# Audio file

KN4 - Mark Lingerfield.m4a

## Transcript

Hello and welcome to the Newton Knowledge podcast. My name is Mark Singer, one of the partners at Newton one, and I'm joined. Today by my colleague. Partner and principal of our firm Stephen Target, Steve. How are you?

I'm great. Thanks, mark. How are you doing?

I am fantastic. The heat has settled down, so it's great to get out of your house and not be soaked. For those listening for the first time and Knowledge Podcast is intended to complement our new knowledge webinars by providing meaningful content to our valued advisor community and generally anyone interested in learning more about sophisticated insurance related topics. Focusing on estate planning. And executive benefits during our podcast, we focus our discussions on topical issues that will provide you with your insight into the people, processes and products that make our industry so critical. We will occasionally also highlight individuals who have been meaningful to meet and warning and therefore have contributed to helping us serve our valued clients, which one is a national life insurance planning firm delivering insurance solutions structure to help clients and their advisors engaged in solving the state planning wealth transfer business succession and executive benefits challenges. We're a member of the Young Financial Group offering our clients access to the nation's most prestigious insurance carriers who develop innovative products available only through our network. Today we will have the privilege to talk with Mark Winterfield. Mark is a partner and managing director at MPI, a business valuation firm. He is located in the Princeton office, marks responsible for client service and business development strategies in the Mid-Atlantic region. Since joining MPI, Mark has determined the value of closely held securities. Companies for a. Variety of purposes, including estate and gift. Taxes, income taxes, employee stock ownership plans, corporate and shareholder planning and S corporation conversions. Mark has been with the firm for moving 22 years and holds finance degrees from the College of New Jersey and Ryder University, so to move. Further ado, mark. Thank you so much for joining us today.

Thanks for having me Mark and Steve. Just to again to expand a little bit on that very nice introduction. Yeah, I've been with the company a little bit more than 22 years originally as a member of the analytical team and running a team of analysts primarily doing business valuations for, for gifts and estate tax purposes about 10-12 years ago, I moved into more of a business development. I actively work with with new clients or existing referral sources to help them structure their pay, planning, transactions and and get, you know, get the valuations of any hard to value assets off the ground. The firm MPI has been in business since 1939, primarily doing valuations for gift. The state tax services, we do have a few other departments such as litigation support, employee incentive plans and and a few other groups along those lines. But the overwhelming majority of the work that we do is focused in the state tax planning transaction.

Well, Mark, thanks again for being with us. Let's, let's jump right into it. As you know, as we all know and all the listeners that are with us today, also know timing is critical. I mean, we're in a time and place right now where these valuations are really important. I know that you guys are super busy. We rely on you quite extensively. When when we're looking for valuations and appraisals. You know, but let's let's talk about a couple high level things first and then let's dive into some actual case studies more specific. And I guess my first question is really a general question, but you know, how would somebody know that they need to reach out to you and MPI and and perhaps give us a couple examples of some projects that you've you've worked on at a high level?

Yeah, I mean, there typically is a a transaction for the business owner that that is on the horizon. That's why ultimately they would need some sort of valuation help from a firm like M. That and and that transaction could be intergenerational, meaning they're they're making transfers of interest in their business to either a trust or the next generation, some sort of estate planning transaction like that. And then obviously also you have an estate tax situation, so business. Owner die. And his estate has to get his value, his interest value, in order to report for for federal estate tax purposes. So those are the two most common transactions we get involved in, but other reasons could be business owner is is starting to to weigh his options about going forward. Or perhaps there isn't family members or existing management that could reasonably buy the company, so we can work with the business owner to help him work through all his options. You know, are there strategic buyers out there or their financial buyers, perhaps an employee stock ownership plan, otherwise known as an ESOP? You know, is that a possibility for the the existing situations? So there's a lot of different reasons why why you may need a valuation, but typically there's a a transaction on the. Some of the projects we get involved in can be, you know, very large, complex organizations like a professional sports franchise. You know we we have a number of clients, you know that owned Major League sports teams and and we get hired to to help them value their their interest in the team for estate planning transactions. But then you have other situations, like a a relatively small. Excavating contractor that we're currently working on could be totally different valuation analysis, but the objective is still the same. They're they're typically through some sort of intergenerational transfer to to the next generation or or to trust for behalf of of another generation. Then there's a number of other. Hard to value assets out there carried interest in private equity. Venture hedge funds are a a very large part of our business right now as those are if if the timing is right, you can make a transfer of. An interest at the early stage of that fund and and value that interest at a relatively low value than other hard to value assets. Fractional interest in real estate or insurance policies or or promissory notes. So there there's a number of different hard to value assets out there and and for the most part we can we can typically help in in those.

Well, it sounds like you can get very technical obviously in in determining what the value is of a business or of an of an entity. We had Newton one as you well know, always collaborate with other professionals. We bring in the the best of the best to help us with engagements and projects. And that's why we would we would lean on you to make sure that. You and your colleagues to make sure that that we have the right numbers and the right the right data in. Order to do. A proper estate plan, and I don't know if this is a fair question to ask or if this is too technical, but is it? Is it possible for you to give us some examples of different valuation methods that you?

Use. Yeah, it it really the the type of method that you use is really depending or dependent upon the the underlying asset that's being valued. So with a A typical operating company and I'll say a profitable operating company, we'll typically use the either the market or income approach. And just that at fairly high level, the market approach is where we would go out and look for other. Either publicly traded companies or other firms that have been acquired in the same general industry as as the subject business, now we we typically like to do a second valuation approach which is called the income approach. And there's there's different income approaches, but the most common is the discounted future cash flow analysis. Where we work with management to develop projections for the business and then essentially you bring those back to present value at a risk adjusted discount. Great, this approach is very important to us right now. As you can imagine the pandemic has created havoc for a lot of companies out there, both on the positive and negative side. You know, obviously several industries have benefited from the pandemic and several others have been decimated. So you really need to project the cash flows of these businesses out when they expect to get back to normalization. Some businesses it's taking, you know, one year where maybe they're already back to normal and there's several others that that are going to be impacted more on a long term basis. So it's really important to. To work with management to try to project when they can get back to normal. There's a few other asset approaches. You know the asset approach is a. An approach you would use for an operating company that that may not be valuable as a going concern anymore, whether it's in bankruptcy or the analysts may decide that there's more value to the company dead than alive. So basically you're looking at some sort of liquidation value there for asset based holding companies. You know we do a lot of family. Holding company valuations, whether it's holding real estate or securities or other alternative? That basically we would work up the net asset value of of the particular partnership or LLC and then determine if there's any discounts associated with the subject interest that's being transferred. For example, if you're giving them limited partnership interest in a partnership that doesn't have any ability to control the operations of the business. There's some pretty significant discounting that can be taken to account for. Other assets like insurance policies or promissory notes there you're you're typically doing some sort of of income based approach where you're projecting out the cash flows and bringing back those cash flows. The present value based on on the risk of of receiving those cash flows. So hopefully I wasn't too technical there, but that those are the most. Common situations and and valuation approaches that we.

We we sit here today, we're in the second-half of July of 2021. You know, we've been talking about this for six months and frankly during the election, even last year about potentially increasing income tax, capital gains, taxes, corporate tax rates. And I would say in our opinion probably increases to the state tax rates. And reduction in any exclusions. So we're all pretty busy these days. I mean the the backlog of work is is starting. To pile up. A bit with the opportunity of of our clients to also utilize some of the the low interest rate environments to maybe do some intra family loans. You know as we get to the end of this calendar year before any changes are made or even as they are being made. I understand that there's an opportunity to use a a clause that's called the defined value. Laws which again, you're the expert here. So we'll ask you to to give us a maybe a little bit more detail, but as as we understand it, this allows clients to complete transfers now prior to full completion of the underlying asset appraisal. And if we go back and I've done a little bit of research on this, I I see that there's a 2020 case, the laundry decision which uh gives a little bit of flexibility. Is that something that you guys are looking at? Is that something that may be helpful to clients as they're as they're approaching some of these potential changes?

Yeah. That, that's it. It's a great question and it comes up multiple times a day for me. Right now. You're exactly right. The the estate. Planning industry in general is extremely busy. As you know, folks are lining up to do some some complex planning. I mean, I get asked all the time. What what's going to happen with, you know, potential tax changes and everything you just listed is on the table. We we don't know exactly where it's going, but the the trust and the state attorneys that that we work with on a regular basis are are trying to motivate their their clients to to do some of this planning and and one way that you can do it. Is through defined value clause and basically what this what this does is allows the planners to complete a transaction essentially before the the actual valuation is done. Right now valuations can take a couple of months to get to get done, and if there's real estate involved you may have to get an appraisal of. The real estate done. So there's a lot that goes into these valuations. Sometimes, however, if if the planner you know appropriately writes the the transaction up and defines value, basically what that is, they insert the the dollar amount of of what they are are hoping to to transfer, and then the number of shares that the insured in the. The percentage interest in the business is determined after the appraisal. That and there's there's a number of different ways that that planners do it. We've seen it. We've seen it done a number of ways, but essentially what it does is it allows the transaction to be a completed transaction and gives the appraisers and the planners a bit more time to to make sure that the the valuation is done appropriately.

As you well know, we had Newton, one employer, some some pretty sophisticated strategies and one of the topics that comes up regularly is how do we create multiple generations of wealth. And as we know, there's there's been another recent ruling or some discussion about intergenerational. Split dollar programs and specifically what's happened with the Marsec case. So a number of years ago MPI and Mark, I think you participated in this as well. You guys were at a a really good white paper on this topic on another client engagement that you would. You know on I believe that you had worked on or or perhaps it was just putting together a general fact pattern. But with this the the recent court ruling on the Marsette case is there, are there any takeaways for our listeners from evaluation perspective that would be valuable to to hear about?

Yeah, I think that I think the biggest take away from the case is just getting the the appropriate language into all the documents. You know you have your, your, your donors and don't need. You need to make sure that there's no perceived or or actual benefits that that are that are sticking with the Dow more more than what you're hoping to do in the transaction. So there was, there was some language in this case. Where the donor and the donee each had a say as to if the policy could be cancelled or or surrendered and the IRS wasn't a big fan of that type of language, and ultimately it was not a favorable outcome for the for the taxpayer here. So. So really it's just making. Sure that that the the language is written into all documents you know, to actually show what you're trying to accomplish and and trying to take away any real power for the the day in the world of of such a policy here.

You know, I think one of our takeaways is that, you know, we still believe that intergenerational split dollar is a an opportunity to create wealth for G3 down from G1, perhaps at least G2 generation 2. But you know, we just maybe need to tap the brakes a little bit and make sure that everything is is done appropriately and you know, bring in a firm. Do the evaluation of what? Of what the the the gifts may look like. So we're still favorable with the with the strategy and I think I think overall most planners would be as well. If everyone needs to take the time and do it the right way. I'm not suggesting it wasn't done the right way, but you know moving forward now we've got some some different facts that we can. We can insert into how we put together this. Strategy. So again, we're here in, in July of 2021 as we're approaching the end of the year. And and some probable changes, is there anything that you're seeing out there that would be maybe you need planning opportunities or anything that you see that would be helpful to for people to hear about with regard to opportunities? And do some some work with MPI.

Probably the the the most unique. You know whether you call an opportunity or or whatever you want to call it, but it's still the the impact of of the pandemic. There's still many industries that are, you know, haven't rebounded yet, you know, in a in a given their state tax situation more often than not the the lower the value. The better for the the transaction that's being considered, there's still a lot of industries that haven't made it out. You know, out of the poor cash flow for their for their particular business, for, for a variety of reasons. So there's still that opportunity for many industries. And you want to make that transfer, you know, at at the right time for other folks, you know, perhaps industries that are that are doing better, there's the the tax situation in Washington where you know, which we've already touched on a number of times, there will likely be something that happens, whether it's at the end of 2021 or or into 2022. We're just not sure, but there will likely be something that that happens. And like I said, a lot of planners are really more. Creating we're trying to motivate their clients to get things done as early as possible. Several times you've mentioned how busy the estate planning industry is and the sooner the better is is what I can tell or what what I'm telling folks on a daily basis about trying to get these things done because the the industry is extremely busy. We're still obviously taking. On work for 2021 transaction, you know we're a firm of about 60 people, so we can. Can handle large volumes of work, but the work is is is certainly still coming in fast, so that the the the sooner you can get it get the transaction decided. You know you can get in in hour queue or whatever. Appraisal firms company queue that that you decide to use. But it's important to get the process going quickly. I think the the end of the year is going to be extremely busy for this profession.

Yeah, I agree. I I think this is our call to action, right? We'd like we'd like to just make everyone aware that there's opportunities. There's probably some unique opportunities based on what's happening with current tax rates and valuation opportunities that will not be the same and most likely a reasonably short period of time. So let's get in there with all of our planners and get everyone sitting around a table. And and see what sort of opportunities can be created. So Mark, I think that'll that closes up my formal questions. Is there anything else you'd like to to share with the group today before we we shut things down?

No, I don't think that, Steve just want to to thank you guys and Newton one for for including me here. Much appreciated.

Super. Have a good rest of the summer. And we look forward. To seeing you soon, take Care now.

OK. Thank you.

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