

# Value Gap Program – Seller’s Executive Summary

## Summary

Sellers of businesses recognize that there is often a gap between what a buyer is willing to pay and what a seller is willing to accept:

- Traditional approaches to bridging value gap (earnouts, seller notes, etc.) can be adversarial
- Sellers are subject to high taxes on both the sale and the investment of sales proceeds

## To tackle these issues, Schechter has designed a Value Gap Program that offers the Seller the following benefits:

- A substantial cash payment for a portion of the sale
- A life insurance policy designed to provide after-tax income significantly greater than the identified value gap
- Immediate death benefit protection
- Reduced income taxes due upon sale of business
- Potential estate tax savings

## Here’s How it Works:

- The Buyer and the Seller enter into a Consulting Agreement under which Seller will receive certain consulting fees for the next 15 years. Buyer will also enter into a Loan Regime Split Dollar Agreement with Seller (or Seller’s irrevocable trust).
- Interest on the Split Dollar loan is paid to Buyer using the consulting fees that are paid to the Seller.
- The loan principal is repaid to the Buyer after 15 years
- All excess funds are available to the Seller (or to the beneficiaries of the Seller’s irrevocable trust) for income-tax-free retirement income or estate-tax-free death proceeds
- Schechter employs a specialized life insurance product balancing equity market returns and minimizing downside risk

The chart below demonstrates the projected annual distributions and death benefits for the Seller, based upon a sample age 50. The comparison chart below shows the difference between a 10m cash payment and the value gap program.

	Taxable Cash Payment	Loan to Seller	Annual After-Tax Income for 10 yrs. (Years 16-25)	Total After-Tax Income (Years 16-25)	After-Tax Death Benefit Age 90	Total After-Tax Benefit to Seller
<b>Cash Payment</b>	\$10,000,000	\$0	\$1,000,000	\$10,000,000	\$9,441,292	\$19,441,292
<b>Value Gap Program</b>	\$0	\$16,875,000 paid over 5 yrs.	\$1,500,000	\$15,000,000	\$26,430,822	\$41,430,822

**Detailed Comparison of Cash Payment to Value Gap Projection**

<b>Assumptions:</b>	Income Tax Rate (Federal and State)	42%
	Capital Gain Rate Tax Rate (Federal and State)	30%
	Estate Tax Rate	40%
	Earnings Rate	6.27% (long term S&P return)

**Cash Buyout**

**Split Dollar**

Year	Age	Cash Received	Tax @ 30%	Net Invested Cash	Annual After-Tax Earnings	Distributions	Ending Investment Balance
1	51	10,000,000	3,000,000	7,000,000	307,230	0	7,307,230
2	52	0	0	7,307,230	320,714	0	7,627,944
3	53	0	0	7,627,944	334,790	0	7,962,735
4	54	0	0	7,962,735	349,484	0	8,312,219
5	55	0	0	8,312,219	364,823	0	8,677,043
6	56	0	0	8,677,043	380,835	0	9,057,878
7	57	0	0	9,057,878	397,550	0	9,455,428
8	58	0	0	9,455,428	414,999	0	9,870,427
9	59	0	0	9,870,427	433,213	0	10,303,640
10	60	0	0	10,303,640	452,227	0	10,755,867
11	61	0	0	10,755,867	472,075	0	11,227,942
12	62	0	0	11,227,942	492,794	0	11,720,736
13	63	0	0	11,720,736	514,423	0	12,235,159
14	64	0	0	12,235,159	537,001	0	12,772,160
15	65	0	0	12,772,160	560,570	0	13,332,730
16	66	0	0	13,332,730	585,174	1,000,000	12,917,904
17	67	0	0	12,917,904	566,967	1,000,000	12,484,871
18	68	0	0	12,484,871	547,961	1,000,000	12,032,832
19	69	0	0	12,032,832	528,121	1,000,000	11,560,953
20	70	0	0	11,560,953	507,410	1,000,000	11,068,363
21	71	0	0	11,068,363	485,790	1,000,000	10,554,153
22	72	0	0	10,554,153	463,222	1,000,000	10,017,375
23	73	0	0	10,017,375	439,663	1,000,000	9,457,038
24	74	0	0	9,457,038	415,069	1,000,000	8,872,107
25	75	0	0	8,872,107	389,397	1,000,000	8,261,504
26	76	0	0	8,261,504	362,597	0	8,624,101
27	77	0	0	8,624,101	378,512	0	9,002,613
28	78	0	0	9,002,613	395,125	0	9,397,738
29	79	0	0	9,397,738	412,467	0	9,810,205
30	80	0	0	9,810,205	430,570	0	10,240,774
31	81	0	0	10,240,774	449,468	0	10,690,242
32	82	0	0	10,690,242	469,195	0	11,159,437
33	83	0	0	11,159,437	489,788	0	11,649,224
34	84	0	0	11,649,224	511,284	0	12,160,509
35	85	0	0	12,160,509	533,725	0	12,694,234
36	86	0	0	12,694,234	557,150	0	13,251,384
37	87	0	0	13,251,384	581,603	0	13,832,987
38	88	0	0	13,832,987	607,130	0	14,440,117
39	89	0	0	14,440,117	633,777	0	15,073,893
40	90	0	0	15,073,893	661,593	0	15,735,487
						<b>Estate Tax</b>	6,294,195
<b>Death at Age 90</b>						<b>Net to Heirs</b>	9,441,292

Company Paid Premium	Long Term AFR	Loan Interest Payment	After Tax Bonus Received	Distributions	Tax Free Death Benefit
3,375,000	4.5%	(151,875)	151,875	0	37,571,957
3,375,000	4.5%	(303,750)	303,750	0	34,196,957
3,375,000	4.5%	(455,625)	455,625	0	30,821,957
3,375,000	4.5%	(607,500)	607,500	0	27,446,957
3,375,000	4.5%	(759,375)	759,375	0	24,071,957
0	4.5%	(759,375)	759,375	0	24,071,957
0	4.5%	(759,375)	759,375	0	24,071,957
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0	4.5%	(759,375)	759,375	0	24,071,957
0	4.5%	(759,375)	759,375	0	24,071,957
0	4.5%	(759,375)	759,375	0	25,491,521
0	4.5%	(759,375)	759,375	0	24,929,265
(16,875,000)				1,500,000	24,319,428
0				1,500,000	23,659,356
0				1,500,000	22,946,489
0				1,500,000	22,177,421
0				1,500,000	21,348,792
0				1,500,000	20,457,176
0				1,500,000	19,499,763
0				1,500,000	18,474,735
0				1,500,000	17,380,085
0				1,500,000	17,803,748
0				0	18,248,690
0				0	18,710,666
0				0	19,189,502
0				0	19,684,521
0				0	20,193,857
0				0	20,717,003
0				0	21,253,463
0				0	21,806,612
0				0	22,373,726
0				0	22,964,498
0				0	23,592,750
0				0	24,249,890
0				0	24,939,347
0				0	25,664,171
0				0	26,430,822
0				0	0
					26,430,822

