What if… I want to sell my business to my children

Often, selling your business to your children rather than simply giving it to them, can be advantageous from a gift tax and estate planning perspective.

If it's a bona fide transaction (meaning the sale price is truly equal to the full fair market value of the business), the sale of your business to your children avoids the taxation associated with a gift. This can be ideal if the Unified Credit offsetting taxable transfers has already been used up or if it is needed to offset the impact of other taxable transfers.

In addition, the sale of the business to one or more children who are actively involved in the business mitigates the feelings of being disenfranchised by the child or children who really should have no involvement in the business, thereby preserving family harmony.

Here are two popular transition methods when selling your business to your children.

The Private Annuity arrangement.

An individual transfers property to another individual or entity in exchange for an unsecured promise to a stream of income for the transferor's lifetime.

You enter into a private annuity arrangement with the heir to whom you would like to transfer your property. In exchange for that property, your heir(s) agrees to pay you an annuity stream for your lifetime.

You will be taxed on any gain in the property at the time of the transfer but at your death, the asset will not be included in your taxable estate for estate tax purposes.[1]

Continued on next page

[1]The federal estate tax exemption amount is $5,490,000 in 2017. The highest federal estate tax rate is 40%. Congress continues to discuss and consider legislation that, if passed, would permanently repeal or otherwise lessen the impact of the federal estate tax.

Self-Cancelling Installment Note (SCIN)

A SCIN is a sales arrangement whereby an individual transfers property to another individual or entity in exchange for an interest bearing note for a specified term. The note contains a self-cancellation clause triggered by the transferor's death.

You transfer a property to your heir(s) in exchange for a SCIN. Your valuation expert determines the appropriate amount of risk premium to apply to the note interest or principal. You will report any gain in the property over the term of the note. When you die, the SCIN payments stop and your heir(s) will own the property without having to pay any more payments. In addition the asset will not be included in your taxable estate for estate tax purposes.

Regardless of which of the above methods you chose, or even any other method you may choose for selling or giving your business to your children,

we cannot strongly enough urge you to obtain a c*ertified* business valuation performed by an independent Certified Valuation Analyst (CVA).

Whenever a business is transferred from a parent to a child, the IRS automatically presumes the transfer was valued at less than Fair Market Value; and will assess a higher value for the business. If the transfer was by means of a sale, the IRS will deem the difference between their higher assessment and the purchase price as a taxable gift.

If this happens, the typical way it gets resolved is to pay the additional taxes; then sue the IRS in Tax Court for a refund.

On the other hand, having a certified valuation from a CVA is your best rebuttal of the IRS' automatic presumption; and typically resolves the matter without going to Tax Court.

Helping business owners protect, preserve and pursue more value from their business, more tax efficiently! ®

The Business Strategies Group
a division of AXA Advisors, LLC
www.bsg-advisors.com

GE-117038 (1/17) (Exp. 1/20)