



## Protecting Your Company's Value In A Recession

*Reprinted by permission by The Exit Planning Review – December 2008*

In the previous issue of this newsletter, we talked briefly about how owners can and do build the value of their companies — even during a recession. Some owners will take that approach, but all owners should be, at a minimum, protecting the existing value of their companies.

This issue is devoted to explaining a few of the ways you can do exactly that by concentrating on specific items taken from a fiscal year agenda that we use with many business owners. (Meeting annually with your advisors before your fiscal year-end is a great way for all of you to keep your planning on track.) If you would like a copy of the entire outline, please contact us.

### Minimizing Tax Exposure

You and your advisors should begin any discussion about minimizing your tax exposure with a review of your current business income tax status. From there, your CPA or CFO should be able to prepare an initial estimate of the company's and your income tax liability.

You should then review what you are currently doing to reduce income tax liability. One of the purposes of ongoing tax planning is to avoid extreme peaks or valleys in corporate taxable income. By anticipating increased taxable income, through proper tax planning there is much you can do to minimize the actual tax costs. These methods include:

- Shifting income taxation from one year to the next.
- Implementing tax reduction devices, such as qualified retirement plans, medical expense reimbursement plans and the payment of large bonuses.
- Increasing deductible payments to shareholders, such as renters for equipment or buildings that may be owned individually by the business owner and leased to the business.

After reviewing what you are doing to minimize taxes, turn your attention to your advisors' suggestions of new ways to reduce tax liability. For example, you might consider (with the input and counsel of your advisors) the new tax credits and incentives for "small businesses" promised by the new Obama administration.

### Business Contraction

During a period of contraction, most business owners dig themselves into a deeper hole, not by cutting expenses too rapidly, but by hanging on too long to the existing operation, primarily because of pride or a deep aversion to laying off loyal employees. Business owners also don't like to admit they are cutting back; the American Way is to grow, grow, grow. Yet we've all seen businesses that spend themselves into bankruptcy.

One of your most important goals must be to preserve value for the business in difficult times. Your advisory team demonstrates its greatest value when it helps you face hard facts and then helps you translate your decisions into action.

As you weigh the choices you face, use your advisors' expertise to make decisions and to execute them in a manner that is legally correct and minimizes the affect on the remaining employees' morale. For example, it may be better to reduce staff and overhead as you would remove a bandage: quickly. Moving slowly through all-but-inevitable cutbacks just prolongs the "Am I next?" period for employees.

### Other Corporate Considerations

If you haven't made an annual pre-fiscal year-end review part of your standard operating procedure, there are a few more items on that agenda that you might want to review.

- Business Continuity. Does your existing buy-sell agreement take into account a decrease in current value?
- Employee Considerations. Are your key employees contractually bound to restrict competition and protect trade



secrets? Are their compensation structures defined in writing?

- **Business Contracts.** Are your existing contracts and forms up to the challenges of a tougher economic environment? When did you last review your property, casualty and liability policies to determine not only if there are ways to save money, but also if you and your company are adequately protected?

### **Individual Planning Considerations**

You should also be talking with your advisors about your own income tax status. Is this the time to leave income in the company or take it out? If you take it out, there are a number of techniques you can use to reduce taxation at the individual level.

Finally, meet with your advisors to see how increased taxation, business contraction or a reduction in business value will affect your financial planning and estate planning goals.

While there are few silver linings in a recession, one is that a recession tests the mettle of your advisors. While they aren't magicians who can make a recession disappear in a poof of smoke, they should bring you ideas and strategies to help you protect, if not build, value during difficult times.