Business Continuation Planning

Article Rating: NA

Submitted by: articlediner on 2006-10-03 and viewed 65 times.

Total Word Count: 611

Author Rating:

Sample of Content:

As a business owner, much of your wealth is probably tied to your business. While that may help the business grow, it may also create severe liquidity problems for your beneficiaries when you die.The value of your business will be included in your estate. How will your beneficiaries get the liquidity necessary to pay taxes due?

Content:

As a business owner, much of your wealth is probably tied to your business. While that may help the business grow, it may also create severe liquidity problems for your beneficiaries when you die. The value of your business will be included in your estate. How will your beneficiaries get the liquidity necessary to pay taxes due?

Will they be forced to liquidate the business, or a portion of it, at a loss? Forced liquidation could have the following results:

* Sale may not return the fair market value of equipment and inventory.

* Outstanding accounts receivable will be difficult to collect.

* Intangibles - such as reputation, customer-base and location - could be lost.

* Family control of the business will likely be lost.

Without proper plannings your business may die with you. How can you help ensure the successful continuation of your business?

The Solution

Business continuation planning is an important step toward the continuation of your business. Taking the right steps now can help give you several benefits:

Provide cash to buy out a deceased owner's share of the business:

* Ensure the business retains knowledgeable and informed ownership

* Ensure that profits benefit active, rather than inactive, owners

* Assure a ready market and fair price for your share of the business

* Reduce economic pressure on heirs to liquidate other assets to pay estate settlement costs

* Minimize the potential for disputes with the IRS over the valuation of your business.

Business Valuation Helps Eliminate Potential Conflicts

The first step in the creation of a business continuation plan is the determination of the purchase price - or the fair market value - of your business. Proper business valuation can help eliminate future conflicts between shareholders and the Internal Revenue Service (1RS). lf you fail to establish an accurate value for your business the IRS will establish one for you. This may be an expensive mistake - one that costs both time and money.

Often, owners of closely held corporations have a difficult time ascertaining what value the IRS might use for their business for federal tax purposes. Essentially, they use four methods for calculation purposes:

* Book Value

* Capitalization of Earnings

* Discounted Future Earnings

* Years Purchased Method

Funding the Buy-out

A business continuation plan isn't worth the paper it's written on unless a source of funding exists for the buy-out.. There are several options available:

* Borrowing. This can be the most expensive. Borrowing can increase the purchase price by up to 300% and put a financial drain on the business.

* Investment side fund or sinking fund. A sinking fund can be costly for a business since investment gains may be subject to taxation.

* Installment payments. Relies on making installment payments from corporate reserves when there may be better uses for the business capital.

* Life Insurance. The life insurance death benefit provides tie cash to fund the buyout. For just pennies on the dollars compared to the other funding methods, the surviving partners can plan for a means to buy out heirs and to retain control over the business, and the deceased owner's interest can be converted into cash for the heirs.

The Benefit of Using Permanent life Insurance

By using a permanent life insurance policy, rather than term life insurance, the corporation or business owners can access the policy's account value through loans and withdrawals. This can provide the funds needed for a buy-out during lifetime if you or another business owner wants to retire.

Which Business Continuation Arrangement is Best for You?

Which arrangement you chose depends upon a variety of factors, including the type of business you own - a sole proprietorship, partnership or a closely held corporation - how many owners are involved, and the owner's financial goals.

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Article Source: http://www.ArticleDiner.com/

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