DB&B
Dermody, Burke & Brown, CPAs, LLC

Business Owner's *Perspectives*

Trends and Strategies for Owners of Closely Held and Family Businesses

Summer 2022

Generation to Generation
5 Keys to Building a Business with Staying Power

Many successful family businesses have endured for decades, producing goods and services that people desire and providing challenging careers and wealth for employees and family members.

Secrets to Success

The longest lasting, most successful family businesses have several common operating principles:

1. Defined goals. What are you working for? Building a business with your relatives is hard enough when you're all on the same page. If your goals and objectives aren't clear—and embraced by all—long-lasting success is nearly impossible.

It may be time to revisit your vision and goals. A common purpose makes business decisions easier—every decision should further your goals. Consider holding a family meeting, facilitated by a neutral moderator, to update your mission, vision, and goals so that everyone is working toward the same end.

Note that these types of conversations can be difficult. Relatives at different ages and stages often see the world differently. Good listening and openness are essential to creating common priorities.

2. Sharing the wealth. Family businesses are often the source of great financial bounty. They're also the source of valuable wisdom. Both types of "wealth" are important.

There are countless ways to share financial prosperity. Your trusted advisors can help you determine how and when to distribute wealth to your heirs in an equitable and tax-advantaged manner.

One way to continue sharing the wealth is to fund the next generation of entrepreneurs. A startup might be related to the existing business or take the company in a different direction. Either way, launching a new opportunity can underscore the challenges of starting a business—and teach all those important business lessons—in a fail-safe way, supported and nurtured by the family.

This type of endeavor also supports sharing the wealth of knowledge that family elders hold. Mentoring and guiding new endeavors can keep good business practices intact through generations. Everyone in the family benefits.

3. Remaining relevant. It's tempting for family business founders to stick close to what they know. However, the market keeps evolving. If your product or service doesn't evolve with it, your company becomes a proverbial dinosaur.

Avoiding this fate requires purposeful action. You and your family member executives must stay aware of trends and key performance indicators relative to your industry and your competitors. You must embrace what the market desires, not just in terms of your offerings, but also in terms of environmental, social, and governance (ESG) policies. Give your business every chance to thrive in current—and future—market conditions.

4. Creating rules. Who gets to work in the family business? What level of education is required? Must relatives work elsewhere before joining the company? What is the family career path, and what are the expectations of family members' performance?

Talk about these and other family employment matters early and often so that every family member knows the rules.

5. Working harder. Every successful business owner will tell you there's no substitute for hard work and not cutting corners. While younger generations typically grow up with greater wealth than their forebears, the family of the future must be inspired to embrace the work ethic that delivered them such achievement and prosperity.

Focus on the Future

Family business owners wear many hats, and paying attention to both the business and the family requires finesse and energy. Be deliberate in setting both up for a successful, long, and healthy future.

Our team works with many successful family businesses. Let us share best practices with you.

Word to the Wise

Good Estate Planning Is Essential for Business Owners

Everyone's heard the saying, "Nothing is certain in life but death and taxes." While most people don't like to think about either of these topics, tackling them—and understanding the relationship between the two—is a must for business owners and executives.

Estate planning includes tax minimization strategies, but it also ensures that your family, business, and financial goals are addressed properly. Your CPA and other financial advisors can help you establish or update your plan so that it takes advantage of the most current exemption and gift limits and current estate planning tactics.

Address the Basics

Failure to create an estate plan can result in your assets being distributed in accordance with your state's probate laws rather than your own wishes. The first step in creating a comprehensive estate plan is a relatively simple one that many people neglect: creating a last will and testament. This document details how you'd like your assets distributed to your heirs and any charitable causes after your death.

On the personal side, estate planning includes naming a guardian for your minor children and determining a plan for your personal care if you become disabled, among other decisions. On the business side, an estate plan can facilitate a smooth transfer of your business ownership interests and responsibilities upon your death or disability, detail the role of life insurance to provide income for your family, and help transfer your business to partners or successor owners.

Embrace Exemptions

Another key aspect of estate planning is determining how to distribute your wealth in the most tax-advantaged way.

For 2022, the official estate and gift tax lifetime exemption is $12.06 million for individuals, up from $11.7 million in 2021. This means an individual can leave $12.06 million to heirs without paying any federal estate or gift tax, and a married couple can shield $24.12 million. For couples who have already maxed out their lifetime gifts, the increase allows them to give an additional $720,000.

The annual gift tax exclusion amount climbs to $16,000 for 2022, up from $15,000, where it's been since 2018. This means a taxpayer can give up to $16,000 to as many individuals as desired with no federal gift tax due. Spouses can do the same, bringing the total to $32,000 per year per married couple. These annual exclusion gifts do not count toward the $12.06 million ($24.12 million for married couples) estate tax exemption amount.

For taxpayers, these amounts offer generous planning opportunities to reduce their estates and transfer substantial assets tax free. Other estate planning vehicles may include trusts designed to meet your specific financial goals and circumstances.

An attorney, with input from your financial advisors, should help you draft your will, along with a living will, durable power of attorney, healthcare power of attorney, and trust documents.

Talk to the Pros

Estate planning is not a do-it-yourself endeavor, particularly for business owners. Spend some time thinking about what you want, then turn to professionals to put your plan into action.

We are happy to discuss your estate and gift plan with you. Let's set up a time to talk.

Make Smart Gifts

Depending on their circumstances, some business owners use the annual gift tax exclusion amount to give stock in the family business to children or grandchildren. This often involves a business valuation. To save money, consider having the valuation performed at the end of the year. This way, the current year's amount can be given in late December, followed by next year's amount in early January, using just one valuation.

Work Matters

How to Take Advantage of the Gig Economy

With the unemployment rates at their lowest since the pandemic began, hiring new employees continues to challenge business owners in almost all industries. Attracting workers using signing bonuses, flexible schedules, and ultra-rich benefits is effective for some employers, but others have hit a wall when it comes to expanding a trained full-time workforce.

One tactic that's becoming increasingly popular is hiring "gig" workers—independent contractors or freelancers who work on a temporary basis, often for a specific period or project.

Buying Expertise

The gig economy is not new. Estimates suggest as many as 55 million people, or 34 percent of the workforce, were gig workers pre-COVID. As with all work arrangements, hiring gig workers has its upside and downside. Here are a few things to consider:

Cost: Some independent contractors charge by the hour, day, or week, while others charge by project, engagement, or assignment. While highly skilled independents might seem expensive relative to what you're paying full-time employees, remember that you aren't paying for their benefits, such as health insurance, retirement, paid sick leave, or unemployment benefits. The cost of benefits can add up to 40 percent of a full-time employee's salary, saving you a substantial amount.

Expertise: Gig workers know their stuff. They can be CFOs, marketing experts, IT gurus, salespeople—you name it. You're hiring them for their expertise, so you can be specific in your selection. Often, you're getting the best-of-the-best who are choosy about the assignments they accept.

Plus, you're hiring an independent worker who can hit the ground running with little to no learning curve.

Easy come, easy go: There's no long-term commitment required for a gig worker. Most work on a contract basis. They do the job and move on to the next gig. For many types of gig jobs, hiring is managed online. Bonus: there's no "firing" required (unless the worker is subpar) or severance due at the end of the gig.

Loyalty: Gig workers are motivated. They want to make money, learn, and grow, but by the nature of their business arrangements are not particularly loyal to your company. If a better or more interesting offer comes along after their contract is up, they will head off to the next gig.

Independence: Independent contractors are self-employed, so they are not covered by most federal employment statutes. However, because hiring an independent contractor lets employers off the hook for benefits and employment taxes, there are strict federal rules governing the classification of independent contractors versus employees.

Who's Out There?

Your company may be poised for success using gig workers. Be sure to discuss your needs and expectations with your HR team and advisors and seek advice from professional associations to assess how your industry colleagues may be taking advantage of this type of innovative work arrangement. It might be just the answer you're seeking in a tight labor market.

Let's discuss your hiring practices and options so your company has the workforce it needs to succeed.

We use our expertise to help our clients grow and prosper.

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Dermody, Burke & Brown, CPAs, LLC

Our mission is to empower our clients and our people to "live well" by providing valued advice and innovative solutions in an atmosphere that is professional, enjoyable and community minded.

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Promote ESG to Keep Stakeholders Engaged and Informed

Environmental, social, and governance (ESG) initiatives are taking on ever-greater importance for public companies. But private companies are also pushing ESG initiatives. Employees, vendors, customers, lenders, and other stakeholders are increasingly interested in doing business with companies willing to proclaim and promote their ESG interests.

Your company's ESG initiatives have strategic, intrinsic value—they are good for your company, its stakeholders, the community, and maybe even the planet. But they also have reputational value, which can help you attract the best kind of attention.

Define goals. Which ESG goals are relevant to your company and your industry? What types of opportunities are you seeking in the ESG arena? If you're just starting these types of initiatives, your focus may be stronger in one area than another. That's fine if your goals are "SMARTIE"—specific, measurable, attainable, realistic, timely, inclusive, and equitable.

Collect data. Some ESG inputs are numbers driven and easily quantifiable. For example, if a lower carbon footprint is one of your priorities, reporting on electric fleet purchases or energy efficiency program results will interest your constituencies.

Other inputs are not so easy to quantify. Governance factors involving ethical decision making, policies and procedures, and diversity and equity initiatives may require a qualitative reporting format.

Speak to your target audiences. While there are no governmental reporting requirements for ESG, transparency about your ESG initiatives is good for business. Consider using social media to update stakeholders on your progress. Reach out to customers and vendors with updates and progress reports. Keep your website updated to share your goals and advancements.

Promoting and reporting on your ESG initiatives can help your company build goodwill, attract employees, and keep your business top of mind.