



The Time is Now: Make a Gift!

If you are a business owner and are considering gifting shares of your business to your children, now is a great time to take action.

Gifting ownership to the next generation in a family business has many advantages. Perhaps the two most important benefits are (a) removing assets from your estate and lowering your future estate tax, and (b) motivating and rewarding the next generation with ownership and a meaningful gift during your lifetime.

Worried about losing control of the business? With proper planning, this is not an issue. There are many strategies that allow you to gift a substantial portion of your ownership while maintaining control of the business. A common approach is to enact a “stock split” where voting and non-voting shares are created, typically in a ratio like 900 non-voting shares and 100 voting shares. With this strategy, a business owner can eventually gift up to 94% of the shares in the business (i.e., all of the non-voting shares and 49 of the 100 voting shares) and still maintain voting control (i.e., a 51% voting ownership interest).

Why is now such a good time to gift? Valuations are at their lowest point in recent memory. The S&P 500 is down 15% since October, merger and acquisition activity has slowed, and most economic indicators are not favorable. These negative factors all impact the value of many privately held family businesses. With a lower valuation, a business owner can gift more shares for the same dollar amount, which reduces the applicable gift tax and/or unified credit that would be used in connection with a gift.

The fair market value of your shares will need to be determined by a qualified independent valuation advisor and documented in a comprehensive report designed to withstand potential IRS scrutiny. The IRS often reviews and scrutinizes the values placed on interests in privately held companies, so selecting an experienced valuation professional that can provide a high quality, well-supported valuation that meets various professional and IRS standards is a critical component to a successful gifting strategy.

Although the economic slowdown affects us all, it provides excellent opportunities for business succession and estate planning.

Please feel free to contact GBQ at 614.221.1120 if you would like more information or assistance with your estate planning, gift planning, or business valuation needs.