BUSINESS SUCCESSION FORUM DISCUSSION

CAROL BUTLER  
President, Goering Center for Family & Private Business

JASON KATZ  
Wealth Advisor & Principal, Bartlett Wealth Management

DINO LUCARELLI  
Managing Director, Capital Tactics Inc.

SONYA JINDAL TORK  
Partner, Taft Law

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BUSINESS SUCCESSION

The Cincinnati Business Courier recently sat down with four of Cincinnati’s top business advisors to talk about the trends and what’s happening in the market. Publisher Jamie Smith moderated the panel, and the discussion covered a variety of topics. Read on as we hear from Carol Butler, president, Goering Center for Family and Private Business, Jason Katz, wealth advisor and principal, Bartlett Wealth Management, Dino Lucarelli, managing director of Capital Tactics Inc. and Sonya Jindal Tork, partner, Taft Law.

BUSINESS SUCCESSION

Good morning and welcome. Hello, I’m Jamie Smith, the publisher and president of the Cincinnati Business Courier. I want to welcome you to our Business Succession Planning Forum. Today, you are going to hear a lot of excellent information from our great panel. I recently read that about 30 percent of family businesses will make it to the second generation. Ten or 15 percent of them make it to the third generation, and only three to five percent of them make it to the fourth. It did, however, say that many of those are sold or merged into other businesses, so they are not complete failures, they just haven’t gone through the family transition. Additionally, according to the Conway Center for Family Business, 40 percent of family business owners expect to retire at some point, but of those that are planning to retire in less than five years, less than half of them have selected a successor, which I think is an interesting point. So, whether retirement is 30 years away, just over the horizon, or it’s not in your game plan at all, I think a succession plan is vital to ensuring the continued success of your business. So, I hope today from our panel, we are going to find out some of the helpful tips and hear about some of the types of plans you should have, and what we should be ready for.

I don’t want to go any further without thanking our event sponsors today – Bartlett Wealth Management, Capital Tactics Inc., The Goering Center for Family and Private Business, and Taft Law.

Now if you would, please welcome our panelists this morning, and when I introduce you, if each panelist would just give a brief, self-introduction, and we’ll begin the program with questions. First to the screen, I’d like to bring in Carol Butler, president of the Goering Center for Family and Private Business.

CAROL BUTLER: Great, thank you, Jamie. It’s always a pleasure to meet with you and to have this august audience out here in our virtual space, today. It’s an honor to talk about family and private businesses and the role that Goering Center plays in helping businesses that we work with. We are 32 years in the making. John Goering had great vision when he started this organization, and we continue forward, honoring his legacy. The Center’s mission is all about nurturing and educating family and private businesses to drive a vibrant local economy. I was fortunate to have roots in the local business community before the Goering Center, and I always joke with people, saying, ‘be careful what you volunteer for, because this could happen to you.’ So, thanks for having us here today.

COURIER: Absolutely. I know it was sad we lost John this past year, but I don’t think you’d ever find a man more passionate about helping family and private businesses than John Goering, and his legacy will live on for a long time.

So, thank you for carrying that on. Next up is Jason Katz. Jason Katz is CFP, CPA and CEPA. He is a wealth advisor and principal at Bartlett Wealth Management.

JASON KATZ: I’m Jason Katz. I’m a wealth advisor and principal at Bartlett Wealth Management. We are a wealth advisory firm. We are based here in Cincinnati with offices in Cincinnati as well as Chicago, and I serve current and former business owners, specifically specializing in income tax strategies. I usually, I work to help my clients understand their full financial picture and help them to achieve their financial goals. I appreciate the opportunity and look forward to the discussion.

COURIER: Excellent. Thanks for joining us, Jason. Next up is Dino Lucarelli, managing director of Capital Tactics Inc.

DINO LUCARELLI: Welcome to all the attendees. I’m pleased to be able to address this group and share some of the information that we’ve garnered over the last 40 years of business. By way of introduction, I spent the first 20 years of my career in very large organizations here in the Cincinnati market, including Federated Department Stores, Kao Brands, and Sun Chemical. For the last 20 years, I’ve been heavily focused on assisting businesses going through transition, whether it’s a buy, a sell, a capital raise or a makeover, and recently, we founded Capital Tactics Inc., whose mission is essentially to assist companies going through those transitions – buys, sells as well as capital raises. The point I would like to make to this group is buying or selling a company doesn’t start the day you put a stake in the ground and say let’s go find something or let’s sell something. It starts well in advance, and I think in this panel discussion we’ll address some of the things that sellers need to do from a succession plan perspective to optimize their value.

COURIER: Excellent. Thank you. You bring up some very valid points from the start, so I can’t wait to get into that. Last but not least, we have Sonya Jindal Tork with us. Sonya is a partner at Taft Law.

SONYA JINDAL TORK: Thanks, Jamie. I’m excited to be here and thank you for having me as part of today’s discussion. I’m a partner at Taft Law, which is a full-service law firm with offices in Ohio, Kentucky, Indiana, Minnesota and Chicago. I’m a Cincinnati native and I’ve been with Taft Law for 14 years. I focus my practice in all aspects of tax, estate, and charitable planning, and I also do quite a bit of tax controversy work and represent clients in IRS audits and examinations. So, thank you again for having me and I’m looking forward to the discussion.

COURIER: Excellent. I want to thank you all in advance for bringing your expertise and knowledge in this area. We are going to get started and Jason, I’m going to pick on you first. Dino, led in with this when he said you shouldn’t wait until you’re ready to sell to start the succession, so when should a business owner start thinking about planning for succession? Is there a magic time?

KATZ: I think the short answer is as soon as possible. So, Dino hit the nail on the head. It’s really trying to understand what are the ultimate goals of the business, and understanding that businesses do have a life cycle, and understanding and thinking about what is the ultimate goal for this business? Is it to transition it to a family member? Is it to transition it to your management team, or even a third-party sale, and the sooner you understand that the future value of your business is really related to its ability to function without you as the business owner, the better you can prepare for the future. So, it’s kind of a backward thing to think about, but once you understand that and you have that management succession in place, you can’t start soon enough.

COURIER: Dino, since you threw this question at us in your introduction, do you want to add to that?

LUCARELLI: Sure, Jamie. Some of the things, specifically, that business owners need to consider prior to going to sale are s my organization ready? Do I have the right management team? Do I have customer issues? Do I have vendor concerns? Is my plant equipment up to speed? Buyers do not want to walk into a house that is a mess. They want to walk into an organization that has a robust management team, strong plant equipment, good IT infrastructure, a diversified customer base and happy associates. So, when you go through a checklist of things, which we do, you often times find some of those holes in the organization that you want to shore up in advance. It’s hard to do it on the fly, once you’re for sale, and if those holes are found by buyers, you’re looking at a discount. That’s not the optimal situation for business owners.

COURIER: Okay, great. Carol, I know oftentimes with family business, it may be assumed, or it may be that some day this is going to be the son or daughters’, or niece or nephew, or grandchild’s business, do you see that there is a plan, often, with family businesses? Or do you see them start soon enough is the question I’m really asking?

BUTLER: Well Jamie, there are two thoughts about that. They always talk about when’s the best time to plan to plant a tree, and it’s 20 years ago, and what’s the second-best time? Now. So, some people believe you really ought to begin thinking about where you want this business to go from the day you start it up. So, I think some families, no surprise, are well thought out, and have things well planned, and they’ve been talking at the dinner table for years and years. Kids worked in the family business, and they had a chance to go work for somebody else and come back. There’s sometimes a long planning pro-
second thing I'd ask really fast is why are you reaching out? Are you really interested in my background. Who are you? A great business owner gets an inquiry to decide if it's real or not? What is the best way for an owner to respond?

KATZ: I think the first thing that we see is the business owner waiting until they have a letter of intent in hand, before they start to think about the planning in and of itself, and how that business transaction fits into their total wealth picture. As Sonya alluded to, there's plenty of tax strategies that can be employed, but the vast majority of them have to happen before a letter of intent is signed. So, putting together a comprehensive financial plan ahead of time, and really understanding how do you define success? So, it's not just about what's the number that you're going to get. That's important, but how else do you define success?

What does life look like after the business exit for you, and what are the other non-financial aspects? So, not really understanding or being intentional about that planning beforehand is one of the most common mistakes. I think the other one that comes to mind is really having the right team in place. So, typically, we all think about the current team that's in place and saying the team that got me there might be the team that can take me across the finish line, and maybe that is true, and maybe, it's not. The thing to remember is that this is likely the largest transaction of the business owner's lifetime. So, being intentional, seeking out great advice and great advisors, and putting that team together, who works together on your behalf to put together these strategies and really understand your goals, and how we can employ those strategies to achieve that.

COURIER: Excellent. Carol, often times, when you’re talking about business, you talk about the unspoken, the stuff that makes or breaks the fraught experience. What would you say is the most effective way to have those tough conversations?

Carol Butler: President, Goering Center for Family & Private Business

Carol Butler is president of the Goering Center for Family and Private Business, North America’s largest university-based educational center serving more than 400 closely held businesses. The Center’s mission is to nurture and educate family and private businesses to drive a vibrant economy. Members receive real-world insights that enlighten, strengthen, and inspire. The Goering Center has more than 25 years of experience successfully educating and leading professionals in global businesses within the manufacturing and distribution industries. As she stepped into her second act – management consulting, executive coaching and board services – she also became a volunteer at the Goering Center. This volunteer experience transitioned to her current role as president of the organization that is affiliated with the Lindner College of Business at the University of Cincinnati where she has also served as an adjunct professor. Carol – having grown up in a family business – is devoted to making a distinct difference in the success of the family and private business member companies and in the Greater Cincinnati region. Carol serves on the Life Learning Center Board along with 3 for profit boards – Wright Brothers Global Gas, R B Tool & Manufacturing and New RIiff Distillery. She is a member of the National Association of Corporate Directors.

COURIER: Sonya, I’m going to jump over to you. Is there anything when you’re representing clients that you think are the dos and don’ts for somebody? Maybe they’re not even considering selling, but all of a sudden, they get that call from an interested buyer that’s throwing some big dollar signs around.

Sonya Katz: One thing that we always counsel our clients on is the importance of perspective, or are there going to be other situations. We can learn a lot from the reverse mentoring in a lot of these situations. We can learn a lot from the programs that we do, and one of the things that comes up time and time again is to really listen. Sometimes, when you’re talking about the future of a company – from a third party or from someone in your family – you hear what you want to hear, but you don’t hear the whole thing, and that goes both ways. That can be the first generation, second or third. So, just trying to open up and have tough conversations starts with listening and that is the most powerful thing and the sincerest form of respect for each other. Sometimes, you have to give up the need to be right, and so often family dynamics, where somebody’s been the parent all the time, now they have to look at these generational kids coming up who could be their heir apparent to running the business. These conversations need to be had with them with respect and allow those next generation, or wherever the family member is coming from – it could be an advisor, but it could be a third party – to really listen. Sometimes, when you let go of the need to be right, you learn something. We’ve talked about reverse mentoring in a lot of situations. We can learn a lot from those who are younger than us, whether we are related to them or not. Then, focus on finding ways to improve the things that are in the way, and I think it’s a long journey. It’s a long planning cycle, so find the right opportunities to have conversations, and schedule some regular meetings. You’ve heard Jonathan Theders, of RiskSOURCE, talk about how he and his dad, through their transition process started having 6 a.m. breakfasts on Wednesday mornings. At first, he shared that Rick said, ‘you don’t know anything, and you’re running along.’ Then, he became president, and after a while it was like, ‘you’ve got
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What separates Capital Tactics from the rest is the approach: clients are served by a team of highly experienced business advisors, with the staff in the aggregate having over 100 years of business experience. The company does not operate on a leverage model; projects are assigned to a senior advisor at the outset, who performs the critical functions of sourcing a buyer or seller, and negotiating the deal structure, overseeing the accounting team in performance of the due diligence processes. Client matters are not delegated to lower-level associates. Each member of the team possesses numerous years of experience, and the team’s collective experiences span several disciplines. Whereas most professional services firms lead with a senior person and enlist assistance from lower-level associates, this is not a part of the program at Capital Tactics approach to client engagements.

- Capital Tactics values and respects the intellectual and financial “Capital” that owners bring to their business, and partners with growth-minded organizations to address organizational and financial opportunities, as well as unexpected ‘bumps in the road’.

- A guiding philosophy is that business owners know who they are and what they want to achieve, but sometimes lack the resources and specific skill sets to tackle perplexing challenges. “Tactics” address the “How to?, What next?, Who to call?, When is the timing right?” questions.

- Capital Tactics engages with acquirers of businesses in setting search criteria, performing the search, structuring the deal, performing due diligence, and sourcing the external funding to consummate the transaction. The team completes this process, start-to-finish, with no other outside financial assistance necessary.

- Capital Tactics engages with sellers of businesses to take their company to the market. We prepare the marketing materials, compile a list of prospective buyers, perform the outreach to the market, set up meetings with the principals, guide the discussion and structure the sale, leading to letter of intent, due diligence process, and compilation of schedules necessary to complete the definitive purchase agreement.

OUR TEAM OF EXPERIENCED ADVISORS

DINO LUCARELLI, CPA
Managing Director
Dino@captacs.com

LISA BENZINGER, CPA
Senior Advisor
Lisa@captacs.com

GREG BECK, MBA
Senior Advisor
Greg@captacs.com

JAY SWEENEY, MBA
Director, Accounting Services
Jay@captacs.com

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DISCUSSION, CONTINUED FROM PAGE 4B

outsiders, independent outsiders, companies to help them bring in if you take a cue from the public creation of advisory boards, and more for family businesses is the that we see happening more and LUCARELLI

add to that question?

well, you're going to stay out of encourage people to do, its constant seeming judgmental or questioning 'ing about?' and 'what is it that you like 'what is it that you're think-

complicated things, and I do find in -

pen, that we can mitigate some of this consternation, or grasping of teeth, so to speak in the family dy-

amic is to bring in outsiders and put a board together that has an agenda and has a meaningful set of responsibilities.

COURIER: Great. We are going to talk a little bit more about that in scope of future questions and I think that's great advice. Jason, I'm going to jump back to you, and talk about if you're planning to sell your business in a few years, may-

be not immediately, but in a few years, is it worthwhile and neces-

sary to take a deep dive into your personal wealth plan and how that sale would affect it?

KATZ: Absolutely, and we touched on this a little bit earlier, but it's re-

ally doing that at the outset, looking at your full financial picture and how does the business currently play into that, and then, how does the business transition, whether that be to family member or a third party, how does that play into the total wealth picture, and how does it really effect these three areas - your lifestyle goals, your charitable goals and your legacy goals? And there are certainly several strate-

gies that you can employ at the outset, before any kind of transition to help achieve those goals. So, that total wealth plan really dives into the financial aspects of the tran-

sition, but it's also important to consider the non-financial aspects. Carol touched on communication, being open and talking about some of these non-financial aspects of a business transition, where you have these business owners, who have spent their whole lives building this enterprise, and we are talking about transitioning that either to a family member, or maybe even to a third party, and really reidentifying, what is their identity and what does life look like after the sale. So, that is part of that full plan. There are certainly tax strategies, and get-

ting the right people involved, like attorney’s and cpas’s, and modeling things out are super important, but the non-financial aspect of this is also important. It’s something that I would stress.

COURIER: Excellent. Sonya, the business owner may be ready to make that transition, and set up for financial succession planning, but maybe be or she might not be quite ready to let go of the business. Can a business owner transfer ownership, yet still maintain control of the business?

JINDAL TORK: Yes, absolutely. One of the most common barriers to succession planning that we com-

monly see is owners struggling with not wanting to give up control, and others have touched on this, by this is something you have built from the ground up, or have nurtured for many years. So, inherently, it makes sense that it’s hard to give up control and con-

tral can come in different aspects. It might be from not wanting to give up decision making control, or a fear of losing access to assets, or perhaps, income generated from the business. If the fear relates to giving up managerial and deci-

sion-making control, one option is to recapitalize the company into voting and non-voting interests and this allows the owner to retain control of the interest in the busi-

ness through the voting units, and then, they can begin transferring, or gifting economic interests in

the business to the next generation with the non-voting units. Another option is to create a family LLC or a family limited partnership and transfer business interests into the LLC. Again, the entity would have two classes of shares - voting and non-voting members and voting members, and the owner could make gifts of some of the non-voting interests to their children or grandchildren, or a trust that would be for the ben-

efit of them. And besides having the benefit of not giving up control, one of the tax benefits is the growth and appreciation in the business inter-

ests contributed to the LLC are not subject to estate tax, and the inter-

ests that are gifted can also qualify for discounts for tax purposes, which in effect reduce the overall amount of lifetime tax exemptions that you’re using, and it also allows you to teach the younger generation about the business, and consolidate the management of the business into one entity.

COURIER: There’s a lot of options there. Dino, I know in Cincinnati, it seems like over the last couple of years, specifically, we’ve heard a lot about the ESOP, the em-

ployee stock ownership plan, does it make sense to be a part of these succession plans?

LUCARELLI: It absolutely can be in the right circumstances. There are a number of criteria that would go into the conversation, but an ESOP affords substantial tax benefits to the seller. It also affords the on-going entity the opportunity to reduce the discount for tax purposes. Further, and much more operationally, an ESOP is a tremen-

dous recruiting tool for an organiza-

tion, with talent being so scarce, almost any employee in such great demand, when we can offer equity from a great company that has done an ESOP, an opportunity for them it’s an additional level person or a significant execu-

tive level position, an offer of equity is a huge opportunity and benefit to the company. So, yes, ESOPs are becoming more and more preva-

lent, and very specialized, and a lot of people have a misconception that they’re prohibitively costly. They can be costly, at certain levels, but they are also many, many, many reasons why an ESOP might make sense for a succession plan.

COURIER: Excellent. Thank you. Carol, Dino brought this up before when we were talking about boards. How important do you think it is to have a board of advisors, or a board of directors, and can you give us a quick explanation? Is there a differ-

cence between the two?

BUTLER: It’s one of my favorite topics, actually. I think Dino did a good job, so we can launch right into it. We consider having a board one of the best practices of success-

ful family and privately held busi-

nesses. Oftentimes, we encourage folks to think about a board of advi-

sors first, which is really based on a

“We are seeing a lot more activity in the M&A world, and I think that the tax proposals are certainly part of it.”

JASON KATZ

Jason KATZ

Wealth Advisor & Principal

Bartlett Wealth Management

Jason KATZ, CFP®, CPA, CPA, is a Wealth Advisor and Principal at Bartlett Wealth Management. He provides strategic income tax planning, estate planning and other comprehensive wealth planning services to individuals and their families. Jason is a Certified Financial Planner, a licensed Certified Public Accountant in Ohio and Illinois and a Certified Plan-

ning Advisor. Jason received his Bachelor of Science from Indiana University with Honors Distinction in Accounting and Finance.

Before joining Bartlett, Jason spent over seven years providing comprehensive financial and tax planning services at a single-family office. Prior to that, Jason spent four years at Deloitte, offering tax planning, financial planning and wealth planning services to individu-

als, their families and businesses.

Jason joined Bartlett Wealth Management in 2017, and has over 16 years of experience in financial planning. He is pas-

sionate about solving complex financial planning issues with optimal solutions, staying up-to-date on the changing edge of tax legisla-

tion and working with clients and other advisors to build strategies to save on taxes. He partners with business owners to develop financial and tax strategies that will set their business up for future opportunities.
you and Jason have talked about how important communication is, and of course even more so, communication, as you said, communication is hard. You may think you hear different things. How important is it, or how helpful is it when the stakeholders do not under- stand? So, somebody that’s hearing what you’re both saying, and can kind of re- peat back what you’re saying. How im- portant is that?

BUTLER: Well, I think the fact that you even asked it, highlights the point that there is a need. If you think you need help, you probably are way past the op- portunity of the need for help. And it is so beneficial to have a third party in the room. We see it happen through boards. We see it happen through round tables, but it can also be somebody who is go- ing to come in and be an internal advisor to your organization, and while certainly your law firm maybe has somebody, or your accounting firm, or your wealth management firm, they all can play that advisory role, but there are people who specifically are skilled at doing that. That’s why I think it’s beneficial to invite those folks in to be able to sit at the table. We find that the ability to manage conflict effec- tively, and really begin to ask those tough questions about the intricacies of what everybody gets to be heard is invaluable. So often, we don’t have the opportu- nity to hear every voice at the table, or as parents of children, or even coworkers. It’s hard for business partners, it’s hard to ask the tough questions. So, have a moderator, a coach, or a facilitator. We have some very successful clients in our practice that I would encourage taking advantage of those resources, and interview people since culture and fit in those roles can be incredibly important. So, don’t be afraid to interview, and interview hard, to get the right people who can come in and help you, – they can be significant on the trajectory of the future.

COURIER: Great. Alright, Dino, let’s talk a little bit about value. Should compa- nies value be based, specifically, on the size of the family? What are things people should consider when they look at that value?

LUCARELLI: The most important crite- rion on which the value is based is the future cash flow of any organization. We do care what happened in the past, but we care more about what’s going to happen in the future. So, oftimes you have businesses that have done reasonably well and continue to do well, but maybe they’ve hit their spot where there’s no more upside, making sure ev- erybody gets to be heard is invaluable. So often, we don’t have the opportu- nity to hear every voice at the table, or as parents of children, or even coworkers. It’s hard for business partners, it’s hard to ask the tough questions. So, have a moderator, a coach, or a facilitator. We have some very successful clients in our practice that I would encourage taking advantage of those resources, and interview people since culture and fit in those roles can be incredibly important. So, don’t be afraid to interview, and interview hard, to get the right people who can come in and help you, – they can be significant on the trajectory of the future.

COURIER: Excellent. Alright, Dino, I’m going to come back to you. I know Carol and I have been talking a lot about specifics with family busi- nesses, but what are the options for planning when some of the families are in the business, while other family members are not in the business, and you’re talking through the succession plan? What are some of those options you think people should look at?

JINDAL TORK: Yes. To piggyback off of what Carol alluded to, there’s a lot of different dynamics that are in play when there is a family with joint participation, and many of their com- pany’s compensation is in bourbon, so that’s all I’m going to say. The exciting part is some of the compo- nencies of value exchange especially since market is so volatile, you’ll likely get different numbers, so I think you’ve got to make sure you’ve got somebody who knows the game, but knows your business and studies it, and looks at multiple valua- tion methodologies as opposed to one.

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DISCUSSION, CONTINUED FROM PAGE 6B

irrevocable trust, financial powers

your children if you have any, an

significant asset. So ideally, your

biggest and sometimes their only

hand-in-hand. For many busi-

planning and estate planning really

into that?

Again, talking about business suc-

cession, and the fund, I understand,

has been very involved in the pro-

cess, and the fund, I understand, 

will probably be stood up in Sep-

ember, and it’s partly funded now. 

So, this’s a different view on what 

you’re talking about, but it certainly 

will help create more minority busi-

nesses in our community. It’s very 

exciting work that they’re doing.

COURIER: Awesome. Anyone else 

have anything to add to that? So-

nya, I’m going to head back to you. 

Again, talking about business suc-

cession. How does business suc-

cession tie into your estate plan-

ning? You talked about that a little 

bit before, but can you go deeper 

into that?

JINDAL TORJ: Business succession 

planning and estate planning really 

have to go hand-in-hand. For many busi-

ness owners, their business is the 

biggest and sometimes their only 

significant asset. So ideally, your 

estate plan should incorporate your 

business succession plan. A basic 

estate plan should at least include 

a will that names a guardian for 

your children if you have any, an 

irrevocable trust, financial powers 
of attorney and healthcare powers 
of attorney. As a business owner, 
you will need a financial power of 
atorney that designates someone 
to manage your finances and vote 
your interests in your company if 
you were to become incapacitated 
or disabled. In your trust, besides 
designating who might receive the 
remainder of your business in-
terests at your death, you can also 
named a closely held business ad-
visor that can direct the trustee 
of your trust with respect to making 
decisions related to the business. I 
think it’s important to know that 
without an estate plan in place, 
you can run into a lot of problems. 
Your estate could be subject to the 
probate process, which is the legal 
process for administering your es-
tate after your death through the 
probate court. If that happens, 
not only would you be subject to un-
necessary costs, but it also causes 
potential privacy issues, and your 
personal financial information and 
how you structured your business 
become information that’s open to 
the public. So, as part of this suc-
cession planning process, it’s criti-
cal to make sure that your business 
succession plan and the govern-
ment documents for your business 
all work together with your estate 
plan.

COURIER: Excellent. Jason, I think I 
have a lot of proposed changes to tax 
laws out there. Have they impacted 
succession planning, or how do they 
impact as the tax laws continue to 
change? What do you see Sonya?

JINDAL TORJ: Absolutely. The end 
of the year last year was crazy with 
the new administration coming in 
and proposed tax changes. At a 
high level, some of the proposed 
changes include an increase to the 
top capital gains rate from 20 per-
cent to 39.6 percent for those who 
have incomes above one million, 
and based on an announcement 
from the treasury department in 
April, it looks like the Biden admin-
istration is going to try and make 
that change retroactive back to 
April or May of this year, but it’s 

clear whether that will actually 
happen, or pass through Congress. 
A lot of this is just speculation, 
but it is out there. There is also a pro-
posal to eliminate the step-up in 
basis treatment that you get under 
the current law, when when after 
assets are transferred at death, 
the basis of the assets is increased 
to fair market value, which again is 
a tool for eliminating gain in a busi-
ness interest that was acquired dur-
ing the transferor’s lifetime. Also, 
under the current law, a person can 
transfer more than 17.7 million dollars, 
or a married couple can transfer 
23.4 million dollars free of gift and 
estate taxes during their lifetime 
and right now these exemptions are 
scheduled to drop back to 5 million 
dollars per person in 2026 and that 
number will be adjusted for infla-
tion. Nobody has a crystal ball here, 
and we still don’t know what the 
final law will look like, but with all 
of these proposed changes, there’s 
definitely been a rush to implement 
things from before that this is likely 
last year, obviously, there was a big, 
huge rush, but we still see people 
trying to use up their lifetime ex-
ceptions and make some changes 
between now and proposed tax laws are enacted.

COURIER: Okay. That makes sense. 
Jason, we’ll go back to you, and 
we’ll talk a little bit about when you’re going through this pro-
cess, and you’re assembling your 
financial team that will assist you 
in this, what should you be looking 
for? What are the specialties, and 
what are some of the top things 
that a business owner should take 
into consideration when getting a 
team ready for this process?

KATZ: Yeah, I go back to my com-
ment from before that this is likely 
the biggest transaction of a busi-
ness owner’s life, so being very 
intentional, and going into it with 
your eyes wide open, and knowing 
there are specialists in these areas 
that can help. So folks like Sonya, 
who focus on estate planning, and 
the M&A piece of the legal portion, 
and folks like Dino on the M&A 
advise part. So, putting 

Dino Lucarelli
Managing Director, 
Capital Tactis Inc.

Dino Lucarelli, CPA, 
is an industry veteran in the field of M&A, 
capital raising, business valuation, and financial manage-
ment and reporting. He is the Founder 
and Managing 
Director of Capital Tactis, a transac-
tion advisory firm focused on mergers, 
aquisitions, divestitures, business valua-
tion, and capital raising.

In 2004 Lucarelli 
formed and operat-
ed Lucarelli Tactical Group, a transaction advisory 
firm until 
2019, when the firm merged with Barnes Dennig CPA 
firm; Lucarelli ran the practice inside Barnes Dennig 
before spinning out in June 2021, form-
ing Capital Tactics Inc., which serves a significant 
base of companies in a 
variety of industries, 
spanning the various 
services lines that the 
company offers.

Lucarelli is a member of the American 
Institute of Certified 
Public Accountants. 
He is a lifelong 
resident of the 
Cincinnati Metro 
Market, where he 
resides with his wife 
and adult children.

“Every business has problems, but 
there are many problems or significant 
issues that you can undertake to 
fix prior to going to market.”

DINO LUCARELLI

BUSINESS SUCCESSION

COURIER: Excellent. Dino, you 
touched on this before when we 
were talking about value and 
valuation. What can a business owner 
do now in their business to en-

hance the value of their company 
when it comes time to sell?

LUCARELLI: It comes down to tak-
in a hard look at the state of the 
organization. The things that en-

hance value would be things like 
having a very diversified customer 
base, having a strong management 
team, very consistent earnings, 
great vendor support, a tremendous 
team of associates, leaders as well 
as those who do the day-to-day 
operations, having great facilities 
and a very strong IT infrastructure. 
We go through a list of 13 crite-
ria that we look at every business 
before we take it to sale to get a 
gauge of where they are on that 
spectrum, and oftentimes we will 
hold the business back for maybe 
six months or a year while we work 
on any problems. Oftentimes, the 
balance sheet has things on it that 
shouldn’t be there, like loans to 
employees, or loans to the share-
holders. Clean it up. I equate this in 
a very simplistic way. If I’m hav-
ing a dinner party with the heads 
of state, I make sure that the china 
is pristine, the silverware is polished, 
and everything spotless. That’s 
how you want to be with your busi-

ness, because we all have challeng-
es in our businesses. Every business 
has problems, but there are many 
problems or significant issues that 
you can undertake to fix prior to 
go to market. We definitely go 
through a scrubbing process, and if 
we don’t feel the company is ready, 
we will go through a restructure or 
some readiness activities to make 
sure that the business owners are 
going to optimize their position.

COURIER: Great. Jason, I think I 

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DINO LUCARELLI
when I was talking to Sonya about the tax proposals or proposed changes. Is the possibility of anything coming up that would bring out that, or is anything somebody should be looking for, or be ready for with some of these proposed tax changes?

KATZ: Yeah. I think Sonya hit a lot of them, really, at a great level. The one thing that I also want to say is that I think, if you cut through all of the proposals, this is proposals at this point. We are not talking about pending legislation, or that it’s on the president’s desk yet. But it’s something to be aware of, that things can change, and tax laws can change, but that also provides opportunity, and so, the capital gains change, let me give you a quick example of how that could affect a business owner. If a business owner sells their business for 25 million dollars, and this proposed change in capital gains above a million dollars goes into effect, that money’s going back into their pocket by almost five million dollars. So, it’s not an insignificant number, and especially as those numbers get higher and higher, and having a tax plan that gets higher and higher. So, on one side, we don’t want to get too excited and worried about these tax law proposals, but on the other side, there is a decision point, and it does matter. So, to something that I mentioned before, this is certainly something that we’re seeing. We are seeing a lot more activity in the M&A world, and I think that the tax proposals are certainly part of it. Low interest rates are another part of it with a lot of money that’s out in the system that needs a place, and people are willing to invest, and these types of structures are solid, future cash flows as we’ve talked about before. So, tax proposals are part of it, and all of the items that Sonya went through in terms of the step-up in basis, there’s a lot of unintended consequences that could happen if that were to pass, meaning that if a business owner’s primary asset is their business, and they pass away, and they don’t do any estate planning exemption, how would that all work out in terms of having the liquidity, having the cash to pay any kind of estate taxes. So, there’s a lot of unintended consequences that could happen if any tax proposal that’s out there that hasn’t been fleshed out, fully, in terms of the proposals, which is kind of like every tax proposal that’s out there. The thing to remember is that the proposal that came out was one-and-a-half pages, so that’s the level of detail that we have at this point. So, it’s just something to know, not to get too excited about it, but also know it’s out there.

COURIER: Great. Dino, can you add to that? I know you’ve seen some of this as well.

LUCARELLI: The bankers would call this process bleeding out the company. We definitely do not recommend that business owners do. We definitely recommend that we do some solid, future cash flows as we’ve talked about before. So, tax proposals are part of it, and all of the items that Sonya went through in terms of the step-up in basis, there’s a lot of unintended consequences that could happen if that were to pass, meaning that if a business owner’s primary asset is their business, and they pass away, and they don’t do any estate planning exemption, how would that all work out in terms of having the liquidity, having the cash to pay any kind of estate taxes. So, there’s a lot of unintended consequences that could happen if any tax proposal that’s out there that hasn’t been fleshed out, fully, in terms of the proposals, which is kind of like every tax proposal that’s out there. The thing to remember is that the proposal that came out was one-and-a-half pages, so that’s the level of detail that we have at this point. So, it’s just something to know, not to get too excited about it, but also know it’s out there.

COURIER: Great. Dino, I have to think this one’s coming to you. The question is ‘what amazing suggestions do you have when G1 or G2, one is currently in charge, doesn’t want to let go, and thinks that they are going to live forever?'

LUCARELLI: Oh boy, we see it all the time. So, there are both financial and pragmatic reasons why G1 wants to cede a certain amount of control to G2. The financial reason is that the value of the company, if it’s wrapped up in the intangible property, so to speak, or the guidance and leadership of G1, who’s departing, it will cause the remainder of the organization to be undervalued. G1 wants to sell his shares, and he wants to sell our business owners to spread the responsibilities across a larger, broader spectrum. I will give you an example. We did a deal with a midsize tech company, and they had a 50-million-dollar revenue company and the G1 in a meeting said, ‘this company can’t run without me. I’m the main guy.’ And there’s 300 people in this company. This is not metaphorically speaking, but literally speaking, and the buyer clipped his notebook and said well what if that’s the case, and you’re leaving, I’m not buying the company, because you’re walking out with the knowledge. From a financial perspective, the valuation of the company can be decremented by vir-
The discussion continues.

Your eyes wide open. Maybe this is to your family about, and to keep thing to think about, and to talk 

what am I going to do? It’s a sim-

life looks like after the exit? Or 

number one goal, at the expense 

through that transition with the 

item at the expense of others is re-

hyper focused on one particular 

with each other, and I’ll echo So-

ing about these things in concert 

inal thought of it makes sense to 

company, there’s the tax and 

visors, there’s the value of your 

parts. There’s the board of ad-

heard today is that this is pretty 

: I think one thing we’ve 

KATZ 

for all your input and thoughts 

intended it to be.

make sure it happens the way you 

ness owners and your advisors to 

cluding your family, the other busi-

success early, and if something comes 

along that isn’t optimal, you don’t 

have a team that includes your 

wealth manager, your risk man-

ager, your CFO, your CTO, other 

leadership within the company 

and your attorney. Start the pro-

cess early, and if something comes 

along that isn’t optimal, you don’t 

have to take it, but the risk of not 

starting early is far greater than, 

perhaps, some upfront work that 

may not yield immediate re-

sults. So, we try to get everybody 

on board as soon as possible. Once 

somebody decides, ‘I might be get-

ting a little tired,’ you should al-

ready be in the process.

COURIER: Great. Carol, as I go to 

you, we did get one more ques-

tion, and my answer to the ques-

tion is to call Carol, but it says ‘what kind of training do you recommend for G2 leaders? How do you hold them accountable?’ I can’t think of anybody better to hand that question over to as you wrap up.

SONYA JINDAL TORK

Partner, 
Taft Law

Sonya advises indi-
viduals, businesses, 
hospitals, health 
care organizations, 
corporate ex-
cutives, physicians, 
nonprofits, founda-
tions, and corporate 
fiduciaries with all 
aspects of their tax, 
estate, charitable, 
governance, asset 
protection, business 
transition, and 
actional planning 
needs.

Sonya also has exten-
sive experience rep-
resenting individuals, 
estates, trusts, busi-

ness and tax-exempt 
organizations in 
connection with state 
and federal civil and 
criminal disputes, 
audits, investigations, 

ations, examinations, 
collection and settle-
mant matters before 
the Internal Revenue 
Service, the United 
States Tax Court, 
the United States 
District Court for the 
Southern District of 
Ohio, and the Ohio 
Attorney General’s 
Office.

Sonya earned her 
J.D. from Vander-
bilt University Law 
School, her Masters 
in Tax Law from 
Northwestern Univer-
sity, and her B.S. B. A. 
in Finance from 
Xavier University. 
Leveraging her tax 
and financial exper-
tise, Sonya provides 
clients with strate-
gical, creative, and 

business-oriented 
solutions to achieve their 
goals in a tax 
efficient manner.

For many business owners, their business is the biggest and sometimes their only significant asset. So ideally, your estate plan should incorporate your business succession plan.”
between me and my son, Luke. It helped him develop an awareness of how challenging it is to be an owner and we learned how to avoid the really big mistakes that can be made during a business transition.”

Jim Perry, President, Perry Contracting

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