

# IT'S YOUR MONEY!

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**CASEY PETERSON  
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## Succession Planning: Now is the Time

by John Mitchell CPA, CVA, CFP

A succession plan is a plan for transitioning the family business to the next generation. It starts with communication, getting everyone involved to open up about what their goals and expectations are, and then see how much the expectations of each generation overlap. Next you have to compare what is desired to what is possible, and from there a plan can begin to come together.

Federal income tax and estate tax laws have overlapped in such a way that it makes 2011 and 2012 possibly the perfect time to put a succession plan into place. Optimal tax factors that exist for 2011 and 2012 include:

- 1) Capital gain rates of a maximum of 15%.
- 2) Federal gift tax exemption of \$5.0 million per person.
- 3) Low interest rates on sales contracts mandated by IRS.

The federal long term capital gain tax rate through 2012 is 0% for those in a 15% tax bracket and 15% for anyone in a tax bracket above 15%.

The 15% tax bracket for married couples is for taxable income up to \$69,000 (for 2011), and the long term

capital gain tax rate for someone in this tax bracket is zero for 2011 and 2012. Individual income tax rates go up to a maximum of 35%, but for 2011 and 2012 the maximum long term capital gain rate is 15%. The current 2011 and 2012 rates of 0% and 15% become 10% and 20% in 2013 under the current tax law.

Up until 2011, the gift tax exclusion for tax on gifts made during the donor's lifetime was capped at \$1.0 million. Even when the estate tax exemption was raised to \$3.5 million in 2009, the gift tax exemption remained at \$1.0 million. For 2011, the gift and estate tax exemption is \$5.0 million per person. For 2012, the gift and estate tax exemption is \$5.12 million per person.

Beginning in 2013 the estate tax exemption and the gift tax exemption revert to \$1.0 million under current law. No one knows what Congress may do in the future.

There is a trade off for income tax if you make a gift during the donor's lifetime. The cost basis of the assets remain that of the donor. If the assets pass through an estate there is a basis step up to the fair market value on the date of death.

For example, if a parent had land

with a cost basis of \$50 per acre and a value of \$700 per acre and gave the land to their children during the taxpayer's lifetime, the children's cost for income tax purposes would be \$50 per acre. Conversely if the land went through the parent's estate the income tax cost basis would "step up" to \$700 per acre. The family needs to consider if the income tax or estate tax is the greater burden. If the land is not sold for another generation or two, then the present value of the income tax is rather low.

The IRS mandates minimum interest rates on contracts for sale of property. The higher the interest rate, the larger the payments and the more difficult it becomes for the next generation buying the business property to make the deal cash flow.

The IRS mandated minimum interest rate for December, 2011 is 2.8% for long-term contracts with annual payments. Interest rates are about as low as they have been for the last 40 years, and indications are that if the rates change they are likely to go up.

**(article continued on page 2)**

## Casey's Ethics Corner: Sustainable Values

Tom Friedman has been advocating two sets of unique ideas for the American revival. He proposes the five pillars of growth and the use of sustainable values versus situational values.

Situational values are those based on the idea that Baby Boomers have been living off the wealth and opportunities created by the sacrifice of their parents in the Silent Generation. Situational values are those that are used to justify or satisfy the appetites of the selfish and the indulgent.

A key saying is the expression: "He who dies with the most toys wins." Those people who use situational values do not take into account the ethics or the morality of their decisions and therefore their values are not "sustainable" for the good of all. The Silent Generation lived

lives that were not excessive, yet they lived in a fashion that was better than pre-World War II. The consumption or affluence since the 1950's that has culminated with the consumerism/housing crash of 2008 has placed the Millennial generation in a position where they will not live as well as their parents.

Friedman has studied the miracle of America--democracy and capitalism--and concluded there are five pillars of our success including education, infrastructure, immigration of innovators, capital investment, and government-funded research. He and his co-author, Dov Seidman, advocate that America can be great again if we will conduct ourselves with sustainable values, invest in technology, educate our people to utilize technology, foster positive "smart" immigration, invest capital in our



country and its infrastructure, and foster government-funded research that drives technology to the market.

These are the things that have driven America's growth for over 200 years and if we will refocus our society, sacrifice for the sake of future generations, work harder and smarter, and make thoughtful decisions, America can be the great light to the world again. It will take objectivity, less polarism and less political rhetoric to accomplish this. We need to pull together for the good of all or we will "render unto Caesar" only and not for our future.

*Casey*

## Succession Planning (cont'd from page 1)

Succession planning is all about finding a transition plan that meets the estate and retirement planning objectives of the parents and at the same time is practical for the next generation.

The four largest obstacles to succession planning are:

- 1) Communication
- 2) Fairness
- 3) Time
- 4) Cash flow

Parents' hesitancy to express their plans and the next generations'

hesitancy to express their expectations can delay and sometimes prevent any planning from being done. What are the parent's plans for how long they want to work? What are the parents' retirement needs? Who is willing to take on or share management and decision-making responsibility?

Waiting too long to begin a transition plan will sometimes jeopardize the chances for success. It takes time for the succeeding generation to build equity. Unexpected events including changes in market prices, interest rates, disability and premature death can all intervene.

Adequate insurance including life insurance can be helpful but cannot alone make for a successful plan.

All of the above reasons support why now is possibly the most opportune time for business succession planning. The combination of high gift tax exemptions (\$5.0 million), low interest rates (to make purchase payments practical) and low capital gain rates for sellers, help put together the pieces of a successful transition plan. Controlling interest rates and taxes help to limit the constraints of what is possible.

## *Bits 'n Pieces on the Staff*



**Deidre Budahl, M.B.A., CPA**  
**Audit Manager**

**(Rapid City)**

Deidre was recently promoted to the position of Audit Manager. She has been with the firm for seven years, with a short break in service working as a bank credit analyst before realizing that accounting is her true passion.

Deidre is a native of Rapid City. She received her undergraduate degree from the University of South Dakota. After graduating from college Deidre and her husband, Dereck, moved to Cedar Rapids, Iowa with the intention of completing masters degrees at the University of Iowa. They soon discovered that work schedules would not allow the completion of their degrees. This discovery, coupled with the desire to be closer to family, prompted their moved back to Rapid City. Soon after, Deidre completed her Masters in Business Administration (MBA) through the University of South Dakota.

When she is not working, Deidre enjoys golfing, home improvement projects, and watching her two year-old daughter, Cammy, grow and learn new things every day. The Budahl family will soon have another baby to enjoy in late February 2012.

When asked what she enjoys about her job, Deidre replied: "I love advising and helping clients solve problems. It seems like I run into different issues everyday that provide an opportunity to provide great solutions to the clients I serve."



**Shelli Dowdy-Hoffland**  
**Accounting Team**

**(Gillette)**

Shelli is originally from Philip, South Dakota. After graduating from high school, she moved to Rapid City where she got married and started a family. For the next nineteen years she worked in the construction industry. In 2006 she moved to Gillette, Wyoming and went to work for DeAnn McNamee (Morgan) at Morgan & Associates until the acquisition with CP&A in August 2009.

Shelli and her husband, Lynn, have four children: Carter, 28, Bryan, 23, Derek, 20, and Kelsey, 17. On the weekends you can find her at the stock car races. She also enjoys gardening, painting, restoring old furniture, and any other project that requires power tools. Shelli looks forward to Christmas time each year and usually starts planning in January. In fact, Shelli leads the construction of the Christmas float the firm enters each year in the Parade of Lights. This year Shelli and team won first place!

Shelli appreciates the team work atmosphere at Casey Peterson & Associates. "Our team is the best. I enjoy working with clients to tackle any challenges they present."



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## *Important Notice:*

*Our Newsletter is Going  
Electronic in 2012!*

*If you'd like to be added to our electronic list,  
please email [courtneym@caseypeterson.com](mailto:courtneym@caseypeterson.com).  
If you don't have an email address but would  
like to continue receiving alerts, please give  
us a call at 605-348-1930.*

## *Announcement!*

**WE'RE EXCITED TO ANNOUNCE THE FOLLOWING PROMOTION...**



Effective January 1, 2012, **Cheryl Kenitzer**, CPA, CFE accepts her new role as shareholder and manager of our Gillette office. During her 16 years with the firm, Cheryl has contributed significantly to the growth of our audit division. Cheryl will bring this extensive audit expertise to our Gillette office.

Her experience covers a wide variety of industries including governmental entities, healthcare entities, construction contractors and not-for-profit organizations. In addition to audit services, Cheryl also has experience in bookkeeping, consulting, tax preparation as well as other accounting-related services.

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We publish "It's Your Money!" to present general information on financial and business matters. We take no responsibility for changes in the tax laws subsequent to the printing of this newsletter. You should seek professional assistance before taking specific action.  
Do not hesitate to call us at (605) 348-1930 or (307) 682-4795.

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