – ESOPs

- 1042 requirements:
  - A Section 1042 rollover is not available to owners of publicly traded stock or closely held S stock.
    - Available only upon the sale of closely held "C" corporation stock to an ESOP.

Succession Planning – ESOPs

- ESOP - A tool for estate planning and wealth preservation because:
  - It can reduce the amount of illiquid closely held stock in the owner's estate and simultaneously can increase the amount of cash the personal representative has available to pay taxes, debt, administrative expenses, and bequests.

Succession Planning – ESOPs

- The valuation of ESOP stock must (1) be updated at least annually, (2) reflect fair market value, and (3) be prepared by an independent authority.
  - *Thus, the annual ESOP stock valuation opinion may greatly reduce the chances of a valuation dispute with the IRS.*
- An ESOP can be used by a deceased shareholder's estate that is not eligible for the benefits of a redemption pursuant to Section 303.

Succession Planning – ESOPs

- An ESOP can be a tool for business succession planning because it can be coordinated with a stock redemption buy-sell agreement to help ensure the smooth succession of a business.
  - Agreement can provide the ESOP with a first option to purchase the stock, and if the ESOP does not exercise the option, then the sponsoring corporation would be compelled to redeem the shares.

Succession Planning – ESOPs

- This will avoid a sale of the business to outsiders and will allow control of the business to be kept within the family or key-employees.

Succession Planning – FLPs

- AN FLP IS A LIMITED PARTNERSHIP CONTROLLED BY MEMBERS OF A FAMILY.
- LIKE ALL LPs IT CONSIST OF TWO TYPES OF PARTNERS:
  - GENERAL PARTNERS
    - CONTROL ALL MANAGEMENT AND INVESTMENT DECISIONS
    - BEAR 100% OF THE LIABILITY.

Succession Planning – FLPs

- LIMITED PARTNERS
  - LIMITED PARTNERS CANNOT PARTICIPATE IN THE MANAGEMENT OF THE FLP AND HAVE LIMITED LIABILITY.
  - DO NOT CONTROL THE DECISIONS OF THE BUSINESS
  - RESULTS IN TWO DISCOUNTS FOR GIFT TAX PURPOSES
    - LACK OF CONTROL
    - LACK OF MARKETABILITY

Succession Planning – FLPs

- FORMATION
  - THE SENIOR FAMILY MEMBERS (PARENTS OR GRANDPARENTS) CONTRIBUTE ASSETS IN EXCHANGE FOR
    - A SMALL GENERAL PARTNER INTEREST
    - A LARGE LIMITED PARTNER INTEREST.
  - THEY GIFT ALL OR A PORTION OF THE LIMITED PARTNER INTEREST TO THEIR CHILDREN AND GRANDCHILDREN.
    - DIRECTLY, OR IN TRUST.

Succession Planning – FLPs

- BENEFITS OF AN FLP
  - REDUCES THE TAXABLE ESTATE OF SENIOR FAMILY MEMBERS.
  - RETAINS CONTROL OVER THE DECISIONS AND DISTRIBUTIONS OF THE INVESTMENT.
  - LIMITED PARTNERSHIP UNITS TRANSFERRED AT A VALUATION DISCOUNTS.

Succession Planning – FLPs

- BENEFITS OF THE FLP:
  - FAMILY MEMBERS CAN USUALLY AMEND THE PARTNERSHIP AGREEMENT AS FAMILY CIRCUMSTANCES CHANGE.
  - AN FLP ALSO PROTECTS ASSETS FROM CLAIMS OF FUTURE CREDITORS AND SPOUSES OF FAILED MARRIAGES.
    - CREDITORS MAY NOT FORCE CASH DISTRIBUTIONS, VOTE, OR OWN THE INTEREST OF A LIMITED PARTNER WITHOUT THE CONSENT OF THE GENERAL PARTNERS.

Succession Planning – FLPs

- BENEFITS OF THE FLP:
  - IN THE EVENT OF A DIVORCE, WHERE A LIMITED PARTNER CEASES TO BE A FAMILY MEMBER, THE PARTNERSHIP DOCUMENTS CAN REQUIRE A TRANSFER BACK TO THE FAMILY FOR FAIR MARKET VALUE, KEEPING THE ASSET WITHIN THE FAMILY STRUCTURE.

The end