

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

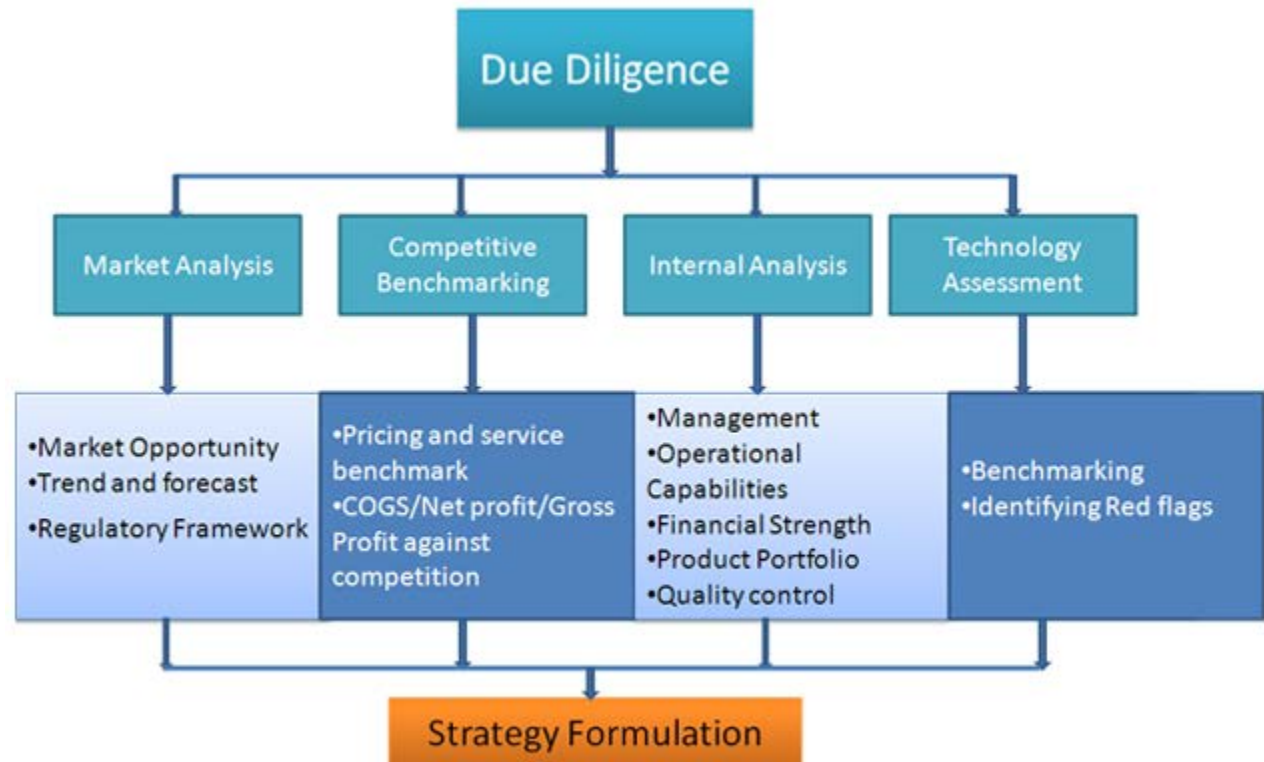
WHAT IS DUE DILIGENCE?

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



WB 7

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

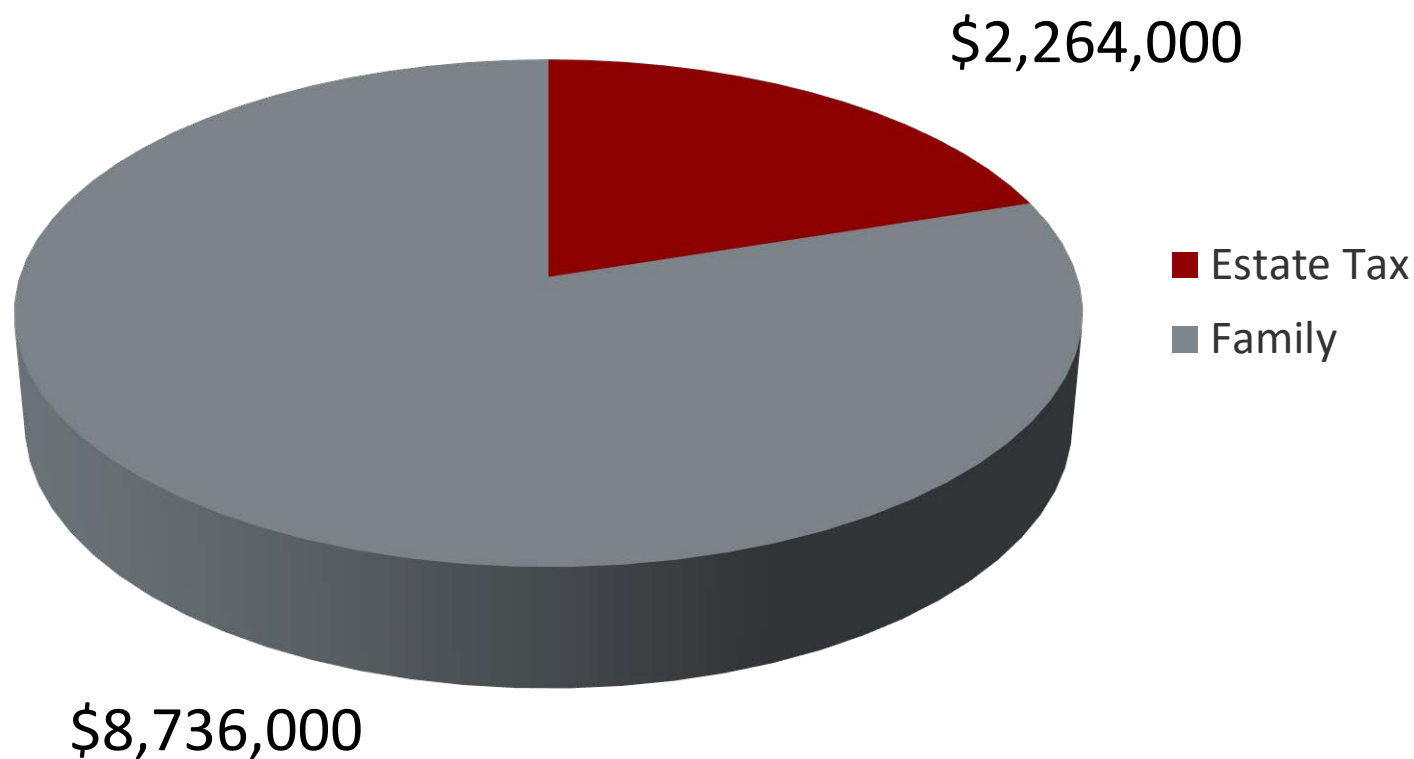


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The Federal Estate Tax

Confiscatory Nature of Estate Taxes



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

WB 10

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

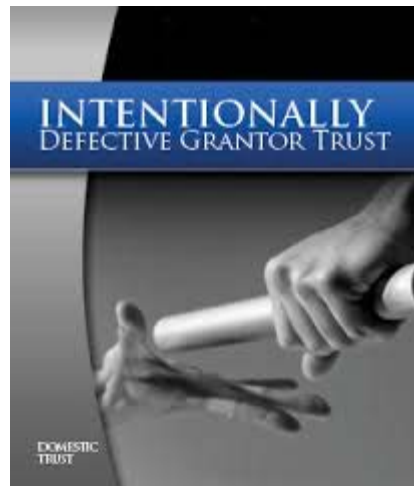
- Example:
 - Taxpayer makes gift of \$5,000,000 to trust for benefit of children
 - Assume 10% compounded growth rate annually

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?

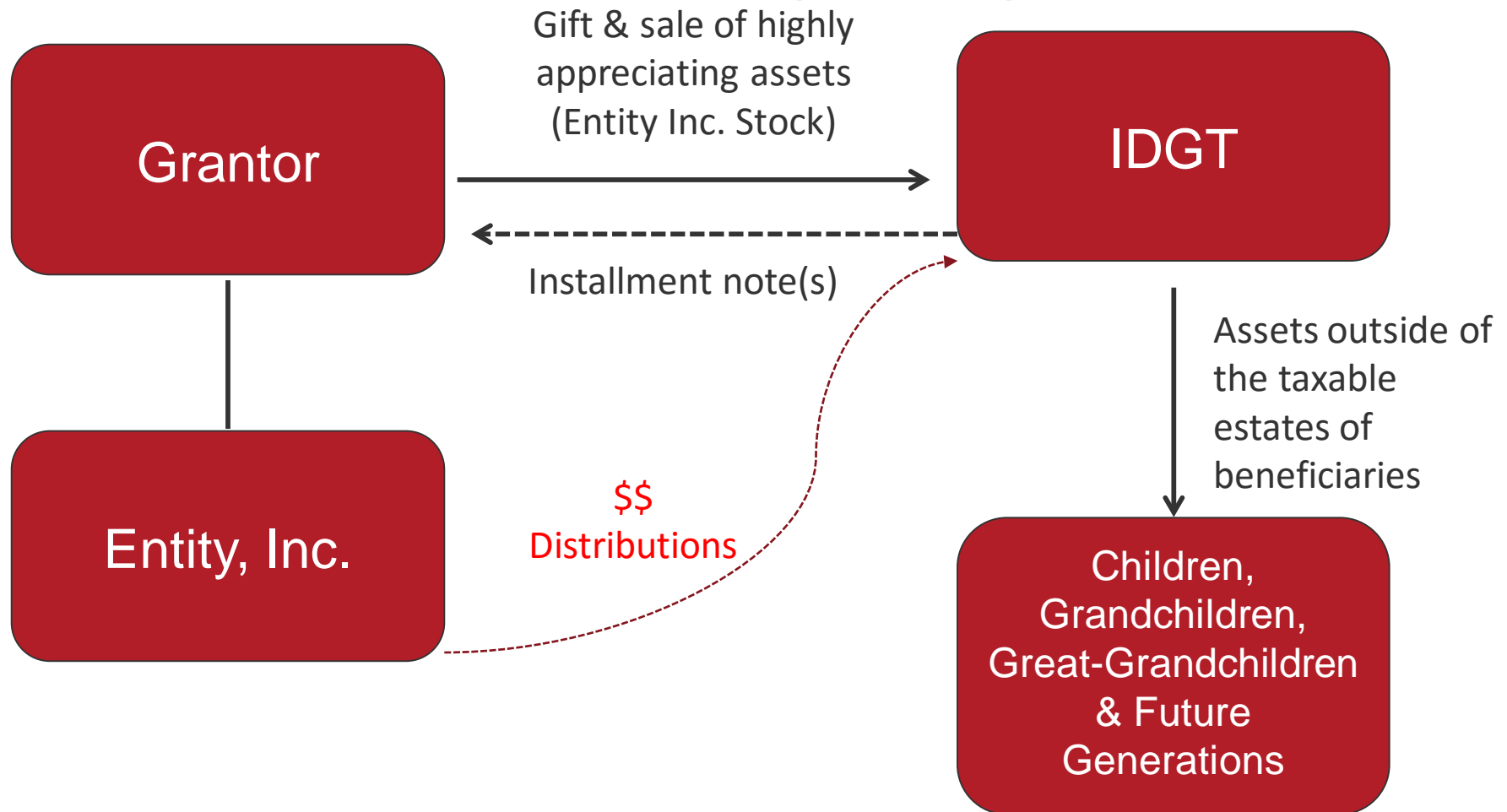
- “Intentionally Defective Grantor Trust”
 - Irrevocable trust
 - Grantor Trust (income taxed to Grantor), and
 - Defective Trust
- Trust and transfers to trust respected tax system



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Sale to an IDGT Strategy Diagram



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Why IDGTs Can Be Effective for Transferring Wealth



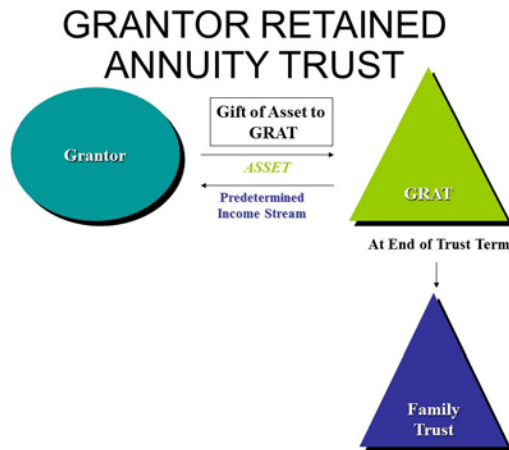
Back end-loading
of installment
payments

Payment of trust income
taxes by the grantor

Valuation adjustments

Difference between actual rate of return and AFR

Grantor Retained Annuity Trust – “GRAT”

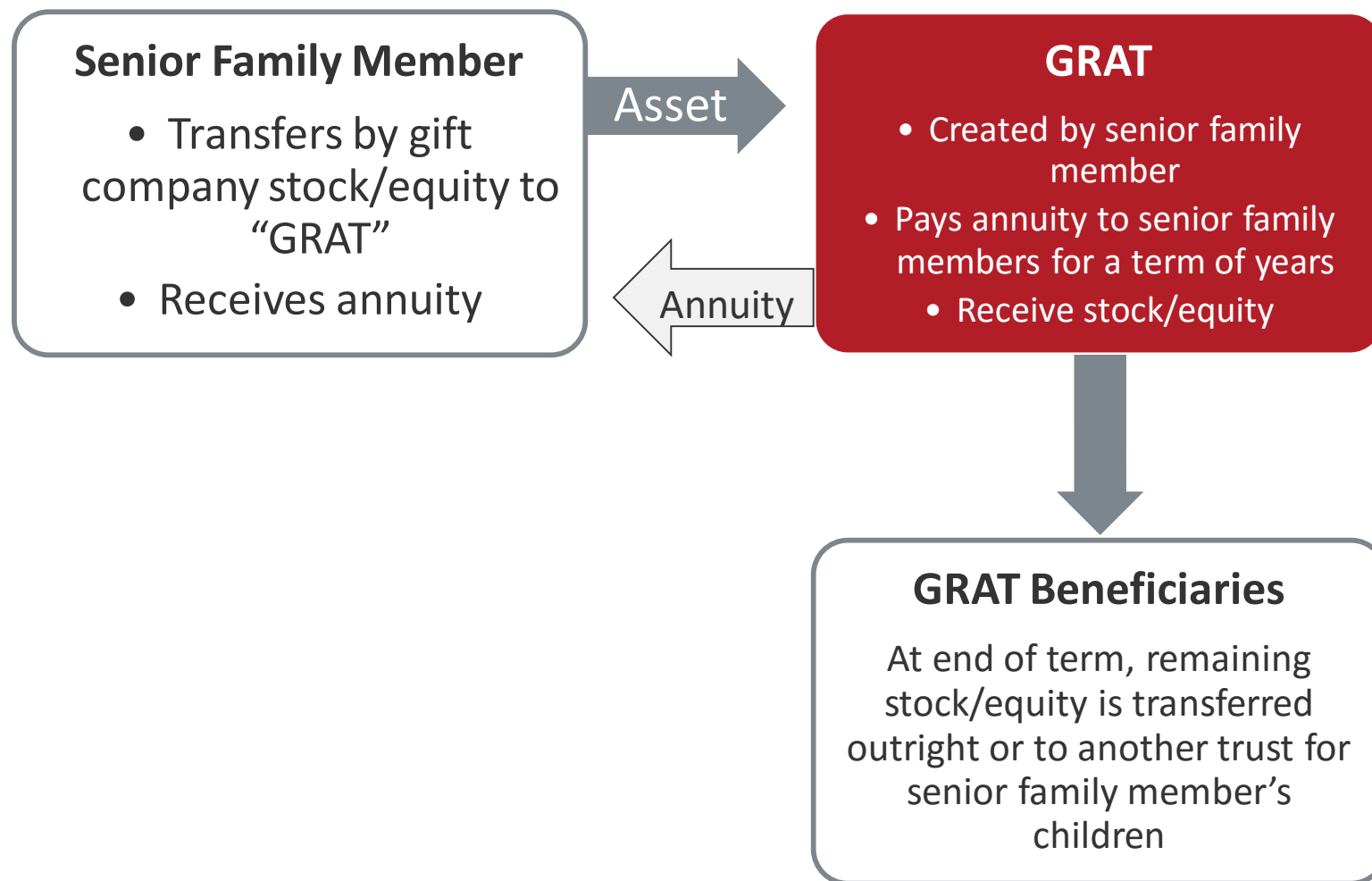


- A GRAT is a carefully drafted trust that accomplishes two very important estate objectives:
 - “Freezes” value highly appreciated assets
 - Provides senior family member annuity payment
- Delivers benefits without potential transfer tax disadvantages
- Lower interest rates make GRATs more attractive

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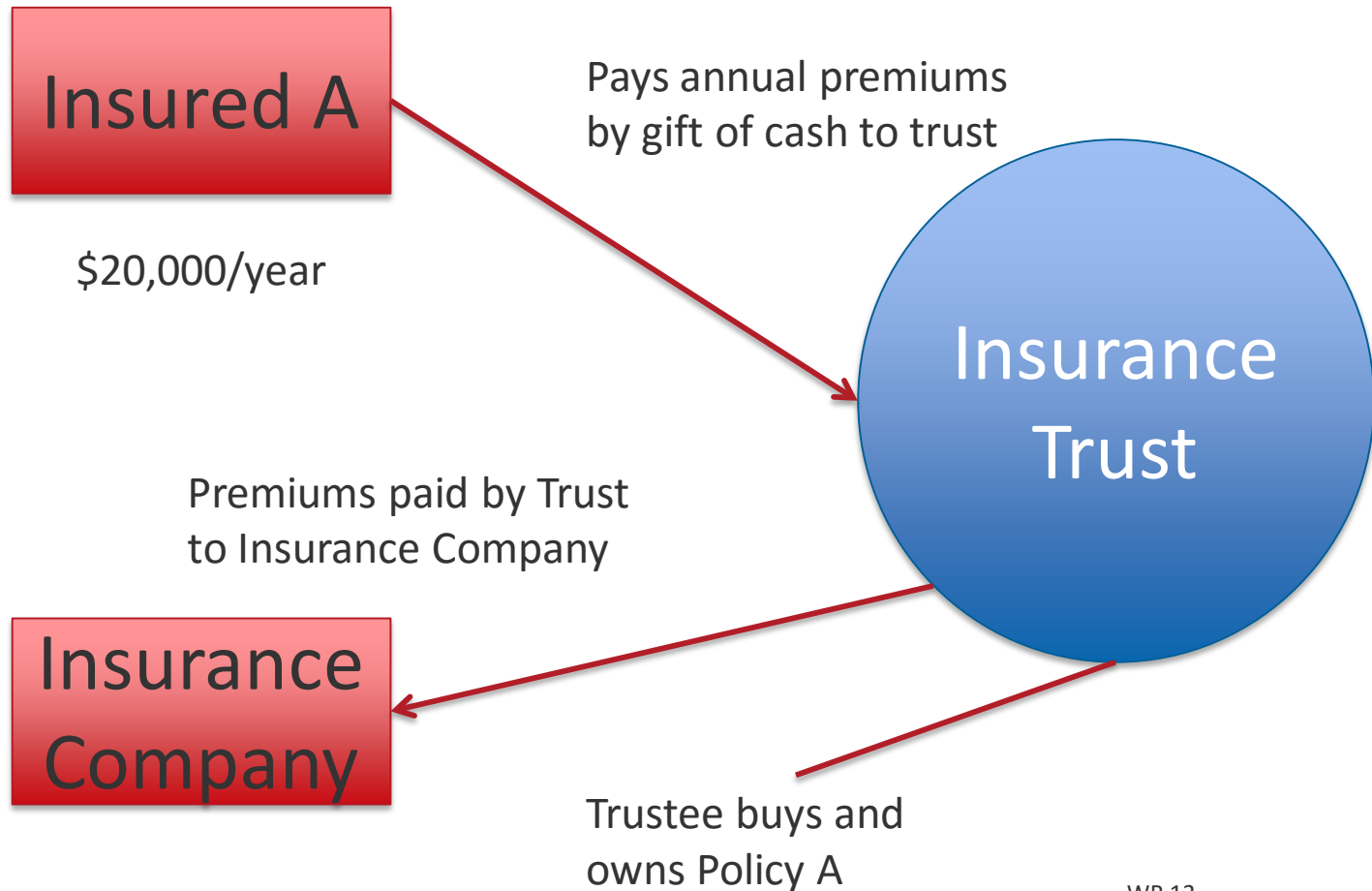
GRAT Flowchart



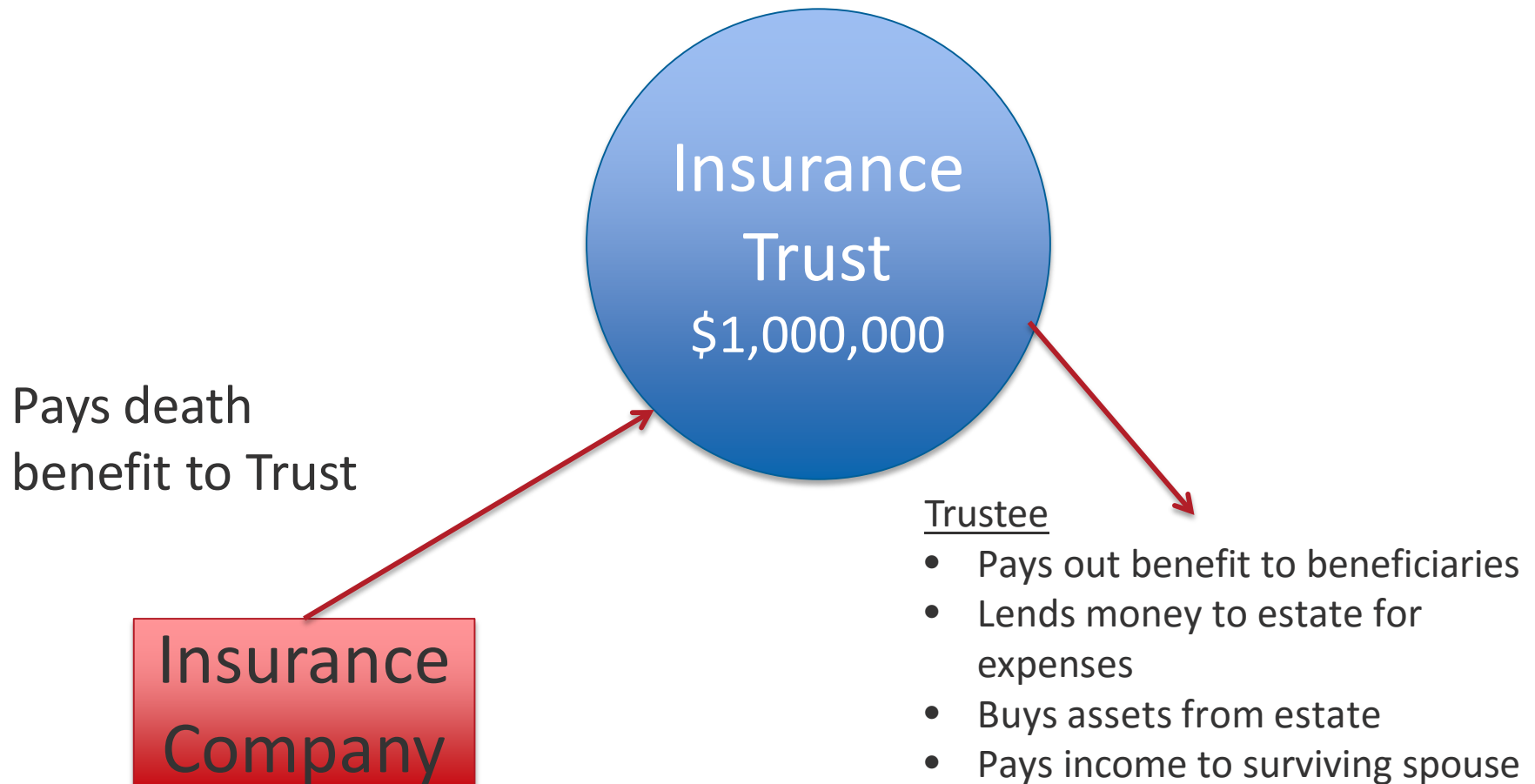
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Irrevocable Life Insurance Trust (ILIT)



Irrevocable Trust at Death



Closing

- Due diligence
- Leadership transition
- Transfer of financial ownership



Questions?

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