SILVERSAGE

The Sage

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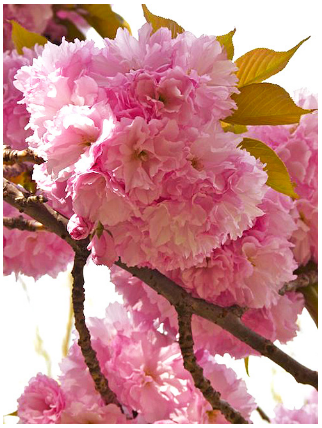
Photograph by Lynne Garell

Inside this issue

About the time we can make the ends meet, somebody moves the ends.

Herbert Hoover

Business Succession: Have You Planned for It?

Since many of our clients own small businesses, we thought it appropriate to touch on business succession planning. Eventually, most business owners will have to decide when they will retire and how they will handle it.

Transferring a business can be fraught with financial and emotional decisions. In general, the main goal for sellers is to get the best price while trying to pay the least amount in taxes. In order for these transactions to be successful, planning and professional assistance may be required.

Below are several strategies to help you think about the options that are available:

Strategy 1: Selling your business outright.

Obviously, you can sell your business for cash/assets to someone else outright. You can sell at any point. As long as the sale is for the full fair market value (FMV) of the business, it is not subject to gift tax or estate tax. This strategy usually does not allow for stretching out other tax liabilities.

Strategy 2: Using a buy-sell agreement.

A buy-sell agreement allows you to keep control of your interest until the occurrence of an event that the agreement specifies, such as your retirement, disability, or death. When the triggering event occurs, the buyer is obligated to buy your interest from you or your estate at the FMV.

The buyer can be a person or the business itself. Price and sale terms are prearranged, which eliminates the need for a fire sale if you become ill or when you die.

Once the agreement is executed, you can't sell/give your business to anyone except the buyer. This restricts your ability to reduce the size of your estate through gifts of business interest.

Strategy 3: GRAT/GRUTs.

Another succession tool is a grantor retained annuity trust (GRAT) or a grantor retained unitrust (GRUT). GRAT/GRUTS are irrevocable trusts to which you transfer appreciating assets while retaining an income payment for a set period of time. At your death, the assets in the trust pass to the other trust beneficiaries. The value of the retained income is subtracted from the value of the property transferred to the trust, so if you live beyond a specified period, the business may be ultimately transferred to the next generation at a reduced value for estate tax or gift tax purposes.

Strategy 4: Private annuities.

A private annuity is the sale of property in exchange for a promise to make payments to you for the rest of your life. Here, you transfer complete ownership of the business to the buyer. The buyer in turn makes an unsecured promise to make periodic payments to you for the rest of your life or for your life and the life of a second person. Because a private annuity is a sale and not a gift, it allows you to remove assets from your estate without incurring gift tax or estate tax.

Strategy 5: Self-canceling installment notes.

A self-canceling installment note (SCIN) allows you to transfer the business to the buyer in exchange for a promissory note. The buyer must make a series of payments to you under that note. A provision in the note states that at your death, the remaining payments will be canceled. A SCIN provides for a lifetime income stream and avoidance of gift tax and estate tax similar to private annuities. Unlike private annuities, a SCIN gives you a security interest in the transferred business.

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Strategy 6: Family limited partnerships.

A family limited partnership can also assist in transferring your business interest to family members. First you establish a partnership with both general and limited partnership interests. Then you transfer the business to this partnership. You retain the general partnership interest for yourself, allowing you to maintain control over the day-to-day operation of the business. Over time, you gift the limited partnership interest to family members. The value of the gifts may be eligible for valuation discounts as a minority interest and for lack of marketability. If so, you may successfully transfer much of your business to your heirs at significant transfer-tax savings.

Strategy 7: Transferring to employees.

Depending on the type of company, transferring ownership to all or a selected group of employees may allow the seller to garner the best FMV while also securing a very successful transition. An ESOP is an ideal mechanism for this, but if it is not practical, the employees can purchase the firm through an earnout or company loan.

ACTION: *There are many facets to transitioning your business; including valuation, seller considerations, family goals, separating assets and firm preparation. This article is just a primer to get you thinking about basic structure. If you are interested in discussing how to structure your business succession in order to maximize its value, contact Silversage Advisors today to see how our expert team will help you achieve your own successful business succession plan. It could be the most valuable asset you own!*

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New Contribution Limits for 2012

Retirement Plan Limits	2012	2011
401(k), 403(b) and 457(b) before-tax contributions	**$17,000**	$16,500
Catch-up contributions (if age 50 or older)	**$5,500**	$5,500
IRA, Roth IRA	**$5,000**	$5,000
Catch-up contributions (if age 50 or older)	**$1,000**	$1,000
Health Savings Account—Annual contribution limit		
Self-only coverage	**$3,100**	$3,050
Family coverage	**$6,250**	$6,150
Catch-up contributions (if age 55 or older)	**$1,000**	$1,000

Technology Corner

Protect Your Phone!

Nowadays, many people have phones with mobile apps that allow them access to bank accounts, email and personal information. It is vital to password protect your phone so that no one can break into the phone and gain this type of information.

Further, it is equally important to load antivirus software since hackers are now targeting phone apps instead of traditional computer programs. We suggest you try the Lookout Mobile app for free.

The Silversage Family

1 Mason Garell hungry for the goal!

2 Jeff and Karin Garell with Caroline at her viola recital

3 Jack Garell at his school science fair

4 Jackson and Logan Sands

Service Spotlight

What not to keep in your wallet or purse

Social Security Card

Obviously, if your Social Security card gets in the wrong hands, your identity can be compromised. Just memorize the number so you will have it when needed.

Your Passport

If you're traveling internationally, you will need your passport, but leave it in the hotel's safe and carry a copy along with your driver's license. If you lose your passport, not only are there identity theft concerns but it will also be a vacation nightmare.

Passwords/Pass codes

If you store this information in your purse or wallet, and someone gains access to this information, they could use it to get into your accounts, your home, etc., particularly since people often use the same code for several accounts.

Your Checkbook

The number one source of identity theft is personal checks. These days, thieves no longer have to create duplicate checks, they just need the information on the check to use your funds and make a purchase.

Too Many Credit Cards

Only carry the one or two cards you use on a daily basis plus a backup. Leave the rest at home. Not only is this a good practice from a budget standpoint, but if you lose all of your cards, you will have to report them all as lost and you won't have a card to use in the meantime.

Portable Storage Devices

Portable storage devices are dangerous if they contain confidential information. If you absolutely must carry one for business reasons, be sure you encrypt it.

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Enduring Financial Wisdom

What's Cooking?

Fettuccine with Peas, Asparagus, and Pancetta

Ingredients

- 12 oz. fettuccine or penne
- 3 oz. pancetta or bacon, chopped
- 1¼ lbs. asparagus, trimmed, cut on diagonal into 1-inch pieces
- 2 C. frozen peas (do not thaw)
- 1 bunch green onions, thinly sliced, white and pale green parts separated from dark green parts
- 2 garlic cloves, pressed
- ½ C. finely grated Parmesan cheese plus extra for serving
- ⅓ C. heavy whipping cream
- 3 tbs. extra-virgin olive oil
- ¼ C. thinly sliced fresh basil, divided

1. Cook pasta in pot of boiling salted water until just tender but still firm to bite. Drain, reserving ½ cup pasta cooking liquid. Return pasta to pot.
2. Meanwhile, cook pancetta in large nonstick skillet over medium heat until crisp. Using slotted spoon, transfer pancetta to paper towels to drain. Pour off all but 1 teaspoon drippings from skillet.
3. Add asparagus to drippings in skillet; sauté 3 minutes. Add peas, onions, and garlic; sauté until vegetables are just tender, about 2 minutes. Remove from heat.
4. Add vegetable mixture, ¼ cup pasta cooking liquid, ½ cup Parmesan, cream, olive oil and basil to pasta. Toss, adding more cooking liquid by tablespoonfuls if needed. Season with salt and pepper.

If you have a recipe that you would like to share with the Silversage family, please email us (info@silversageadvisors.com) or call the office.