The DAILY PLAN-IT™

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Help entrepreneurs protect what they've built

Successful entrepreneurs are great at turning their visions into vibrant, thriving businesses. They're nimble in the marketplace and aren't afraid to take chances. They're good at many things - but estate planning often isn't one of them.

In a recent survey of 500 business owners by *Entrepreneur*, 80 percent didn't have a power of attorney, only 24 percent had a will, 13 percent had a trust - and 65 percent had no planning documents at all. To us, these numbers are startling.

As an advisor, you know that insurance, savings and "fingers crossed" are no way to protect what a client has created.

The basics

Your client built and nurtured her business for several years, but you know how fragile it can be. Her family's success and prosperity depend on how long she can sustain the business. Insurance and savings are a good start, but even the most well-protected businesses can be exposed to risk if its owner doesn't have core planning documents.

A last will and testament, living trust, durable financial power of attorney, health care power of attorney, and other important documents risk being ignored if young entrepreneurs fail to see the value they represent. You can show them how having these pieces in place become more than just important. They become essential.

Although insurance can cover your client for unforeseen events like medical emergencies, only estate planning prepares her company for the absolute worst-case scenarios. According to *Business.com*, your client also needs to take additional steps by instituting a buy-sell agreement and having a succession plan.

Getting started

A will lets your client lay out her final wishes. This most basic estate planning document allows your client to specify how her assets will be handled after death, and to whom they should be transferred.

She should also have a durable financial power of attorney. She's in charge - until she needs surgery that puts her out of commission for a few months. Without a clear plan in place, questions start piling up. Who pays the rent? Who does business with her clients? Who accesses her bank accounts, and how?

To keep her business and affairs private, you'll likely set up a revocable trust. As *Business.com* says, because a will must pass through probate, it can be problematic for a small business that needs to protect sensitive information. Moreover, the cost and delays associated with probate can disrupt the business's continuity. If different needs arise in the future, the trust can be modified and assets can be moved in and out to accommodate business exigencies.

Other considerations

Help your client think through and set up a succession plan. At the core of this plan is a simple question: What happens to the business when she's no longer around, whether that's through early retirement, incapacitation or death? Her succession plan can also cover what to do if she encounters financial hardship or transfers ownership to someone else.

A good succession plan clarifies how ownership will be transferred, establishes rules for hiring, compensating and promoting family members, and specifies how disputes will be resolved. The most important issue here is putting a plan to paper and defining "succession" as she sees it.

If she has partners aside from family members, set up a buy-sell agreement. This document is a mechanism for redistributing an owner's interest in the event of death or disability. Such an agreement is also helpful if an owner declares bankruptcy or is going through a divorce.

Buy-sell agreements include cross-purchase and stock-redemption agreements that allow the remaining owners to redeem your client's stake in the business. You want her beneficiaries to be fairly compensated, so this agreement will also specify how the value of the business will be determined: the asset approach, the income approach or the market approach.

Of course, you'll keep her informed of constantly changing tax laws and how they'll affect her ability to remain successful. Changing tax laws can completely throw off a person's plans, and any plan more than five years old is more likely to miss taking full advantage of all available estate tax opportunities.

Proper estate and financial planning will help ease your entrepreneur client's mind and let her focus on the most important thing: running her business.

We hope this information is useful to you and helps your client and their families. If you have a specific case or question, please don't hesitate to call our office.