

TOLEDO COMMUNITY FOUNDATION

Business Succession Planning



Toledo
Community
Foundation

Toledo Community Foundation Overview

Toledo Community Foundation is a community of donors committed to making our region and the world a better place to call home. Toledo Community Foundation consistently demonstrates a unique capability to connect donors with the opportunity to make a real difference through charitable giving. Since 1973, Toledo Community Foundation has helped area citizens put charitable dollars to work addressing the issues most important to them in the communities they care about.

Toledo Community Foundation has a number of valuable features that cannot be found in other charitable organizations. Because we are a local entity we have deep roots within the Toledo community. In addition, the Foundation's professional staff and the outside professional advisors that work with the Foundation have a wide range of expertise in assisting donors to get the most from their giving. In recognizing the unique motivation that each donor has in making a gift, the Foundation prides itself on providing personalized service and tailoring solutions to the individuals' needs.

Toledo Community Foundation exists to improve the quality of life in the region by:

- Providing a flexible and effective means to empower donors (corporations/businesses, individuals, families and private foundations) to achieve their philanthropic goals in perpetuity;
- Addressing the changing needs of the region through efficient and high impact grant making;
- Serving as a source of information and acting as a catalyst in shaping the region's response to needs;
- Facilitating the work of other grant making organizations and corporations in order to achieve effective and efficient grant making.

The Foundation has numerous funds that were established with gifts of a business interest, including the gift of an entire family business that the Foundation then proceeded to sell to other family members, which thereby established a fund at the Foundation. The Foundation has the structure in place to easily accept gifts of business interests, including non-publicly traded or closely-held stock, subchapter S Corporation stock, limited liability company interests, general partnership interests, limited partnership interests and family limited partnerships. An individual can choose to contribute all or a portion of their interest. While such gifts are reviewed on a case-by-case basis and are subject to the Foundation's approval, there are excellent tax incentives for contributing business interests to create or add to a charitable fund at the Foundation. If some or all of a business interest can be contributed to a component fund at the Foundation before the terms of a sale are completed, considerable financial resources will be available for philanthropic purposes at the lowest after-tax cost to the donor.

Proactive Business Succession Planning

Proactive business succession planning is a must. Proper planning can help an individual give something back to their community while ensuring that their needs and their family's needs are taken care of.

An effective succession plan will provide:

- Security
- Accomplishment
- Completion
- Community Fulfillment
- Lasting Legacy

Five Reasons to Have a Business Succession Plan

Creating and implementing a sound succession plan will provide several benefits to owners and partners:

1. It ensures an agreeable price for a co-owner's share of the business.
2. It may eliminate the need for valuation upon death for purposes of purchasing a deceased owner's interest because the owners agreed to the price beforehand.
3. It can provide liquidity for a decedent's family.
4. It can greatly aid in allowing for timely settlement of the deceased's estate.
5. It can assist in philanthropic giving as related to the business and/or family.

Developing a Business Succession Plan

One of the main concerns for a family-owned business or a closely-held business is how to have an affordable and logical transfer of the business to the next generation or other owners. Failure to plan properly can result in monetary losses and potentially the loss of the business itself. Estate taxes can claim a large percent of a taxable estate, almost as much as 55% in some cases. The result is the business having to liquidate or take on additional debt. The prospect of going back into debt to pay taxes can be very unpleasant. Questions need to be answered such as: Where will the money come from to pay the taxes? Where will the money come from to buy out the deceased partner's share? Many of these questions can be answered through the proper use of funding vehicles at little or no cost to the business.

The following steps are not a rule of thumb but a guide to assist the business owner in thinking through a proper succession plan:

1. Goals for the family business.
Short-term and long-term goals must be discussed. One item to be discussed: Is the business going to be controlled by the family or will the business be sold?
2. Ownership of the business.
Is ownership of the business limited to family members or can others be owners? If it is limited to family members, who in the family would that include?
3. Employment of family members.
If family members are guaranteed a position in the business, what does that mean?
4. Employment of non-family members.
Benefits to non-family members need to be discussed.
5. The role of philanthropy.
Besides proving support to the community, charitable endeavors can help with tax issues in protecting assets.



How Toledo Community Foundation Can Assist with a Business Succession Plan

A charitable giving succession plan is a great option in a number of situations, including when:

- The business owner(s) have most of their net worth concentrated in the stock of their company and want to diversify.
- The business owner has widely scattered heirs who would be likely to sell the stock upon inheritance.
- The business owner wants to sell his or her stock with more favorable tax treatment.
- Stockholders, members or partners want to use partial redemptions to obtain preferred tax positions.

There are many ways to ensure a proper business succession plan is appropriate to an individual's circumstances. The individual should consult their legal and financial advisor to determine the most appropriate plan for the individual's situation. Toledo Community Foundation is here to assist in the discussion of the appropriate succession plan.

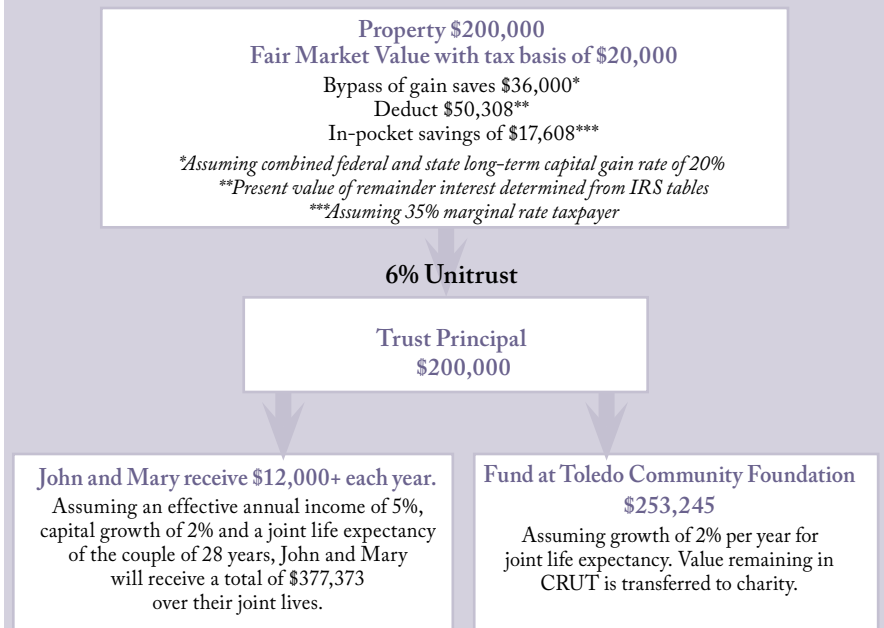
Here are some examples of different vehicles and how they pertain to a business succession plan:

1. Establishment of an Advised Fund at Toledo Community Foundation: An advised fund can be established, which can be used for personal use, family use or a means to establish a corporate or business giving program. An advised fund at the Foundation has the most flexibility in making distributions with personal involvement, and functions like a private foundation but with great ease and superior tax benefits.
2. Establishment of a charitable remainder trust: In the establishment of a charitable remainder trust at Toledo Community Foundation, an individual can name one or more charitable entities as a beneficiary, while still benefitting their family. Charities can be added or deleted over the active life of the trust.
(See Example A Charitable Remainder Unitrust)
3. Gifting of corporate stock: With the gift of all or a portion of an individual's company stock to an advised fund or another type of fund at Toledo Community Foundation, the gift would generate a substantial tax deduction based upon factors such as the value of the transferred stock.
4. Sale of stock: The stock is gifted to Toledo Community Foundation and the Foundation sells the stock at fair market value. Under the right circumstances, the buyer could be an heir(s) in the family business. The heir(s) would then have control of the family business, since their minority interest changed to majority when the stock was purchased. If the company is not in a position to buy the stock back, Toledo Community Foundation will look for a third party buyer or may otherwise participate in the sale of the company as negotiated by the majority owners.
(See Example B Gift of a Business Interest)
5. Development of a will: At a minimum, a will should be developed to include specific provisions for the disposition of the business.

Example A

Charitable Remainder Unitrust Sale of Property

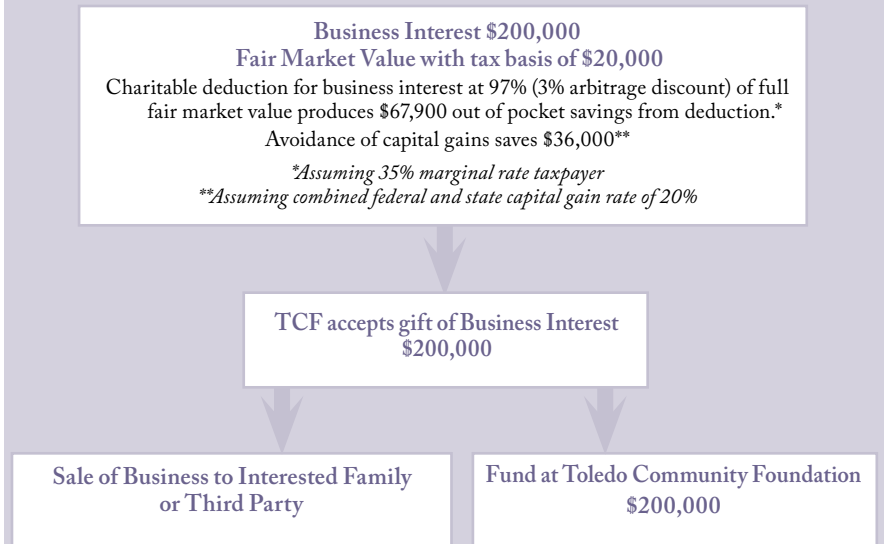
John Jones, age 65 and Mary Jones, age 60



Example B

Toledo Community Foundation Gift of a Business Interest

John and Mary Jones/XYZ Company

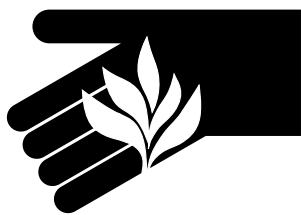


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How do we begin?

There is no such thing as "one size fits all" in a business succession plan at Toledo Community Foundation. These are just a few of the planning ideas that are available to business owners. Toledo Community Foundation can help guide business owners through proper business succession planning in partnership with their advisors.

Additional questions can be addressed by contacting the Philanthropic Services Department at Toledo Community Foundation, 419.241.5049.



**Toledo
Community
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Inspiring and Connecting Thoughtful Giving

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