



**Entrepreneur
& Family**
BUSINESS COUNCIL

Private Vista Presents:

Financial Planning for Business Owners



Greg Bogdan, CFP

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Greg Bogdan

Greg's financial services career began in 2005. He most enjoys creating lasting relationships as a trusted advisor to clients and finds it rewarding to help them think through their financial situations in developing a customized plan and path to achieving their goals. Through the Private Vista process, clients come away feeling empowered to make informed financial decisions with the confidence of knowing how to achieve their vision of 'financial independence' while living a more enriched and fulfilling life.





Miles Johnson, CFP
Private Vista Company

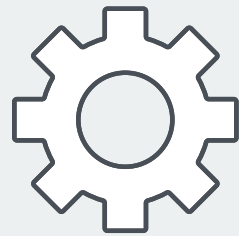
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Miles Johnson

After beginning his career in supply chain, Miles Johnson transitioned into financial planning to help individuals and families achieve financial independence through proactive, values-based strategies. Inspired by early exposure to entrepreneurship and investing, he is dedicated to guiding clients toward confident, well-planned futures. Outside of work, he enjoys golf, travel, and spending time with his wife, Cassandra, and their three children.



EVOLUTION OF A BUSINESS OWNER



GROWTH
Personal Goal vs
Business Goals



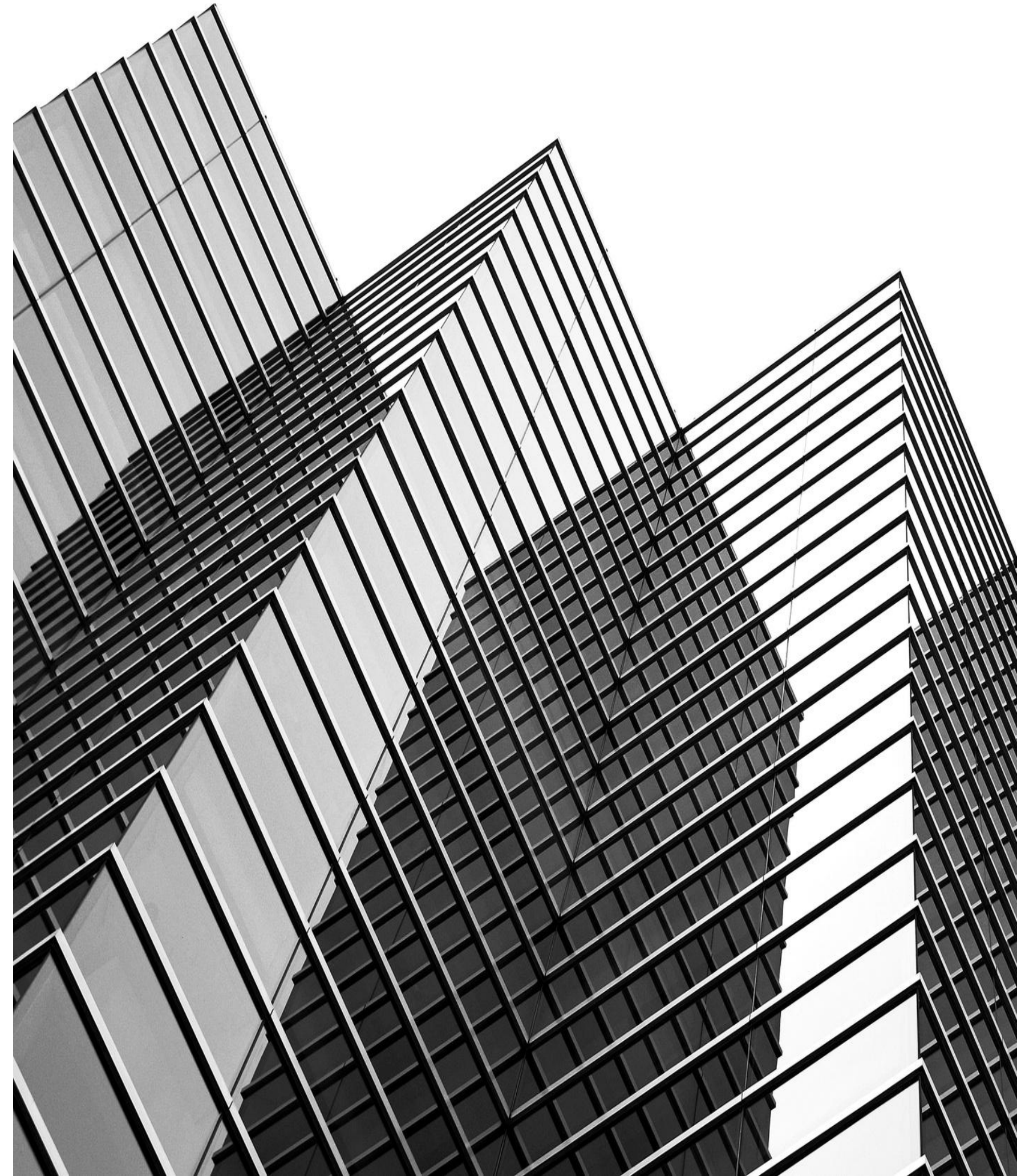
PREPARING FOR SALE
Keeping the End Goal
In Mind



POST-SALE
Finding Fulfillment

Growth Phase

Don't lose track of personal goals during the day-to-day stresses of growing your business!



Cash Flow & Liquidity Records

Separate Personal & Business Finances

Building Habits

Keep business and personal resources separate!

Paying Yourself

Salary versus Distributions

Paying a salary is important to accrue a social security benefit and allows for saving to a retirement plan. There may be diminishing returns based on earnings history and structure of the company.

Distributions are flexible and taxed differently.

Managing Liquidity

What to do with retained earnings?

S Corp – Limit cash balances

C Corp – keep larger balances, even opening investment accounts with long-term reserves, adding diversified line of growth within a company.

Retirement Planning

401(k)

Very common plan type due to flexibility and relative ease to implement and operate. Allows flexibility in funding options and greater control for participants to make individual decisions on their own dollars.

- Illinois Secure Choice (Nov 2023)

Profit Sharing

When the business does well, allows ownership to reward employees with additional retirement saving allocations.

Variety of plan designs available to fit the both the owner's and business' needs.

Cash Balance Plan

Create a private pension plan skewed towards helping older employees/owners achieve retirement goals.

Risk Management & Insurance

Key Employee Insurance

Paid to the business and can be used to supplement cash flow for operating expenses and payroll, allowing your business to continue moving forward until a new leadership structure is in place.

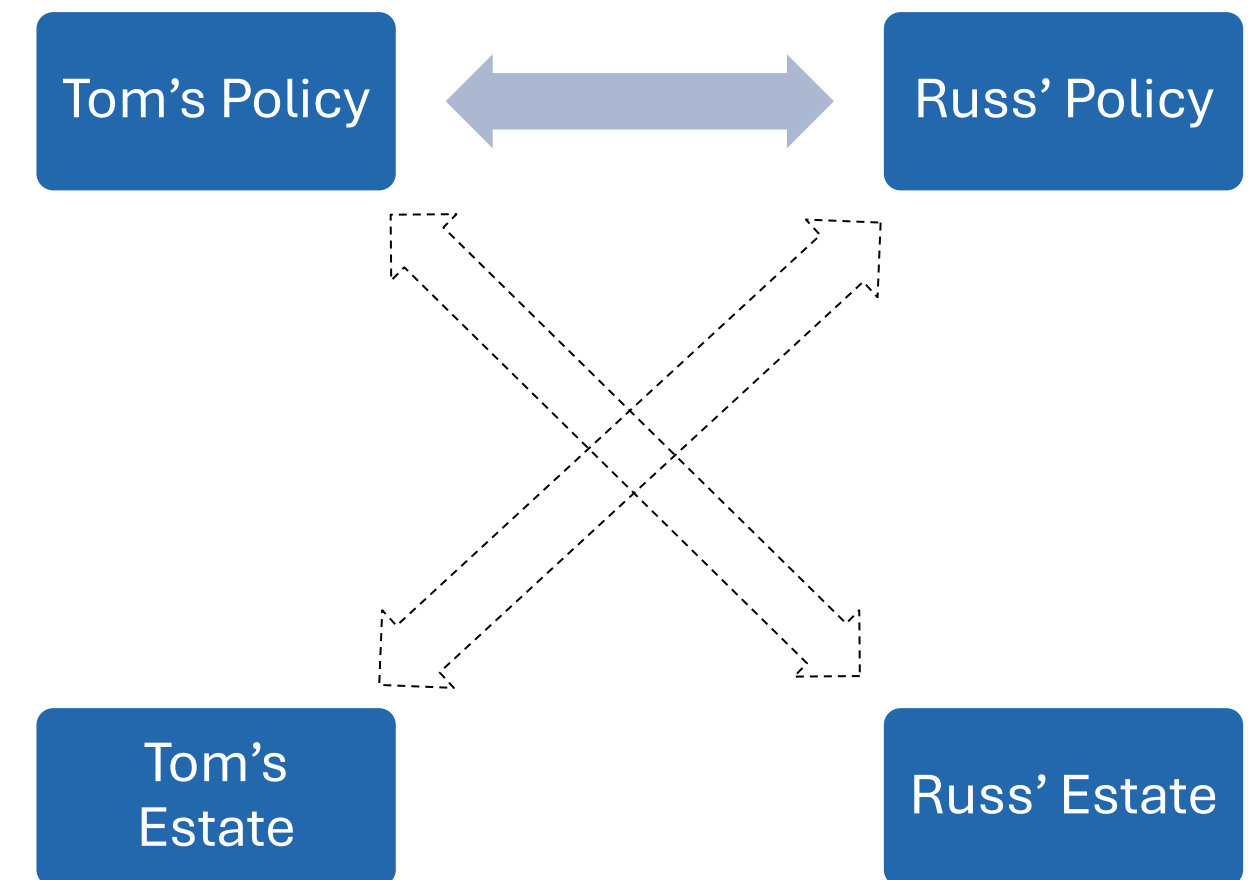
Consider: business debt, expenses, and revenue generation.

Buy/Sell

Agreement/Insurance

If your business has multiple partners, a life insurance policy can be part of a buy-sell agreement. The policy helps ensure that, upon one partner's death, funds are available to buy out the deceased owner's share of the business, which can make the transition smoother and prevent unwanted third parties from acquiring ownership.

****Do not name the company the beneficiary of the life insurance policy****



Early-Stage Estate Planning

Asset Titling

Protection or control? How to effectively manage the trade-offs.

Important to isolate assets related to the business for liability protection.

Diversify your Balance Sheet

Assets tied to the business vs fully independent.

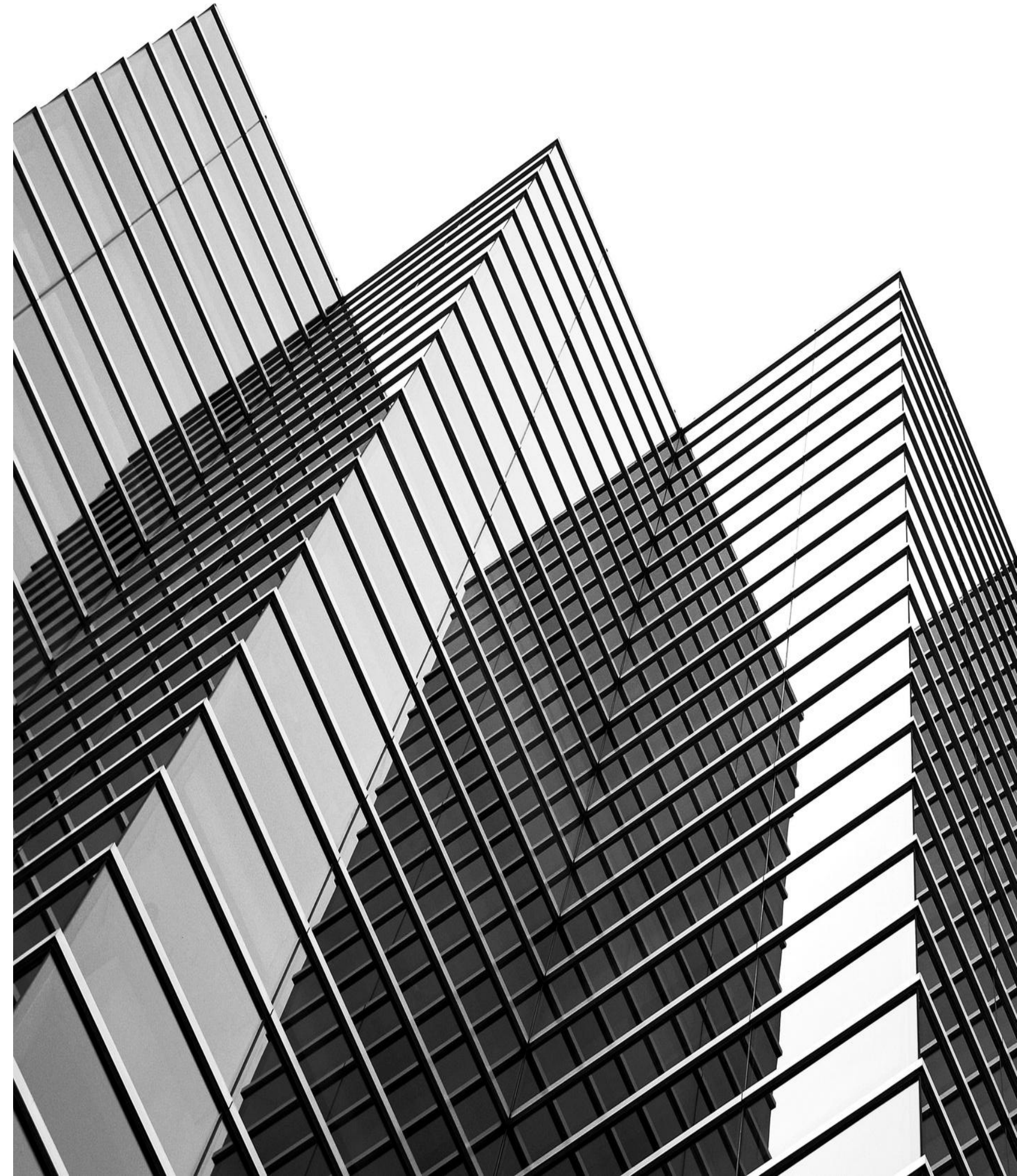
Example: real estate owned by key members/families rented back to the business. What happens when the business is sold? How are property ownerships structured and how will they be dissolved?

Business Continuity Planning

First pass at 'what if' planning. Laying out steps of who will take charge of a business if the owner is no longer able to perform their duties.

Preparing for a Sale: 5+ Years Out

Planting today
for a greener tomorrow.



Business Sale Matrix

<p>External Sale – Need the Money to Live On</p>	<p>External Sale – Do Not Need the Money to Live On</p>
<p>Internal Sale – Need the Money to Live On</p>	<p>Internal Sale – Do Not Need the Money to Live On</p>

Retirement Plan

What do I need vs want to get out of a business sale?

Am I financially independent without a sale? Other than retirement, what do I want to accomplish?

- **Review goals outside of running/owning the business.**
 - Family
 - Legacy
 - Charity
- Restructuring the business via estate planning and gifting takes time and without knowing HOW MUCH you will need to live your life and accomplish your goals, the strategies shift dramatically.

Sale Strategies

Internal Sale/Succession

Sell Business to existing employee.
Often 'best case' scenario for an easy transition, but not necessarily the best for maximizing a payout.

External Sale/Succession

Ultimately, what will come of your business? Continue to run, or sell for parts?

Keep in the Family

Who and how? Siblings vs children.
Are they equipped to take on this responsibility? What will other family members think and how to make allowances for family dynamics.

Employee Stock Ownership Plan (ESOP)

Pros

Succession Planning

- ESOPs offer a structured exit strategy for business owners, especially in closely held companies.
- They allow for gradual ownership transition without selling to external buyers.

Tax Advantages

- Contributions of stock are tax-deductible.
- Sellers to ESOPs in C corporations may defer capital gains taxes.
- ESOP-owned S corporations pay no federal income tax on their share of earnings.

Employee Wealth Building

- ESOPs can be a significant source of retirement savings for employees.

Employee Motivation and Retention

- Employees become partial owners, which can increase engagement, productivity, and loyalty.
- ESOPs often improve retention rates, especially among key employees.

Cons

Complexity and Cost

- ESOPs are expensive to set up and maintain due to legal, administrative, and valuation requirements.
- Ongoing compliance with ERISA and IRS regulations is required.

Dilution of Ownership

- Existing owners may see their ownership diluted, especially if the ESOP is large.

Limited Diversification for Employees

- Employees' retirement savings may be heavily tied to the company's stock, increasing risk if the company underperforms.

Repurchase Obligation

- Companies must buy back shares from departing employees, which can strain cash flow.

Potential for Misalignment

- If not well-communicated, employees may not fully understand or value the ESOP, limiting its motivational impact.

Business Valuations: When and Why

Sale vs Estate Planning/Gift

Sale

How much is the company worth on the open market?

Gifting

Given the ownership structure and likely lack of control (outside of a few key people), how marketable is the company?

Relevance

Appraisals are only valid for a certain amount of time and grow 'stale' as the business and economic environments shift.

Ownership Considerations for Estate Planning

Use Existing Tax Exemptions

Gifts shares at today's valuation, allowing for future growth to occur outside your estate.

- Potentially giving up use of assets (while maintaining control)
- Federal & State Exemptions

Transfer Shares

Complex trusts become involved, using the matrix to help decide how much is needed to live on and fulfill your needs, the rest can be allocated to future generations, a foundation or other charities, or to achieve other goals.

Planning for the Unknown

It's OK to not have all the answers, building a framework to provide for flexibility is most important.

Directionally, want to be correct at this stage, perfect is the enemy of good.



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S-Corp Business Owner

Case Study

Business Owner Phases



Growth



Pre-Sale

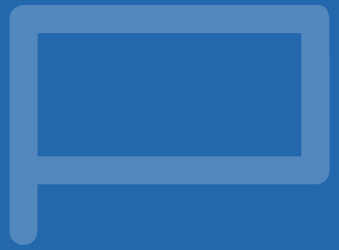


Sale



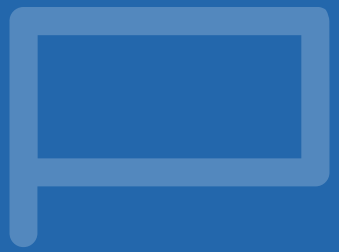
Post-Sale

Client Overview



- Client came to Private Vista in Fall 2023. They are a **married couple** based in Illinois and have **two children**.
- They **own a business worth approximately \$40M** and were actively in the process of discussing a sale with potential buyer. The client had other assets of about \$10M.
- The client worked with a broker dealer to manage investments, but did not engage in any financial planning or strategic planning around the business prior to working with us.

Understanding the Client's Financial Plan

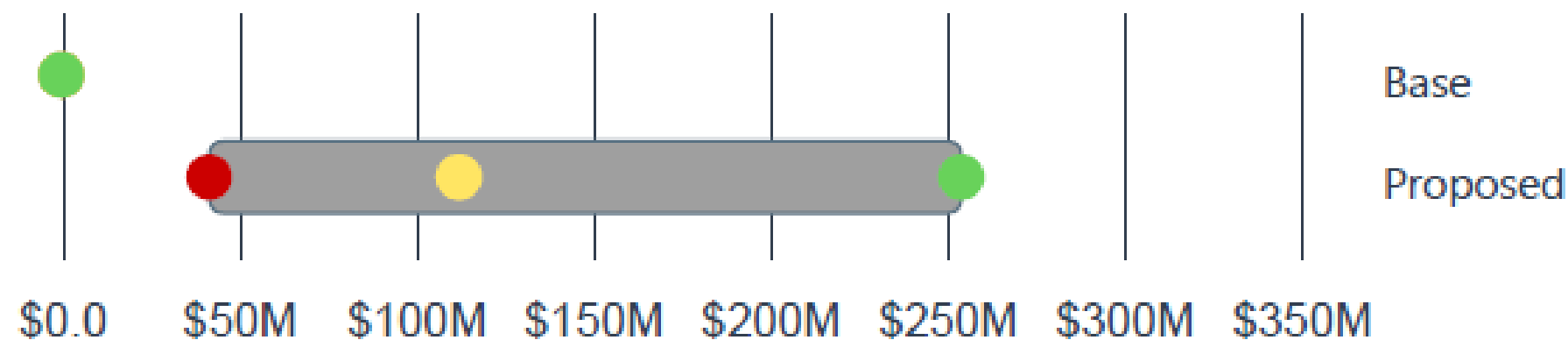


- **Stage One: Understanding the client's total financial plan**

- What are the client's resources, goals, family dynamics, etc.?
- Does their plan work? How much do they rely on the sale of a business? How much excess wealth is in their plan beyond what is needed to meet their goals?

Remaining Portfolio Assets

This shows the remaining portfolio assets in the best, worst, and average cases.



● 3rd Percentile ● 50th Percentile ● 97th Percentile

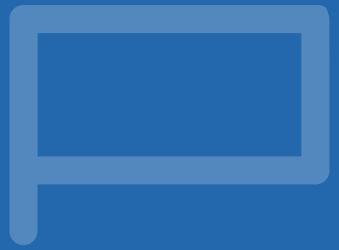
Percent Success

This percentage represents the number of successful Monte Carlo runs out of 1,000. A run is considered successful when positive portfolio assets remain and all shortfalls have been offset by end of plan.



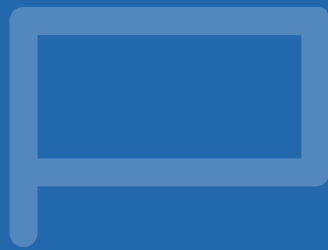
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Developing Estate Planning Strategies around Business Sale



- **Met with estate attorney to discuss strategic plan for gifting shares of the business pre-sale.**
 - 1/3 shares retained by client in revocable trust.
 - 1/3 shares gifted to a **Spousal Lifetime Access Trust** (gift value based on valuation done for the gift, which included discount for lack of marketability).
 - 1/3 shares transferred to a **Grantor Retained Annuity Trust** with a subsequent 2 year note back to the grantor (no gift exemption used, effectively transferred the difference between gift value & sale amount out of the estate without using any exemption).
- **Both the SLAT and the GRAT are defective grantor trusts.** This allows the tax on the sale of the business and any future income tax to be paid by the grantor personally, effectively allowing assets out of the estate to continue growing and reducing the client's remaining taxable estate.

Donor Advised Fund – S-Corp Gift

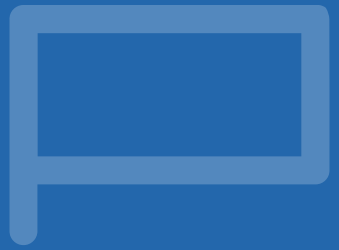


- Based on our initial financial plan, we knew the client is charitably inclined. We suggested gifting S-Corp stock rather than cash to a Donor Advised Fund pre-sale.
- Outcome is more tax savings for the client (\$190k) and larger balance in DAF (\$320k).

Gift of Shares to DAF		Gift of Cash to DAF	
FMV of Gift (S-Corp shares)	\$ 2,000,000	FMV of Shares Sold by Client	\$ 2,000,000
Minority Discount Applied to Gift	10%	Taxes Owed for Asset Sale (32.5%)	\$ 650,000
Gift Value for Income Tax Deduction	\$ 1,800,000	Cash Donation to DAF	\$ 1,350,000
Income Tax Savings (Fed + State)	\$ 730,000	Income Tax Savings (Fed & State)	\$ 540,000
DAF Trust Income Tax Owed			
FMV of Gift	\$2,000,000		
Charity's Charitable Discount	60%		
Total Taxable Income (UBTI)	\$800,000		
Federal Taxes (20% on UBTI)	\$160,000		
State Taxes (16.25% on UBTI - estimated)	\$130,000		
Dechamai Cost (2%)	\$40,000		
Balance in DAF (gift less taxes & fees)	\$ 1,670,000	Balance in DAF	\$ 1,350,000
Taxes Paid (by DAF)	\$290,000	Taxes Paid (by DAF)	\$ -
Fees to DAF	\$40,000	Fees to DAF	\$ -
Income Tax Savings to Client	\$ 730,000	Income Tax Savings to Client	\$ 540,000

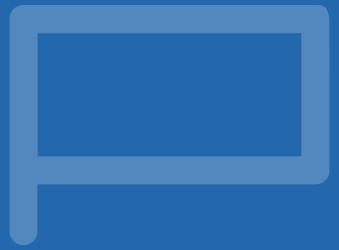
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Post-Sale: Investment & Tax Strategy



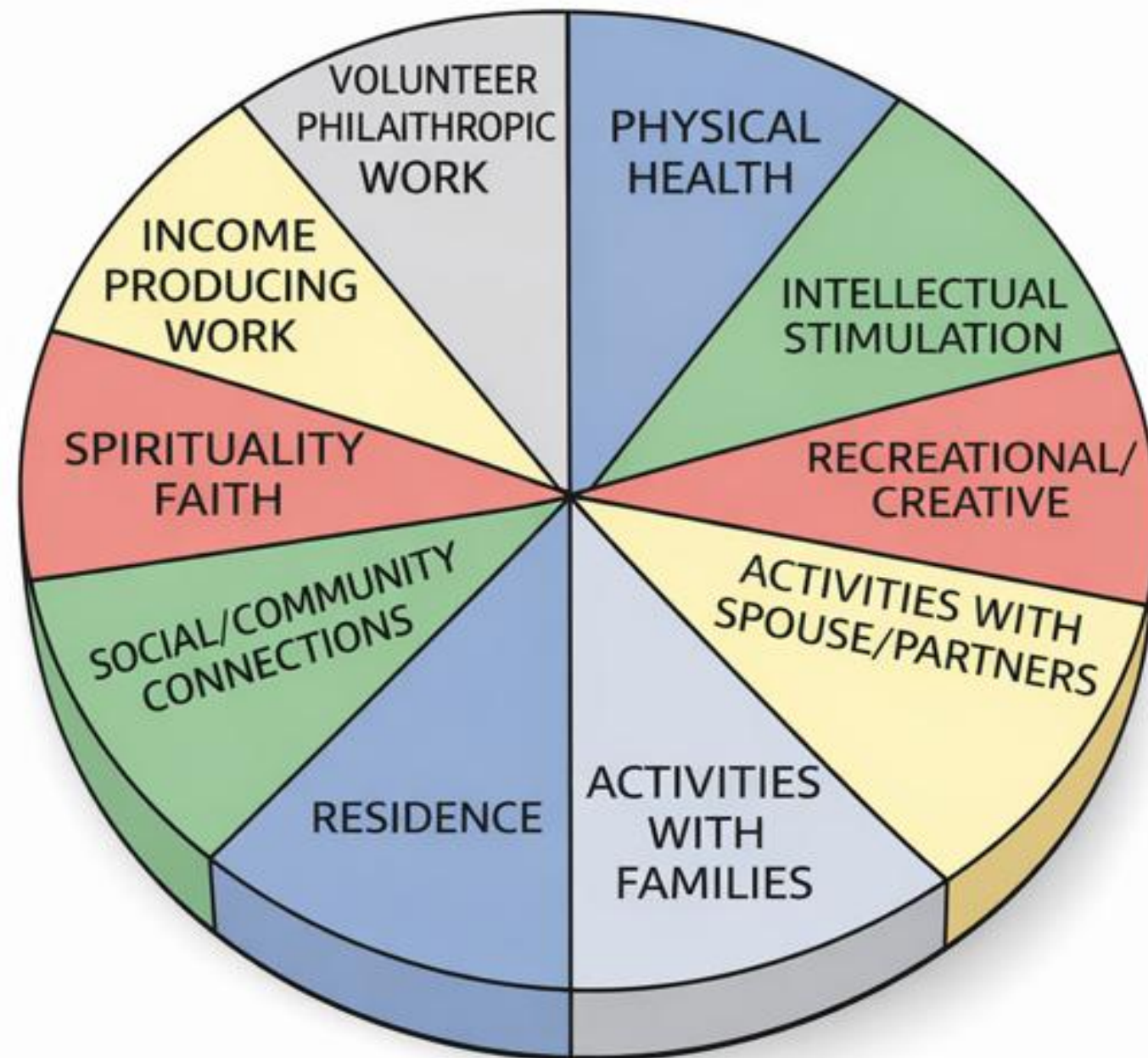
- **Created overall asset allocation strategy for the client: 60% equities/40% fixed income.**
 - **Gift Trusts (SLAT & GRAT):**
100% equity, goal to have these pockets grow the most and volatility is fine because client does not plan to use these assets personally (next generation assets).
 - **Retirement Accounts/Revocable Trusts:**
Balanced allocation to make the overall total 60/40.
- Taxes for gift trusts to be paid by assets inside the estate. The client still has a slightly taxable federal estate so the goal will be to spend down those assets.

Plan Impact



- Through the estate planning strategies, we **transferred \$6.6M** outside of their estate without the use of their federal estate tax exemption, **saving approx. \$3.3M** in federal and state estate tax.
- The S-Corp gift of stock to a donor advised fund **created an additional \$510k** in value to the client.
- The ongoing investment and tax planning strategies will continue to move the needle for assets that stay inside their family.
- **Note:** The benefits to these strategies can be even greater when you have additional time before a sale. Goal would be to work with new/existing clients years before they enter the sales process.

Framework for a Purposeful Life



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Assessing your Life Allocation

- **Define your Purpose**
 - Sharing your knowledge with others
 - Volunteering
- **Staying Healthy**
 - Mental health
 - Physical health
- **Social Capital**
 - Community Engagement
 - Spirituality/Faith
- **Filling your Days**
 - Family/social activities
 - Recreation/hobbies
- **Location**
 - Does your environment fulfill your priorities and support your lifestyle?

Presenter Contact Info



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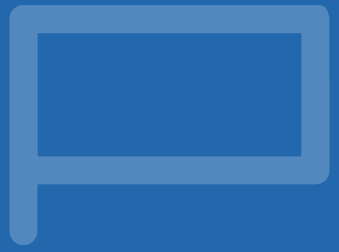
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