

Succession Planning

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A large segment of the United States population is getting to an age and stage of life where they are ready to slow down and retire. A number of these individuals own a business, farm, commercial building, and or residential investment properties. There seems to be a very common challenge that many of these individuals are facing. My goal in this article is to present some information about some options that may help you to resolve some of the planning issues you may have. No one strategy is appropriate for everyone. It is important to explore the options based on your unique situation, and consult with your professionals, to identify which strategy or strategies would be best for you.

Many succession plans may look something like this. The plan is for one or more of the kids, or a key person, to take over at the right time, with hopes that they do a great job running and managing your business. Your kids, or key person, pays you a retirement salary over time. Eventually you and your spouse will pass away, then the business becomes theirs. This plan is great in the sense that you only pay taxes on the income you receive each year. But it does have some drawbacks. First, you must have children, or a key person, interested in working and taking over the business. The next issue is that your retirement is completely hinged on them being able to grow and manage all the aspects involved in your operations to ensure the continued success and growth of the business. Let's face it, your retirement will require the growth of the business so your retirement income can increase and keep up with the cost of living over time. If the business is mismanaged, you may have to come out of retirement and go back to work to salvage it.

It is important for you to understand that in a succession plan, you have already identified someone to take over or sell the business to. Should the person(s) end up not wanting to take over or buy, there are valuable options that you need to know about. These options may help you not only defer capital gains tax, but also help you redeploy what you would have paid in capital gains tax to create the income and growth needed to fund your retirement

with inflation adjusted, tax favored income no matter how long you live.

The good news is some of these capital gains deferral strategies can work on the sale of a business, primary residence, as well as personal asset sales. And unlike the 1031 Exchange, proceeds from some deferral strategies do not have to be invested in like-kind property. This strategy allows you to put the tax bill and potentially the depreciation recapture back in your pocket to generate more income and growth to fund your retirement and to reclaim most if not all the 40% tax bill. Most of our clients agree that the tax proceeds are better off in their pocket instead of the pockets of the IRS. Keep in mind that the tax deferral options available outside of a 1031 Exchange are not appropriate for everyone. We encourage you to reach out and explore what options are appropriate for you prior to selling a highly appreciated asset of any kind.

Finally, an important part of your planning is to ensure that your estate is passed in equal portions to your heirs, or divided according to your wishes. This may not be as difficult as one might think. If one of your heirs is getting a big asset, like the family business, or rental portfolio, there are easy to employ strategies that equalize the estate and pass specific prearranged amounts to each heir without having to deal with any transfer issues like probate.

Again, this article is intended to educate you on a very basic level to make you aware that there are options and strategies are out there for you to use when it comes to planning. Your planning does not have to be complicated, stressful, or overwhelming. We are here to walk with you every step of the way to explore each and every option together with your trusted professionals to come up with customized solutions that work best for your specific needs and family dynamics. Would you like to learn more? Give us a call at (509) 665-8349, or come by the Equilus Capital Partners booth at the Northwest Agriculture Show in Salem, OR, January 12-14, 2022. We would love to meet you and answer any questions you might have.