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GOERING CENTER

Since 1989

What's Inside

Publisher's Note:
This publication is an advertising supplement to the Business Courier in cooperation with the Goering Center for Family & Private Business, an affiliate of the University of Cincinnati's Carl H. Lindner College of Business.

Established in 1989, the Goering Center is the country's largest university-based educational resource for family and private businesses.

Carol Butler, President
Sarah Dieckman, Editor

University of CINCINNATI
CARL H. LINDNER COLLEGE OF BUSINESS

The power of community to combat uncertainty

By Carol Butler, President
Goering Center for Family & Private Business

If someone were to compile a list of the most used words over the past three years, I suspect "uncertainty" would rank near the top. It's a word I've used repeatedly in recent times to describe the state of the world, and the continuing noise, excitement, and confusion we see not just in our country, but globally.

While we continue to experience change in an ever-evolving world that keeps us from knowing what's coming with any strong sense of certainty, one thing that's held true is the power of community to give us comfort and help us make sense of things in troubled times.

I've personally witnessed this power at the Goering Center, where its assembly of Core Members, Associate Members, Corporate Partners, subject matter experts, professional service providers, thought leaders, and volunteers provide community, connection, and knowledge – serving as tremendous resources and sharing support with one another in these uncertain times. That's something to celebrate.

So are those businesses and people who continue to find ways to thrive in uncertain times. I invite you to join us in recognizing and celebrating good work and talented people at the 24th Annual Family and Private Business Awards, taking place September 11 at the Hard Rock Casino Cincinnati.

This year's theme is "Successful Difference." Nominations are open now for businesses and rising stars in your organizations, who differentiated themselves to achieve success. I encourage you to share details on how your business focuses on its competitive advantages to thrive. We look forward to reading your unique stories and experiences. Completed applications are due June 23 – you can find all the details at goering.uc.edu/awards.

Don't forget to keep an eye on our calendar as well, so you stay up to date with the stellar programs we're offering and maximize the benefits of being or becoming a member of the Goering Center. Our Becoming a Best Place to Work series, affectionately known as "Scrappy Culture," which launched in 2022 to rave reviews from its participants, will kick off later this year and is open for registration. Six half-day sessions spread over several months are designed to provide teams with the tools and understanding to add impactful culture-building elements to their organizations, from onboarding new employees to engaging and retaining current ones. The ROI can be immediate and significant – it's up to you.

June 8 is our next Luncheon Series – Sustainability for Today & Tomorrow. You will gain insights into how sustainable practices have significant economic benefits for your organization in addition to the obvious environmental and ecological ones. It's a perfect opportunity to connect and learn with your peer community. Our expert panelists will share their insights and success stories, leaving you with advice, ideas, and motivation to reduce your organization's environmental footprint for the benefit of future generations while maintaining or increasing profitability and growth today.

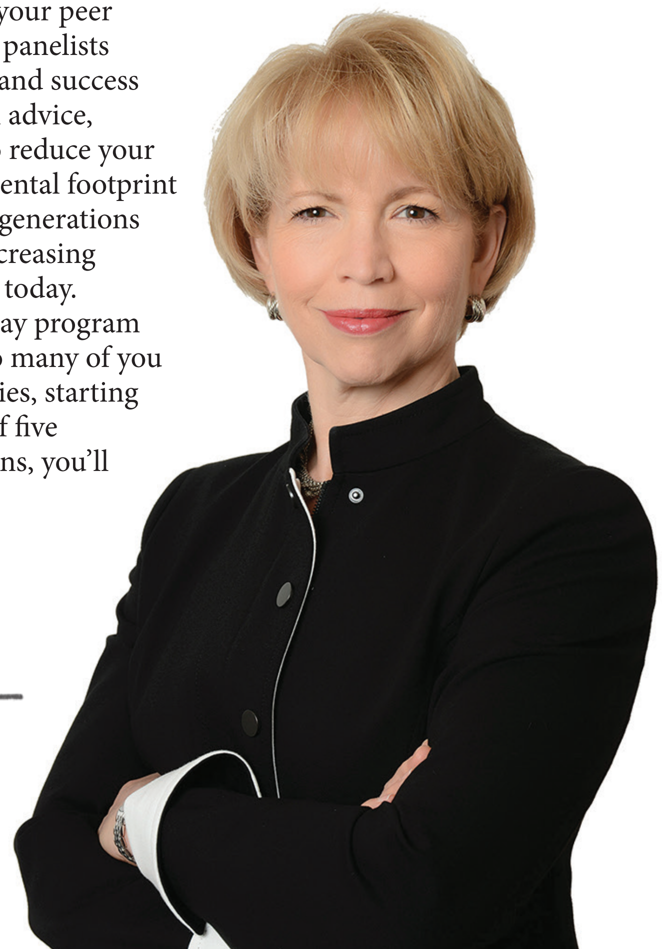
An upcoming multi-day program that will be of interest to many of you is our Pricing Power series, starting in August. Comprised of five virtual 90-minute sessions, you'll walk away armed with the methods, messaging, tools, and confidence you need to negotiate from a position of power and strength – not uncertainty.

A shout-out to board member Ryan Rybolt who, effective July 1, will step down from the Goering Center's Board of Directors after serving two terms. The Goering team is deeply grateful to Ryan for his generosity and years of service to the Center and the Greater Cincinnati business community.

Tara Halpin of Steinhauser, Inc. – a long time member and owner of a multigenerational family business – will take over his seat on the board. We look forward to Tara joining the team and bringing her unique skills and perspectives to the Center.

As current or future members of the Center, we hope to provide continued opportunities to build community, connection, and knowledge, all of which help ground us to bring confidence and positivity even in uncertain times.

Carol



Quality Matters in M&A Transactions

CLARK SCHAEFER HACKETT
BUSINESS ADVISORS

By Scott McRill, Shareholder, Transaction Advisory Services Leader, Clark Schaefer Hackett


McRill

In mergers and acquisitions, the target's financial statements may not provide sufficient insight to justify the purchase price. Investors and lenders may request a quality of earnings (QOE) report as part of the due diligence process. These reports can be used to evaluate the accuracy and sustainability of the seller's reported earnings.

WAS NETFLIX A BAD DEAL?

When investing in a private business, historical financial statements are relevant only if similar results are expected in the future. While financial reporting provides insight into past results, QOE reports help identify internal and external trends that may build value, or threaten a company's future performance.

Consider this: Netflix founders tried to convince Blockbuster Video to purchase their struggling start-up for $50 million in the early 2000s. Blockbuster declined numerous times—Netflix was simply not profitable.

Today, Netflix has grown to a market cap of roughly $130 billion by staying focused on market trends. They've capitalized on changes in technology and transitioned from renting DVDs by mail to streaming. Perhaps a QOE report might have helped Blockbuster identify and capitalize on these trends.

Instead of choosing Netflix, Blockbuster partnered with Enron Broadband Services to launch a video-on-demand service. That deal fell apart in 2002 after news broke about Enron's scandalous financial statement fraud. Eventually, Blockbuster filed for bankruptcy. Again, a QOE report might have revealed some alarming trends about this joint venture partner.

These examples show how historical results are worthwhile only if they can be used to predict cash flow to investors in the future. QOE reports interpret the target company's historical results in the context of today's market conditions. This analysis can help identify trends that may cause future performance to differ from what's happened in the past.

RISK ASSESSMENT

QOE reports evaluate the details underlying the target company's earnings. Gross profits may be broken down by geographic region, salesperson or product line to understand what is and is not making money. Operating risks that may be unearthed in a QOE report include:

- Bad debts
- Obsolete technology
- Dependence on a key person
- Emerging competition

While these issues may derail a deal, QOE reports may also find information that buyers can use to add value after closing. For instance, a QOE report may be used to identify revenue-building or cost-cutting synergies with a buyer that may warrant a premium above market value or the seller's asking price.

EYE ON EBITDA

The key output of a QOE report is normalized earnings before interest, taxes, depreciation and amortization (EBITDA). EBITDA isn't audited, but significant judgment from a transaction advisory services professional is required to properly determine normalized EBITDA.

In a QOE assessment, EBITDA is typically adjusted for such items as owners' compensation and other discretionary spending, nonrecurring revenue and expenses, and accounting methods that differ from industry norms. Importantly, depreciation and amortization may not approximate the amount the company would need to spend on long-term assets.

CUSTOMIZED REPORTS

The scope and format of QOE reports vary—they're not bound by guidance from the American Institute of Certified Public Accountants. So QOE reports can be tailored to the users' needs and preferences.

For instance, a potential buyer might notice that a target company's inventory has increased substantially over the last three years. The seller might explain away the change by attributing it to rapid revenue growth. A skeptical buyer could ask for ratio analysis to dig deeper into the anomaly to determine possible causes. In this situation, a QOE report that analyzes the company's inventory turnover ratio might reveal that the increase is due to poor inventory management practices or obsolete inventory.

What's relevant depends on the company's operations and industry. Specialized accounting professionals can devise a list of ratios that make sense based on the circumstances. Industry specialists also have access to financial benchmarks from trade associations and other external sources to help buyers evaluate how a target measures up against competitors.

QOE REPORTS DRIVE VALUE

Whether you're buying or selling a business, or simply looking for ways to improve performance, a QOE report is a powerful tool. It goes beyond historical financial statements to provide insight into the factors that drive value.

For more information, contact Scott McRill at 513-338-8849 or slmcrill@cshco.com.

The Power of America's Family Businesses is All in the Numbers

Family Enterprise USA
Research Advocacy Legacy
Advocating for Families in DC

By Pat Soldano, President, Family Enterprise USA

Soldano

Family businesses continue to anchor America's economy. Every year, we conduct research on America's largest private employer: Family business. Both large and small, family businesses account for nearly 60 percent of private employment in the country, according to research by university professors from the University of North Carolina at Charlotte and Kennesaw State University. This adds up to an annual $7.7 trillion economic contribution to our gross domestic product and 83.3 million jobs. Family business is no small business.

As family businesses grow, prosper, and add jobs – even in the face of inflation, burdensome tax policies, and pandemics – few in Washington D.C. really understand the power of this "quiet giant," or its massive positive impact.

The absolute power of family business became clearer in new research from Family Enterprise USA's Annual Family Business Survey 2023. The survey was conducted in the first two months of this year and polled 571 family businesses and family business centers across the country.

Some very interesting findings came out of this year's study, not the least of which was, despite the whip-saw economic environments of high inflation and hard-to-find labor, 74 percent of multi-generational family businesses have succeeded for 30 years or more, 65 percent expect to grow in 2023, and 71 percent saw their business increase in 2022.

In addition, nearly 40 percent of the respondents had revenues of $21 million or more, the survey found. Family businesses cover a broad range of industries. Some 26 percent are in manufacturing, 14 percent in construction/facilities, and seven percent in real estate. Agricultural businesses make up five percent of respondents.

This is all good news, considering the daily layoff announcements, the double specter of recession and inflation, and regular spikes in interest rates. Though family businesses are diverse, and big, they tend to be friendly places to work too.

The survey found 91 percent of family businesses kept jobs during the last pandemic year, and 61 percent added jobs during our recent high-inflationary period. Only nine percent of family business respondents lost jobs.

When it comes to wages, 46 percent said they pay "above average" wages and benefits and 72 percent said they have "generational employees." These are employees that work for family businesses for multiple generations and are not related to the family business owners. Few major corporations can boast this kind of employee loyalty.

Family businesses are big givers. The survey found 82 percent donated funds to local charities or local chapters of national charities. Simply, family businesses have deep, deep roots in America's communities. Yet, there are concerns, the study showed. Income taxes and labor worries the top list. This year's report registered the biggest worry in tax policies, with 50 percent of respondents saying high personal income taxes were the number one concern, up from 45 percent a year ago, an 11 percent jump.

Another primary concern was finding, training, and keeping employees, with 31 percent of family businesses saying this was a critical concern. Shifting "market conditions" were also a key worry, with 30 percent of respondents citing it as a main hurdle.

Let's not kid ourselves – there are many issues facing family businesses of all shapes and sizes. The virus of increased inflation, the shadow of recession, and supply chain bottlenecks all registered high among survey respondents. Nearly three-quarters of family businesses (74 percent) said inflation "hurt profitability" and 86 percent said supply chain disruptions were still top of mind as a critical issue.

Some 19 percent of the respondents said the "most important" tax issue was to reduce personal income taxes, while 18 percent said reducing the Estate Tax, or The Death Tax, was a priority. When it came to changing the Estate Tax provision, 33 percent thought it important to keep it "as is," while only 24 percent said this a year ago.

The good news is that family businesses can adapt faster and easier than larger corporations. The bad news is they are often at a disadvantage tax wise, therefore missing out on many corporate tax breaks.

But good news is coming to family businesses. This time it's from Capitol Hill. Though government policy issues ranked low on family business radar, except for taxes, a new bipartisan Congressional Family Business Caucus may help raise the profile of this quiet economic giant.

The new bipartisan Family Business Caucus held its first meeting in February with co-chairs Henry Cuellar (D-TX) and Claudia Tenney (R-NY) speaking to a group of family business owners, caucus sponsors, and other congressional leaders. The other caucus co-chairs are Representatives Jodey Arrington (R-TX) and Brad Schneider (D-IL). The next meeting is May 16.

Educating Congress on the power of family businesses is key to helping family businesses thrive. Few in Washington D.C. know or understand this hidden power. Congress needs to know the basics of family business in America. The message is getting out that the quiet giant is awakening, and these new numbers will only help make the voice of family business louder.

Pat Soldano is President of Family Enterprise USA and the Policy Taxation Group, non-partisan organizations advocating for family enterprises of all sizes and organizers of the Family Enterprise USA Annual Family Business Survey.

Risk Financing Opportunities That Can Help Control Insurance Costs

By Todd Chapman, Executive Vice President/Property & Casualty Practice Leader, USI Insurance Services

Many buyers of workers' compensation, automobile, and general liability insurance are on a guaranteed cost program structure, where they pay a fixed premium in exchange for full coverage of a loss. While they enjoy the convenience and budget stability of these programs, many insureds have experienced significant rate increases, tight underwriting standards, and cashflow problems. We anticipate this challenging market will continue in the coming months. As a result, insureds may find it increasingly difficult to maintain an affordable guaranteed cost program and should look at loss sensitive options to reduce their total cost of risk (TCOR).

Chapman

ADVANTAGES OF LOSS SENSITIVE PROGRAMS

Organizations with a good loss experience, effective loss control, and proactive claims management can reduce total cost of risk, reflected in lower premium and claims costs, among other benefits.

Loss sensitive programs assume a larger portion of risk, typically through higher deductibles, which means lower premium. Higher risk retention will generally result in greater savings on premium. These structures can provide several advantages, including:

- **Improved cashflow and investment income**. Switching from a guaranteed cost program (paying a premium immediately) to a loss sensitive program (paying a lower premium immediately and paying retained losses over time), insureds can postpone loss payments. You can quantify the value of this approach by estimating when the future payments will be made and factoring in the discount rate (interest rate) you can earn by reinvesting in your organization.
- **Lower premium.** The insured can receive 20% to 70% in program savings compared to guaranteed cost premium, depending on the loss sensitive program. Premium savings are achieved by paying claims within a chosen deductible and reducing carrier profit, admin, taxes, and fees on claims.
- **Savings through aggressive loss control and claims handling initiatives.** The incentive to control and reduce losses by the insured is often greater since savings accrue directly back to the company itself.
- **Hard market mitigation.** Loss sensitive programs can help reduce TCOR in a hard market environment.

5 EFFECTIVE LOSS SENSITIVE PROGRAMS

These are among the most popular and effective loss sensitive programs:

1. **Dividend Plans.** These provide insureds with the potential for a return of premium after the policy's expiration in the form of dividends. Sliding scale is the most common dividend plan type, wherein the dividend becomes payable based on a ratio of incurred losses to premium. The benefits are a paid dividend if losses are lower than expected, and in many cases, there is no penalty if losses are greater than expected.
2. **Deductible Programs.** The insured pays losses within a chosen deductible, reducing fixed costs. Any savings from improved losses accrue back to the insured rather than the carrier. Cash flow advantages come from paying claims over time versus prefunding losses or paying premium up front.
3. **Group Captives.** The insured prefunds any expected losses up to a certain level (subject to a maximum and minimum) and pays a fixed cost. The ultimate cost depends upon actual incurred losses, limited to the per-occurrence loss limitation. Benefits include lower fixed costs and a more competitive maximum premium than incurred loss retrospective plans. Group captives are becoming increasingly attractive, especially for middle-market companies with premiums of $150,000 to more than $2 million.
4. **Retrospective Rated Plan**: Premium is calculated (subject to a maximum and minimum) based on ultimate incurred loss experience for the period, plus fixed costs.
5. **Self-Insurance.** Funds are set aside to cover losses that would ordinarily be covered by an insurance policy. This can be cost-effective from a pricing perspective, depending on the industry and states in which the insured has payroll and operations, as certain markets can offer very competitive pricing.

ANALYZING YOUR OPTIONS

When evaluating the different financing options available, companies must determine the best structure through a detailed analysis of their risk management profile, risk philosophy, and financial position. This meticulous process includes:

- Conducting risk retention analysis as well as loss forecasts and variability studies
- Calculating compounded savings expected in varying loss scenarios
- Evaluating existing loss control and safety initiatives
- Implementing an effective claim management program
- Identifying markets for optimal coverage and pricing

For organizations seeking to reduce TCOR, loss sensitive programs can be a great alternative to guaranteed cost structures.

For additional information, contact Todd Chapman at Todd.Chapman@usi.com or 513-852-6375.

Risk Mitigation Strategies in a Rising Rate and Price Environment

By Kevin Bodkin, Director of Capital Markets Commodities Trading at Huntington Commercial Bank

The era of stable prices and low interest rates in the U.S. could be behind us. Amidst aggressive rate hike expectations from the Federal Reserve (Fed) and global commodity price uncertainty, businesses are facing a volatile rate environment for the first time in years.

Bodkin

Commodity prices are no longer predictable, and analysts are forecasting rates could remain volatile for the foreseeable future. Risk mitigation strategies, which businesses might have paused or not considered at all during the previous years of stability, will now be essential. Understanding new areas of risk and strategically managing them could make the difference for businesses as they adjust to this new environment.

The state of rising rates and commodity prices

Countless factors play a role in today's fluctuating commodity prices, including the COVID-19 pandemic and subsequent lockdowns, Russia's war in Ukraine, and global unrest. Supply chain disruptions worldwide make it a challenge to manufacture and ship goods and equipment, and the global energy crisis created a high-risk situation for natural gas and oil that led prices to a 13-year high in 2022.

In the U.S., efforts to address inflation and shrink the Fed's nearly $9 trillion balance sheet have led to the biggest jump in interest rates in two decades. Increased consumer spending – and the demand that comes with it – could only add to inflation pressures.

While these rapidly heightened rates and prices are unprecedented, businesses should be prepared for this situation to continue and explore risk mitigation strategies to control what they can.

Hedge against commodity volatility

Organizations can help manage the risk from commodity price volatility through financial hedging, a protective strategy that allows companies to lock in a rate for a commodity over a defined period of time. In today's market, where commodity prices are surging to record highs, hedging offers predictability by smoothing out prices over a chosen timeframe.

Businesses considering hedging should begin by reviewing the commodities most important to their operations and understanding the effects of a sudden price spike.

Understanding what could be at risk can lead businesses to make decisions about what risk is acceptable and how it might affect their liquidity needs. Answering the question, "What do these exposures mean for our operations?" can help better position businesses to develop a hedging strategy to combat today's commodity volatility. Or, at the very least, it can help them understand their current risks and begin considering opportunities to hedge in the future.

Manage interest rate risks with derivatives

Any interest rate volatility can impact earnings and borrowing costs. Derivatives are one of the most cost-effective options for businesses to protect themselves against interest rate exposure. Interest rate derivatives are hedging solutions that can minimize or eliminate risks related to rate fluctuations. Businesses can consider derivative strategies using interest rate swaps, caps, or collars to limit volatility and reduce their risk profile.

The unpredictable fluctuations in the market right now can have a significant impact on a company's finances. Companies with future commitments, such as procuring equipment or constructing a new building, can turn to derivatives to fix rates at current levels rather than risk higher costs down the road.

Interest rate swaps, which enable companies to manage variable rate exposures, are an attractive solution as the benchmark rate climbs. With this type of derivative, a company can lock in a rate on all or a portion of its floating rate exposure for a specified period of time. Although it's not clear exactly how high rates will rise nor when they will stabilize, fixing a rate now is one less risk factor for businesses to worry about.

Find the right balance

There is no one-size-fits-all approach to managing risk and adjusting to today's rising rate environment. The strategies a business adopts depend on its specific exposures and tolerance for risk.

It might be several years before commodity prices stabilize and interest rates level out. Even when they do, it still makes sense to develop a hedging strategy to protect operations should a similar situation arise in the future. Business leaders should expect to contend with environments of unpredictability, and they can respond by adopting risk management practices that help minimize the effects of future volatility.

Every company's risk tolerance and exposure are different. To learn how hedging strategies could help you manage risk through dynamic market changes, visit huntington.com/commercial.

For more information, contact Kevin Bodkin at kevin.bodkin@huntington.com.

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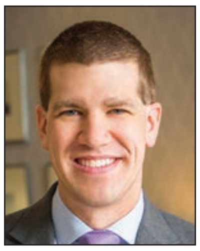
Ten Obvious and Not-So-Obvious Clauses to Consider During the Next Lease Negotiation

CORS & BASSETT ATTORNEYS AT LAW LLC

By R. David Weber, Esq. and Christopher A. Kuhnhein, Esq., Cors & Bassett, LLC


Weber


Kuhnhein

Your business has to have a place to operate. If you are not fortunate enough to own/purchase your location, then your business will likely need to lease space. For many businesses, even though rent is a significant line-item expense, the lease agreement is often not well understood or negotiated by the tenant business owner. Whether your business is leasing retail, office, commercial, warehouse or industrial space, below are ten common key components of leases which require attention and should be carefully reviewed and considered:

1. **Parking and Access**. Does the premises include adequate parking for employees and customers? Does your business require reserved spaces, truck delivery capability or rail access? Does the landlord have the unilateral right to close off or alter access to the public highway? These are important practical considerations when negotiating a lease.
2. **Visibility and Signage**. If you operate a retail business, it is vital to ensure that customers can find your business. Are there signage rights, and is there protection from the landlord blocking visibility with other structures? Poor visibility can mean the difference between success and failure for many businesses.
3. **Length of Term**. If you operate a start-up business or are expanding an existing business into a new market, give careful consideration to the initial term of the lease. Rather than agreeing to a longer initial term, it may make more sense to begin with a shorter initial term and make up the balance with additional option years. On the other hand, if your business is more established, or requires a specialized buildout to equip the premises, then a longer initial term will provide certainty and spread fit-up costs over a longer period of time.
4. **Assignment and Sublease**. This is an overlooked "legal" clause. At some point, you may want to sell your business or sublease a portion of the space to another tenant. However, most leases will require landlord consent in order to do so. It is important to negotiate the right to assign the lease or sublease the space in a way that is fair, convenient and which, ideally, eliminates or minimizes any continuing liability under the lease.
5. **Use Clause**. This clause is fundamental but can be overlooked. It is critical to ensure that the lease allows your business to perform its current and future activities. Be sure that the use clause is broad enough to accommodate variations in your business that may arise over time.
6. **Maintenance Responsibilities**. This is often a battleground area between landlords and tenants. Although the words "repair, maintenance, replacement and capital improvements" seem clear, significant disagreements can arise in practice. The costs of maintaining, repairing and replacing items like roofing, parking lots, and HVAC systems can be substantial. Be sure that the lease is clear in defining which costs are covered by each party. You should also be cognizant of the treatment of items as capital expenditures versus regular maintenance.
7. **Commencement Date/Rent Commencement Date**. The date your business is obligated to pay rent may be different than the date it is ready to open. If there are buildout requirements and license requirements (i.e., liquor license, etc.), make sure there is adequate time to obtain/complete those items before the rent obligation commences. If you have negotiated a free rent period, be sure to keep a close eye on the definition of "rent." In many cases, base rent is abated during a free rent period, but there is still an obligation to pay operating expenses during that time.
8. **Exclusivity**. For a retail tenant, consider adding protections from the landlord leasing to similar type stores within the same complex.
9. **Security Deposits.** Security deposits are lost capital for the tenant and, in many cases, do not actually provide much security to the landlord. In addition, your business may be making significant improvements to the premises, which will belong to the landlord once the lease has expired. Fight to keep the cash your company needs to succeed.
10. **Force Majeure**. This formerly overlooked clause took on extreme importance during the height of the COVID-19 lockdowns. Force majeure is a legal term for the ability to avoid performance due to unforeseen circumstances. Force Majeure clauses in older lease forms may not cover pandemics or epidemics. In addition, be sure that you understand exactly what types of performance can be suspended. In many cases, rent payments are still required even if force majeure applies.

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This article is for general informational purposes only, is not for the purpose of providing legal advice, and does not establish an attorney-client relationship. You should consult with an attorney to obtain advice as to your particular issue or circumstances.

Three Transition Strategies for Family Business Succession

usbank

By Gene Fugate, Senior Vice President | Commercial Bkg Rel Manager, U.S. Bank

It might be your dream to leave your business to your children, creating the opportunity to build something together over generations.

Fugate

But your dream can sour in a hurry without smart business transition strategies — especially when it comes to taxes. Even if you've ironed out all the personal and professional issues that can arise, a well-considered plan could still fail if you don't consider transition tax issues.

There are strict rules preventing family business succession from being used as a wealth-transfer vehicle exempt from taxation. As a result, what may have initially seemed like a simple family handoff can require a carefully crafted strategic business plan.

START PLANNING THE TRANSITION EARLY

It's common for private business owners to envision selling their children the business or gifting them the company in exchange for a continued income or seat on the board. These transition strategies may sound appealing from a business-continuity standpoint, but the tax implications can be severe. Not only would the capital gains tax be very expensive, but a tax bill could also be large enough to force your heirs to sell parts of the business to cover it.

It's best to start your transition plan early – and have an accurate assessment of the business's value – to prevent value loss and ensure your family is well positioned to assume leadership and ownership of the company.

THREE FAMILY BUSINESS TRANSITION STRATEGIES TO POTENTIALLY MINIMIZE TAXES

1. CREATE A PARALLEL BUSINESS

One strategy to consider is to start a parallel business. Instead of handing over a fully functioning and highly profitable company whole — and the tax burden that comes with it — you can seed new businesses in your heirs' names.

These startups can be linked to the core business and its clientele, without the overhead and assets of the original company. For example, instead of having your company develop and launch a new product, you could launch the product under a new name with a new owner — your children.

The new company has no initial value, but with the parents' contacts, infrastructure, and expert guidance, the startup could develop significant long-term value long before it's ready to be handed off to the children.

2. USE A GIFTING STRATEGY, ONE PIECE AT A TIME

If forming a parallel entity doesn't make sense for your company, another way to potentially avoid a big tax hit when transitioning your business to family is to gift the company in pieces.

Owners of smaller companies can take advantage of the annual gift tax exemption (currently $16,000) to transfer ownership over time.

Owners of higher-value companies can plan to use the one-time estate tax exemption to gift interest in the business to heirs while the business value is still low enough to meet exemption limits. The current exemption limits are $12.06 million per individual and $24.12 million for a married couple filing jointly. These limits are set to expire at the end of 2025, but anticipated tax law changes could reduce the lifetime gift exemption sooner.

3. THE IDGT: A TRUST TO AVOID TRANSFER TAXES

Another transition strategy to consider is selling or gifting your business to an intentionally defective grantor trust (IDGT). The IDGT takes advantage of estate tax exemptions to avoid taxes on the transfer of the business; it removes future appreciation from the business owner's estate and hands that value to the next generation.

An added benefit of the IDGT is that it also allows future generations to avoid generation-skipping transfer taxes — but only if ownership stays within the trust.

PRIORITIZE THE FAMILY IN THE BUSINESS TRANSITION

With careful planning, these three strategies have the potential to mitigate the risk of taxes in the transfer of a family business. First and foremost, however, it's important to focus on meeting the needs of your family regardless of any future tax bills.

In consultation with your family, determine who should ultimately take over your business, along with how and when you envision the transfer occurring. Then, work with a tax and financial professional to identify the best path forward.

For more information, contact Gene Fugate at 513-582-4179 or gene.fugate@usbank.com.

“*The Next Generation Institute*™ helped us develop the language and the tools necessary to tackle some really tough issues and shifted our focus to work on our business versus just in it.”

Lauren Johnson-Lake, Cincinnati Container Company

Join us September 20 for a complimentary Overview, where you will discover all that the Institute can do for you.

The Next Generation Institute (NGI)® kicks off November 2023.

To learn more, call David Miller, Goering Center Membership Director, at 513-556-5648.

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