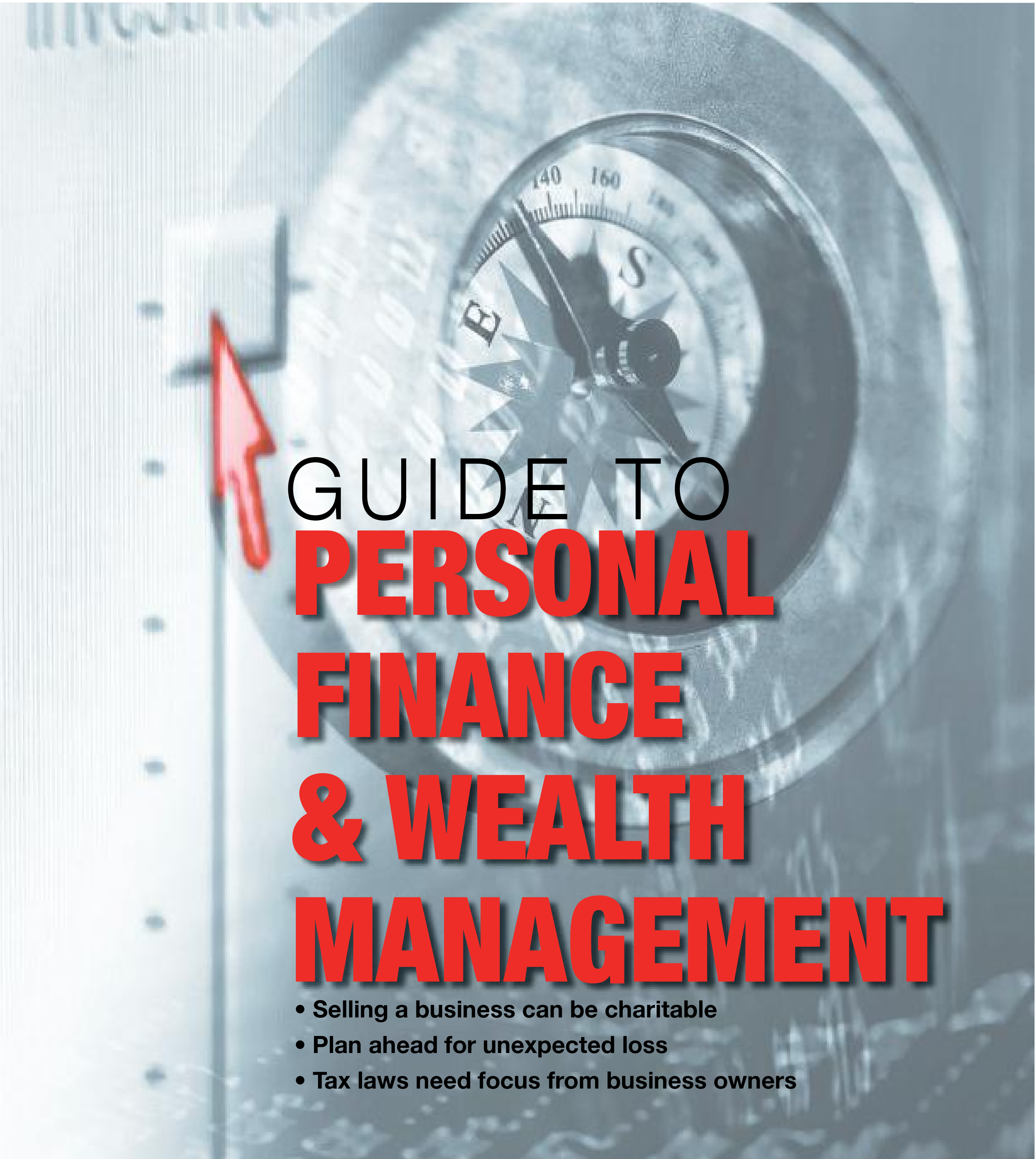

# GUIDE TO PERSONAL FINANCE & WEALTH MANAGEMENT

- Selling a business can be charitable
- Plan ahead for unexpected loss
- Tax laws need focus from business owners

# SELLING A BUSINESS CAN BE CHARITABLE

Selling your business can be a profitable transition, according to Joseph Baldasare, M.S., CFRE, vice president of development at The Dayton Foundation, a community foundation which supports donors and charities in improving the Dayton region.

But he highlights that it can also be charitable.

"When a small business owner is looking to sell his or her business, it's best that the individual consult with a certified public accountant, an attorney or another trusted adviser," Baldasare said. "As the region's community foundation, the Dayton Foundation can help individuals help others by establishing and managing charitable funds and make possible a higher charitable gift deduction than gifting to a private foundation."

The U.S. Chamber of Commerce reports that nearly 55 percent of businesses in the country are now S-corporations and about 3.5 million of those are small. Those entrepreneurs with charitable intentions are the ones that The Dayton Foundation can help most, according to Baldasare.

"When a small business owner considers selling his or her company, he or she may want to consider donating shares of the company's stock at the appraised, fair-market value to the Dayton Foundation versus selling the stock," Baldasare said.

"By doing so, the business owner receives a valuation of the stock and may avoid paying long-term capital gains taxes on the difference between the cost basis and today's value."

For businesses that have very little cost basis beyond their sweat equity, this can be a significant savings, Baldasare said.

He gave a hypothetical example of how this could help the business owner and local Dayton charities:

➤ Consider a small business owner who is thinking about selling his company and retiring so that he may enjoy the fruits of his labor. The hypothetical business owners holds 1,000 shares of the company's S-corporation stock that would be purchased by the company upon his retirement.

The sale of this stock would be used to fund the business owner's retirement. The retiring business owner also deeply cares about continuing to provide for his church and local hospital so he decides to establish a charitable fund in his and his wife's name through the Dayton Foundation.

Baldasare said in the typical case most of the business owner's personal net worth is in his company, so to seed his charitable fund he would have to donate a portion of the shares of his S-corporation stock to the Foundation.

"Typically, the company will buy back the stock from The Dayton Foundation at an agreed upon price and the assets from the sale will be placed in the business owner's Dayton Foundation endowed fund," he said. "The Dayton Foundation then will manage the charitable fund according to his wishes, making annual distributions to the hospital and church in their name in perpetuity."

This way the business owner can fund his charitiable goals and avoid the long-term capital gains taxes that would be imposed.

Baldasare said this is a complicated transaction. For example, in gifts of closely held stock, the IRS requires an impartial appraisal of the claimed deduction that exceeds $10,000.

However, there are resources to help business owners.

The main challenge is choosing an adviser that can help guide the retiring business owner. An adviser to assist the entrepreneur in selling a business may not be the same adviser that helped him manage the business.

Kettering attorney Nancy Roberson of Roberson Law has some straightforward advice on hiring that new adviser.

"Integrity, experience and certification are the qualities that a business owner should look for when hiring an accounting firm or financial advisor," she said. "I would recommend that a business owner hires a certified public accountant as opposed to a public accountant, and to receive at least three references from the CPA. When looking for a financial advisor, I would recommend that one hires a financial adviser with a certified financial planner (CFP) designation, because that means that the adviser has passed stringent tests.

"I hold this to be true because the process of obtaining credentials is what leads to credibility in the accounting and financial advising professions," Roberson said.

The Dayton Foundation can help the entrepreneur choose an adviser that can guide the business owner through the transition and through the complicated charitable requirements, Baldasare said.

"If the business owner has charitable intentions, The Dayton Foundation can play a valuable role in the cadre of professionals used by the business owner. The Dayton Foundation can assist with current giving options as well as giving options upon the passing of the owner." Baldasare said.

"For 90 years, The Dayton Foundation has been helping people help others in our community and beyond," he continued. "Our trusted, local expertise and personalized service enable individuals to create a lasting charitable legacy. The Dayton Foundation provides free consultation and advice regarding charitable giving options.

"If a business owner has charitable intentions, our staff at The Dayton Foundation is happy to meet with the owner and his or her professional adviser to discuss what giving options and opportunities are available to fulfill the individual's charitable goals," Baldasare said.

***"When a small business owner is looking to sell his or her business, it's best that the individual consult with a certified public accountant, an attorney or another trusted adviser."***

***— Joseph Baldasare, M.S., CFRE, vice president of development at The Dayton Foundation***

# PLAN AHEAD FOR UNEXPECTED LOSS

Estate attorney Nancy Roberson of Roberson Law in Kettering takes seriously the need for business owners to plan for financial loss in their professional and personal lives.

Roberson tells her personal story in an article in Bereavement Publication's *Living Without Loss* magazine. The article contains a checklist of the various ways owners can protect their businesses.

Roberson's husband David died early in her marriage, leaving her with a two-year-old daughter and not enough life insurance.

"We were not wise consumers, because we didn't research the product or coverage we needed," she wrote. "As a result, David died at age 28 with a fraction of the life insurance that he should have had to provide for Amy and me.

"Not wanting to make the same mistake if I died while Amy needed my financial support, I learned about life insurance and purchased a term life insurance policy to provide for Amy upon my death."

Roberson urges clients to learn as much as they can about various kinds of life insurance policies and to start with a certified financial planner, chartered life underwriter, or a chartered financial consultant.

"Your adviser should guide you to the types of policies that you need," Roberson wrote. "For example, in addition to purchasing life insurance that protects your family, you should consider life insurance that protects your business, which will enable you to purchase a deceased partner's share of the business."

Roberson also advocates the purchase of disability insurance if a business owner has become the primary financial support or caregiver of others and a regular review of casualty insurance.

"Casualty insurance protects our dwellings, vehicles and equipment from calamities such as fire, theft, inclement weather and crashes," Roberson wrote. "Now is the time to evaluate your casualty insurance with an insurance professional and determine whether the coverage is sufficient."

Roberson noted that occupancy is often a condition of the insurance. In a region beset with distressed properties, many are unoccupied.

"(If you own) a home that is now unoccupied, the insurance on the dwelling may be at risk of cancellation," she wrote.

Umbrella insurance is another policy that Roberson suggests her client's use.

"The cost of umbrella liability insurance is modest compared to the cost of the losses covered," Roberson wrote. "We live in a litigious society. If you injure a person or damage property, you may get sued and your casualty insurance may not adequately cover the damages. That's where umbrella liability insurance comes in as an additional form of insurance protection."

Roberson wrote that for business owners "umbrella liability insurance is essential even when you have errors and omissions insurance associated with your profession."

Like umbrella insurance, Roberson thinks that the cost of identity theft insurance is modest compared to the extent of the potential loss.

"I became a proponent of identity theft insurance after learning that such insurance not only monitors my credit rating but pays for legal and practical measures necessary to clean up a stolen identity," she wrote.

Roberson urges small business owners to become wise consumers.

"Consult with three professionals and get three price quotes before making decisions that have serious personal and financial consequences," she wrote.

"Do as much research as time allows. In the absence of time, associate with professionals who you can trust."

# TAX LAWS

## NEED FOCUS FROM BUSINESS OWNERS

Much has been written and said about the extension of what has become known as the “Bush-era tax cuts.”

However Joseph Baldasare, M.S., CFRE, vice president of development at The Dayton Foundation believes two other tax laws are in need of more attention by business owners.

“The Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 reinstated the Individual Retirement Account IRA rollover provision for individuals who are at least 70-1/2 years of age,” Baldasare said. “If a person has an IRA and he or she is required to take a distribution, he or she can take up to $100,000 in 2011 and not have it count toward his or her adjusted gross income if the distribution is made to a public charity.”

At age 70-1/2, the IRS mandates that IRA owners withdraw a certain portion of the IRA. That withdrawal will then be taxed, but not if donated to a charity.

“Typically, distributions from IRAs are taxed heavily and are counted as income for the recipients,” he said. “This is an opportunity for individuals age 70-1/2 years or older to make a gift without having to bear the usual income taxes on the IRA distribution.

He also noted one law that has been on the books but isn’t widely known.

“Contributions to a community foundation rather than a private foundation receive more favorable tax treatment by the Internal Revenue Service,” he said.

If a business owner or investor donates stock with capital gains to a community foundation, it can be made at fair-market value. When donations are made to a private foundation, the cost basis is used.

“Gifts of cash to a private foundation receive a tax deduction of up to 30 percent of an individual’s adjusted gross income, while the same gift to a community foundation is deductible up to 50 percent of an individual’s adjusted gross income, with a five-year carry forward beyond the year the individual makes the gift.”