

Using Your Retirement Account to Fund Your Business

Funding a new business and acquiring new capital for an existing business have become especially challenging in the current credit crunch as banks raise lending requirements and cut back on the projects they are willing to fund. This comes at a time when returns on many traditional investments commonly held in retirement accounts—stocks, bonds, treasury securities—are declining while rising inflation erodes the value of whatever meager returns are achieved.

This challenging economic environment is attracting more attention to a little known way of using retirement accounts to fund new and existing businesses. According to BeneTrends, Inc., a leader in structuring this solution for business owners, there is a four-step process that must be followed. First, a C Corporation is created. Then, the C Corporation creates a new retirement plan. The business owner rolls funds from his or her retirement account into the new corporation's retirement plan. Last, the new retirement plan purchases stock in the newly created C Corporation, thereby providing the necessary capital to purchase an existing business or franchise, start a new business, or grow an existing business.

BeneTrends, Inc. and Guidant Financial Group, another major retirement account facilitator, have helped thousands of business people set up these plans to fund their new and existing businesses. Both claim that their plan structures conform with all IRS and ERISA (Employment Retirement Income Security Act of 1974) guidelines and that they can obtain a favorable letter of determination from the IRS for every plan they establish. Almost any type of retirement plan can be used for funding including 401Ks, IRAs, Profit Sharing Plans, Annuities, 403Bs, SEPs, Simple Plans, and ESOPs.

Using this plan, current and prospective business owners can enjoy many benefits. According to BeneTrends, the plan can be established in just two to three weeks, far less time than is typically required to obtain traditional commercial financing. While many business people do access their retirement accounts for business capital, they typically have to pay taxes and penalties on the premature retirement account distributions. With this plan, there are no taxes or penalties, making 100% of the retirement funds available for business investment. Furthermore, the business owner can shelter the profits of the business as they are returned to the retirement plan tax deferred, thus achieving greater control over retirement savings. With less need for commercial financing, the business eliminates or reduces debt and interest payments, enhancing cash flow and making more funds available for reinvestment and growth. The elimination of commercial financing also allows the owner to mitigate risk by avoiding the typical bank liens on personal residences and other personal and business assets.

Despite the many advantages, there are also several potential disadvantages that should be considered before establishing this plan. Foremost is the potential loss of one's retirement savings in the event of a business failure. Also, the complexity of a

C Corporation relative to other legal entities may necessitate additional expense for increased legal and accounting services. Existing business owners seeking to raise more capital with this plan will also incur the substantial expense of a formal business appraisal.

While these plans can be used in conjunction with SBA financing, they can increase the length of time required to obtain an SBA loan. Typically, SBA lenders require most business owners to personally guarantee their SBA loan. However, under ERISA guidelines, the C Corporation retirement plan, which is a major owner of the business, is precluded from making loan guarantees. In these instances, it is necessary to request a waiver letter from the lender.

Existing and prospective business owners should, of course, consult with their legal and accounting advisors before implementing this plan. Because of the substantial and precise IRS and ERISA guidelines that must be followed, prospective users are also advised to consider using the services of a retirement account facilitator who specializes in these plans.

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