South Fayette & NEIGHBORS Magazine

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About the Cover
Ben throws an arm around two would-be quarterbacks during his recent visit to SF school

- Publisher's Note
- Columns of Knowledge
- Community Calendar
- Township
- School District

- Chip Shots
- On the Job
- Let's Eat: Tambellini's
- At a Glance

Features

Column of Knowledge | By Philip C. Henry

How to Kill Your Business

Follow these six steps to ensure its eventual demise

Many business owners will agree that they spend the majority of their time working in their business and only a minority working on their business. As a result, crucial areas of planning often are neglected. A University of North Carolina study found that one key area of planning ignored by business owners is properly funding for estate taxes. This is the primary reason that 70 percent of businesses fumble the handoff from the founding generation to the next. The failure rate in getting from the first generation to the third is 90 percent.
Here are six common mis-steps entrepreneurs make that often lead to the demise of their business:

MIS-STEP #1: I know what my business is worth
"No need for me to have my business appraised by an outside valuation expert. I also do not need to have a buy-sell agreement drafted between my partner and me, as I'd welcome the opportunity to work with my partner's wife. Her inexperience, lack of knowledge and inept business acumen does not concern me at all. If I do ever succumb to a buy-sell agreement I certainly would not fund the agreement with insurance. Why would I want the precise amount of funds delivered at the exact time needed in a tax-favored manner?"

MIS-STEP #2: No time for personal planning
"I have a will, which is only 10 years old. I realize I have made no provision for the transfer of my ownership interest in the company. My adult daughter who works in our business eventually wants to run it anyway. My son, not an employee, will not care that most of my wealth is tied up in the business... everything will be fine.

They may have to sell off some assets or an equity portion of the business to raise money for estate taxes, but I'm sure willing buyers with top-dollar offers will be lined up at our door."

MIS-STEP #3: That will never happen to me
"My key employee keeps bugging me… she wants to understand more about our succession plans. I realize that she's been with me for eight years and is crucial to our success. She is motivated to lock in a stable career path and believes she could effectively run our business. Yet she needs to

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- **Introduction**
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realize two things – I'm not going to become disabled and I'm not going to die, at least anytime soon."

MIS-STEP #4: There is plenty of time for retirement planning
"I am also not going to retire anytime soon. Why should I worry about diversifying my portfolio into non-business assets, using protected vehicles such as retirement plans? When I do retire, my business is strong enough that my son will be able to take over and provide for all the income that my wife and I will need. He's almost finished with his undergraduate degree after six grueling years. After he spends a year in Vail, he'll be able to step right in."

MIS-STEP #5: My business is my retirement plan
"Like I just said, there is no need to use any other vehicle than my own business to secure my retirement. Plowing every penny possible back into my business will give me the greatest return.

I am not concerned that present competitors or new emerging ones may come along and drive the value of our business down. My strategy has worked so far, and therefore, I'm not concerned about diversifying."

MIS-STEP #6: Uncle Sam is always going to get his
"Why spend time, effort or energy to try to minimize Uncle Sam's reach? Our bookkeeper is doing a great job, I suppose. I'm not going to spend any more money to get expert advice or consider new strategies, but I promise you one thing… I will complain about our tax burden!"

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