

# Strategically Planning Dealership Transition



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# Learning Objectives

This session will provide:

- Define the due diligence process to identify operational, leadership and next generation transition gaps that would impact valuation and transition
- Build an effective transition plan of ownership, authority and power
- Identify how to protect assets through succession

# What, specifically, are we planning for?

Estate  
Plan



Succession  
Plan

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# Different Areas of Focus

**Estate  
Plan**

**Succession  
Plan**

# Succession Planning

# Succession Planning

- What is succession planning anyway?
  - Sale?
  - Gift?
  - Transfer of management?
  - Who will own and run the business?



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# Why a plan?

- Generational change
  - Large number of small businesses changing hands
  - Business environment
  - OEM
- Impact on business performance



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# Impact on Business Performance

- Well accomplished transitions can boost performance
- Teams led by high-performing transitioning leaders typically meet targets
- Attrition risk for these teams is lower



"Successful Leadership Transitions Boost Revenue" Chief Learning Office 9/17/13

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# Succession Planning

- Current owner objectives
  - Provide for their retirement
    - Financial objectives
    - Disability or death of owner
  - Provide for business continuity



# Succession Planning

- Majority owner is:

- Emotionally invested
- Financially invested
- Tends to maintain voting control
- Desire for policy



Reasons why no succession plan is developed???

# Estate and Succession Planning

- Succession planning issues include:
  - Selling/gifting business assets
  - Transferring future growth to next generation
  - Estate tax
  - Valuation issues
  - Trust provisions/terminology
  - Transfer of management to run business
  - Cash flow considerations for current owner



# The Plan

- Due diligence
- Leadership transition
- Transfer of financial ownership



# Due Diligence

## THE 3 BIG ? QUESTIONS

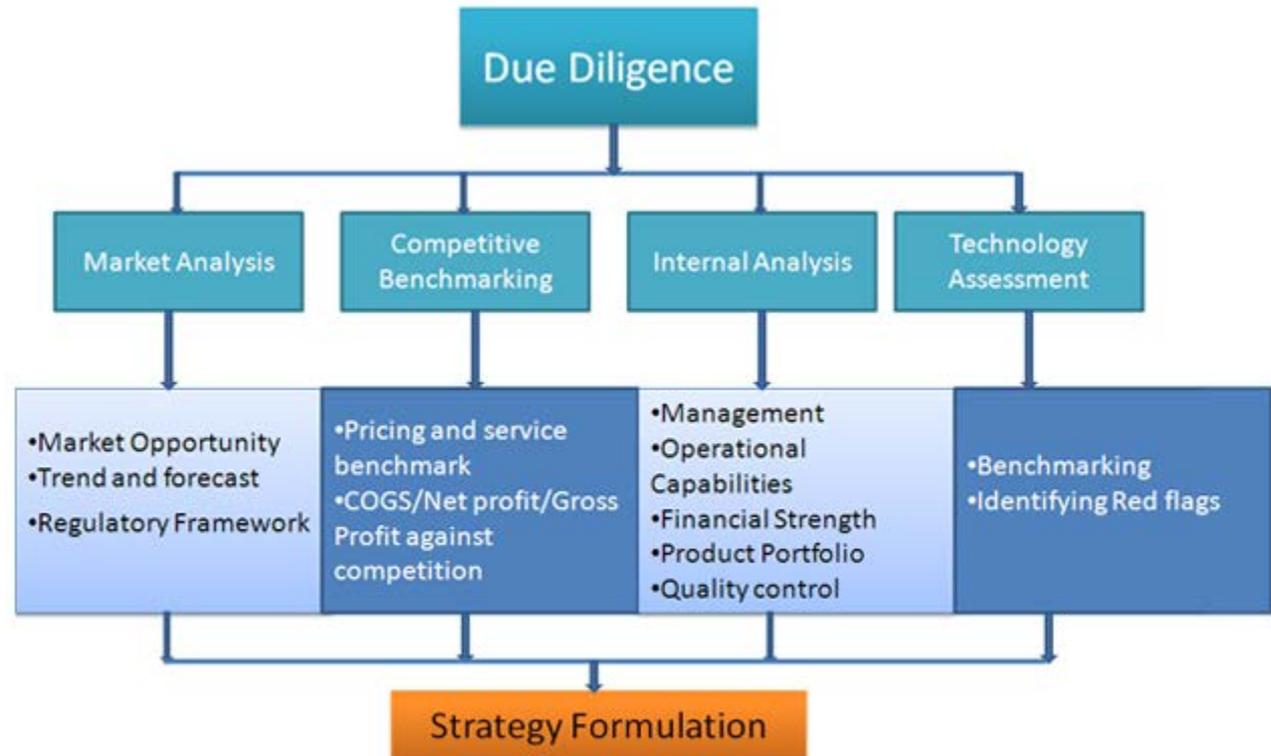
WHAT IS DUE DILIGENCE?

WHY DO I NEED IT?

HOW DO I GO ABOUT IT?

# Due diligence

- Prior to marketing
  - Financial
  - Market
  - Leadership
  - Other



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# Financial

- Balance Sheet
- Income Statement



# Market

- Market share
- Key customers
- Growth



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# Leadership

- Strength
- Retention
- Gaps



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# Other

- Facilities
- Vendors
- OE
- Other



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# Leadership Transition



# Successful Leadership Transition

- Identify and communicate why
- Plan the process
- Communicate what is working and not working - constantly
- Measure performance
- Support and guide



# What is the timeline?

- The first 90 days are crucial
  - Learn
  - Assess
  - Plan
  - Action
  - Create value



# Transfer of Financial Ownership

# Concepts of “Fair” Versus “Equal”

- Which family members have contributed to the overall growth of the estate
- Which family members should own the business?
- Which family members have extraordinary needs?
- Personal philosophies



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# Business Assets Versus Non-Business Assets

- Who should receive which type of assets?
- How much, or how should the assets be divided?



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# Transfer Now or Later

- Provide opportunities for children to make mistakes
- Enjoy experiencing children becoming successful



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# Continue Sufficient Cash Flow for Retirement



- Real estate versus operating assets
- Family providing management and labor should be rewarded
- Senior family member should not rely on other family members

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# Buy/Sell Agreements

- Business with more than one owner
  - New “partner with fractional ownership”
  - Orderly transfer of ownership
- Events
  - Owner wishes to sell
  - Life circumstances



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# Buy/Sell Agreements

- Redemption agreements
  - Company buys ownership
- Cross purchase
  - Each owner buys the other
- Hybrid agreements



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# Buy/Sell Agreements - Funding

- Life insurance
  - Best for payment at death
- Self funding future cash flow / earnings or equity
  - Installment sales
  - Cash sales



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# Selling or Giving Assets

# Effect of a Sale

- Asset versus stock
- Capital gain tax versus ordinary income tax
- Installment sale benefits
- Increase in tax basis for depreciation purposes



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# Effect of Gift of Assets

- No income tax on receipt of gift
- Annual gift tax exclusion



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# Transferring Future Growth to Younger Generation

# Create Opportunities for Children



- Real estate partnerships (dealer real estate)
- Operating partnerships (business)

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## Creating Opportunities for Children (continued)

- Withdrawals by older generation create effective redemption of partnership interest
- Gifts of partnership interest to children while maintaining control
- Upon death, discounts available



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# Creating Opportunities for Children (continued)

- Lend funds to children for business acquisitions

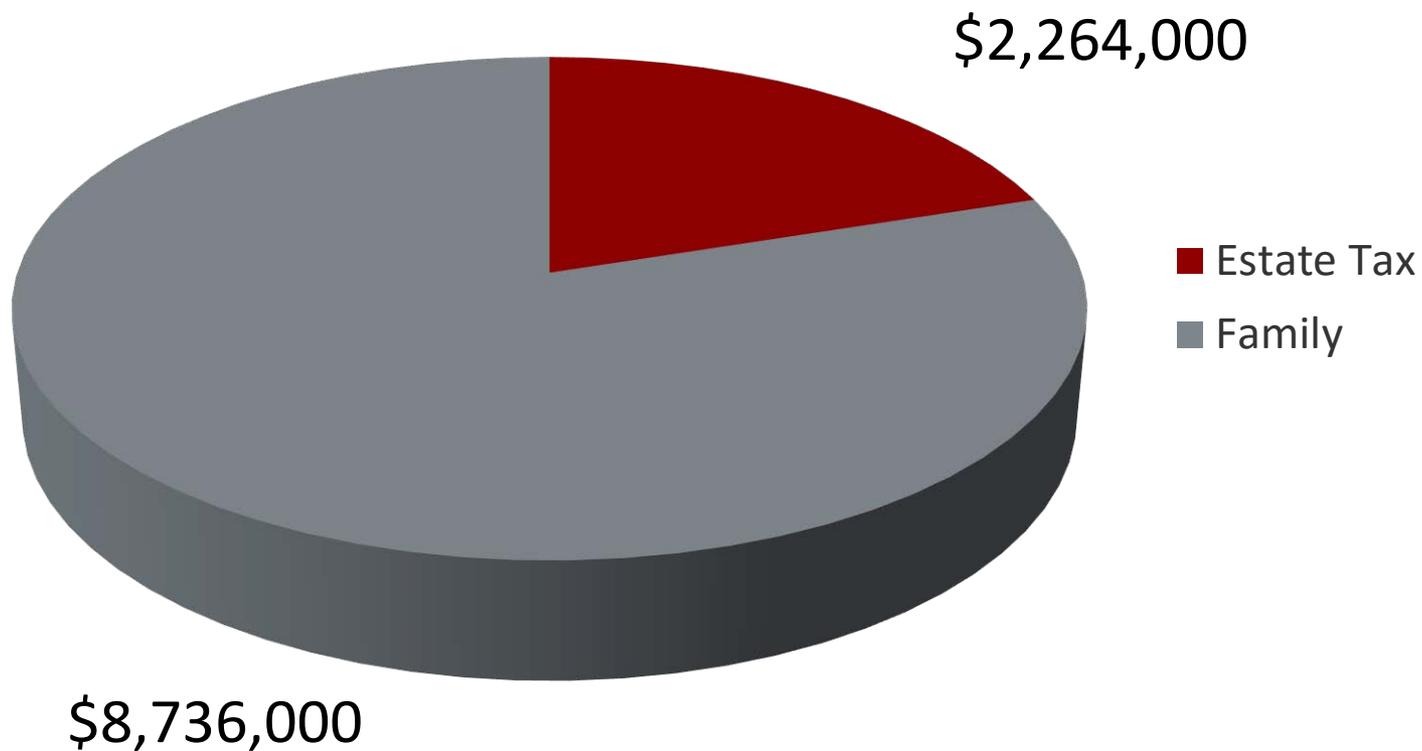


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# The Federal Estate Tax

# Confiscatory Nature of Estate Taxes



\*Assuming death occurs in 2016  
with estate of \$11.0 million

# 2015 Gift and Estate Tax “Cliff”

	2012	2013	2014	2015	2016
Gift and estate exemption	\$5.12M	\$5.25M	\$5.24M	\$5.43M	\$5.45M
Top rate on excess	35%	40%	40%	40%	40%

- Lifetime exemption
  - Single person
  - Married couple
    - Portability
- State estate tax issues

# Key Lifetime Estate Planning Strategies

- Lifetime gifts
- Interfamily sales
- Sales to Defective Trusts (IDGT)
- Grantor Retained Annuity Trusts (GRAT)
- Life Insurance Trusts (ILITs)



# Lifetime Gift Tax Exemption

- \$5,450,000 per taxpayer 2016
- Indexed for inflation each year
- Future values sheltered from gift tax



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# Lifetime Gift Tax Exemption

- Example:
  - Taxpayer makes gift of \$5,000,000 to trust for benefit of children
  - Assume 10% compounded growth rate annually

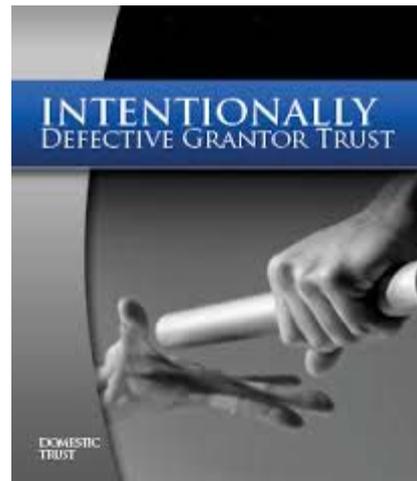
Total Wealth Removed from Estate		Value of \$5M
Year 5	\$3,052,000	\$8,082,000
Year 10	\$7,968,000	\$12,968,000
Year 20	\$28,628,000	\$33,628,000

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# IDGT – What Is It?

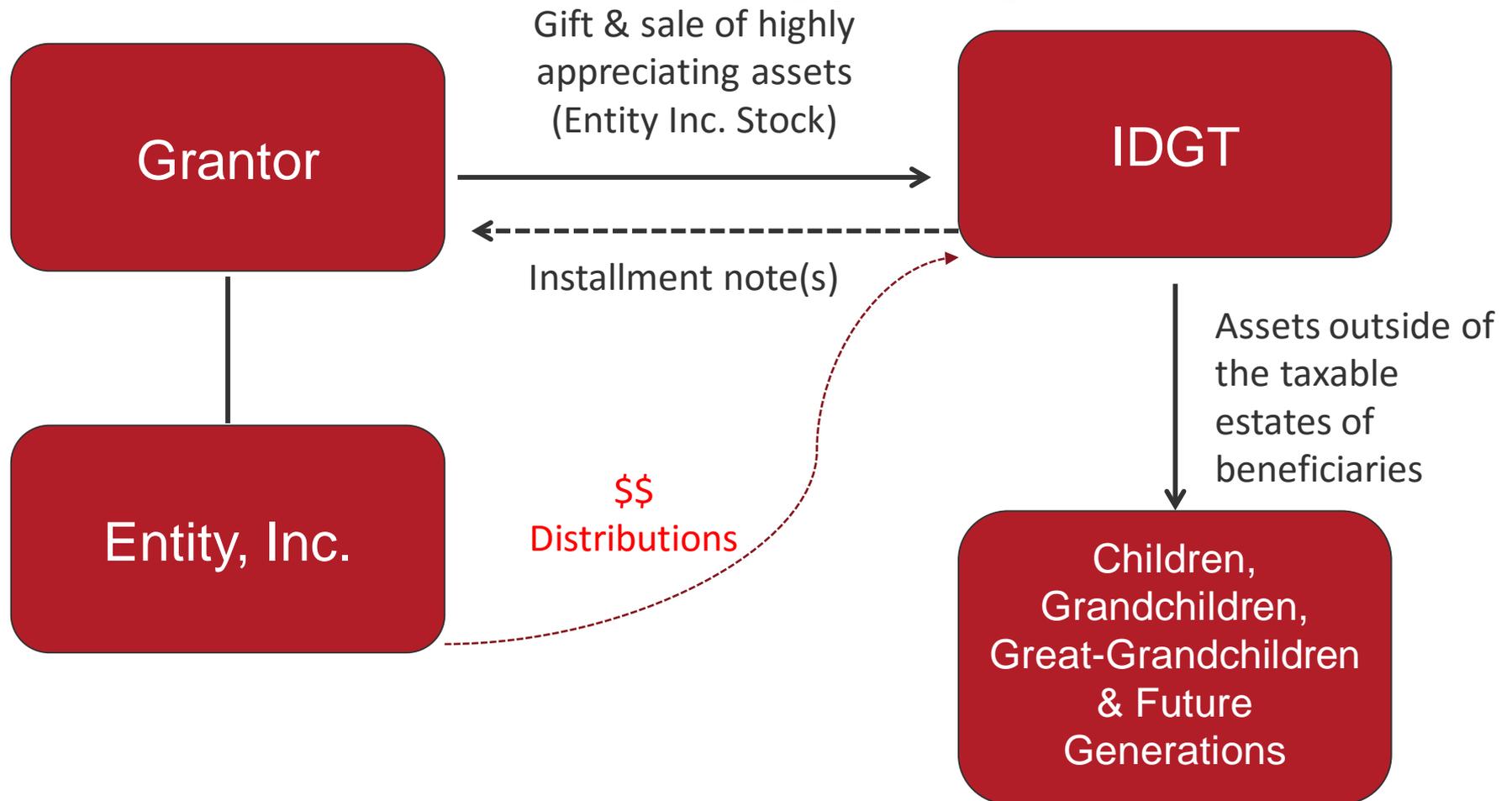
- “Intentionally Defective Grantor Trust”
  - Irrevocable trust
  - Grantor Trust (income taxed to Grantor), and
  - Defective Trust
- Trust and transfers to trust respected tax system



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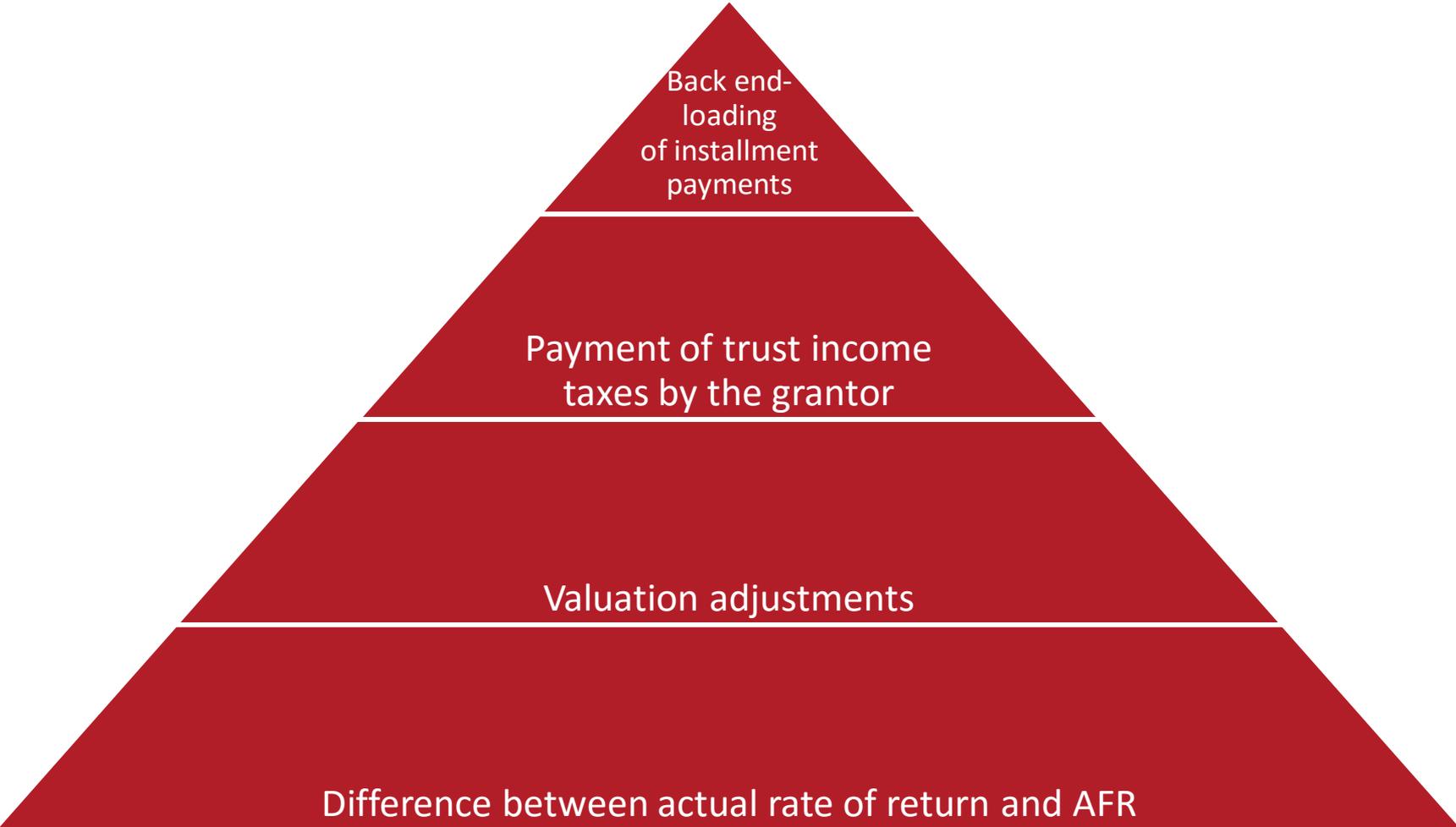
# Sale to an IDGT Strategy Diagram



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# Why IDGTs Can Be Effective for Transferring Wealth

A red pyramid divided into four horizontal sections by white lines. Each section contains white text describing a tax strategy for IDGTs. The pyramid is centered on the page.

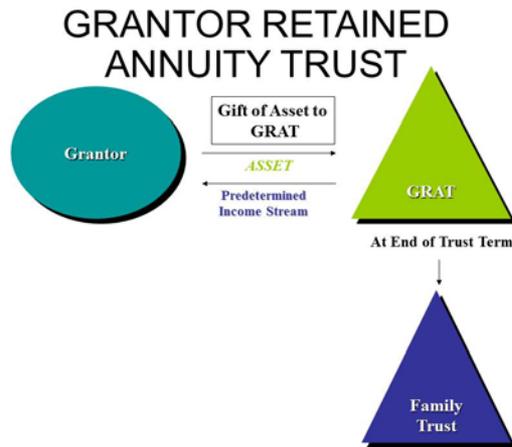
Back end-  
loading  
of installment  
payments

Payment of trust income  
taxes by the grantor

Valuation adjustments

Difference between actual rate of return and AFR

# Grantor Retained Annuity Trust – “GRAT”

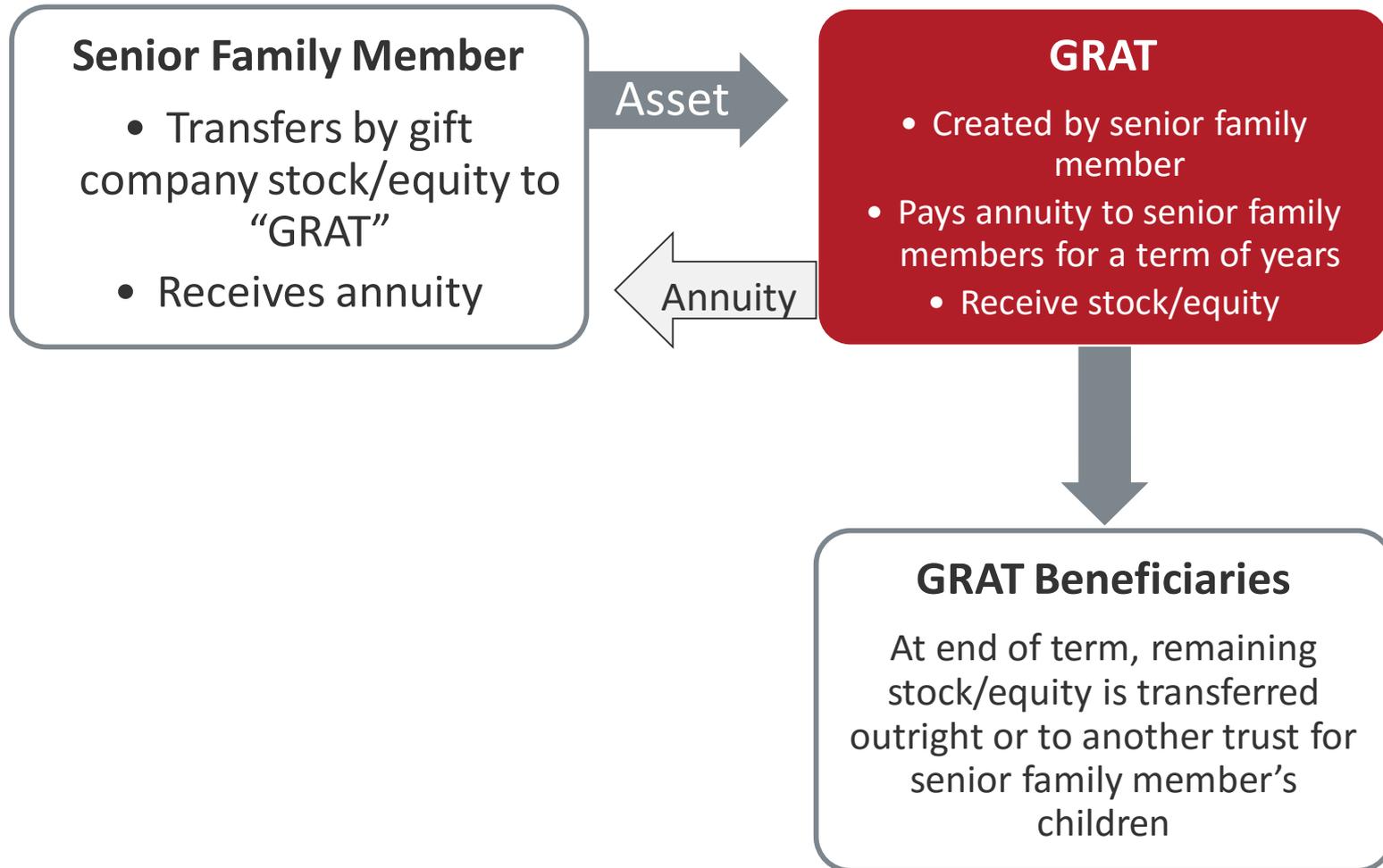


- A GRAT is a carefully drafted trust that accomplishes two very important estate objectives:
  - “Freezes” value highly appreciated assets
  - Provides senior family member annuity payment
- Delivers benefits without potential transfer tax disadvantages
- Lower interest rates make GRATs more attractive

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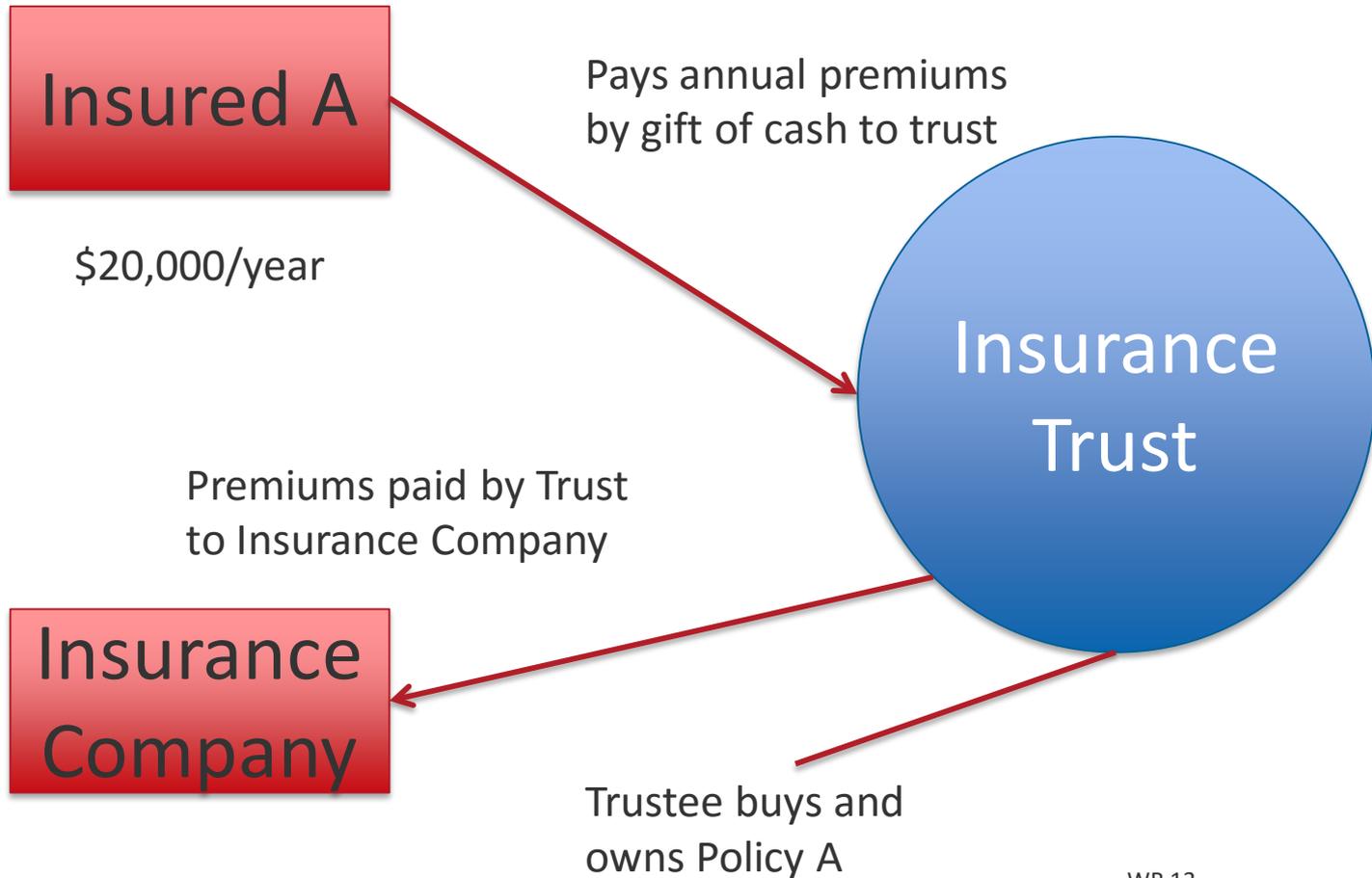
# GRAT Flowchart



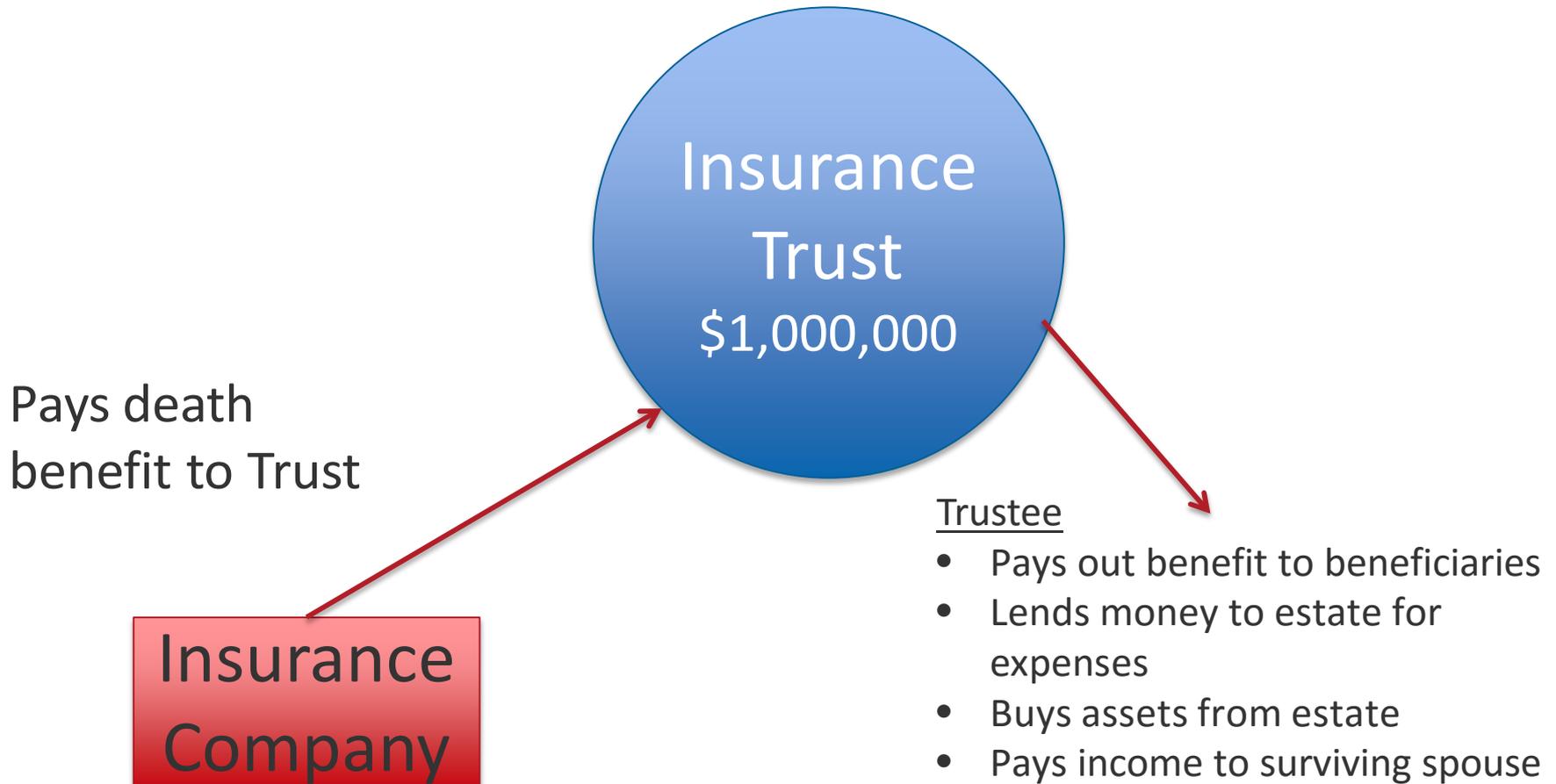
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# Irrevocable Life Insurance Trust (ILIT)



# Irrevocable Trust at Death



# Closing

- Due diligence
- Leadership transition
- Transfer of financial ownership



# Questions ?

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