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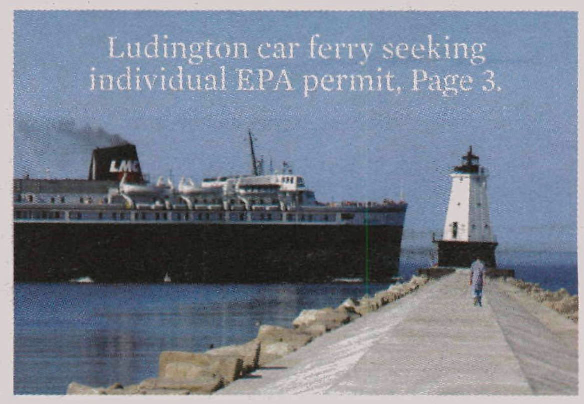

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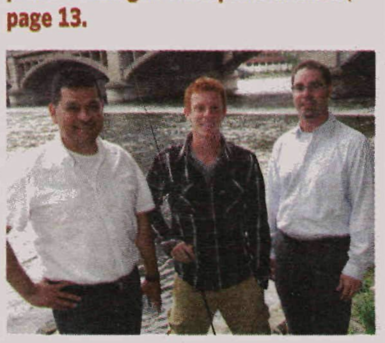

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Consultant Robert Gibbs, left, meets with downtown retailers, including Brian Cousins, right, at Wolverine World Wide's shoe store in downtown Grand Rapids. Courtesy Grand Rapids DDA

Downtown retailer interested in DDA study

David Czurak
Grand Rapids Business Journal

Brian Cousins thought it was great that the Downtown Development Authority hired Gibbs Planning Group to analyze the retail market in the district and then plan to follow up with recommendations as to what type of merchants could be successfully recruited to enhance the sector's offerings.

But Cousins also feels current downtown retailers can have just as much of an influence in determining who locates here.

"Everybody is talking about driving retail downtown, and I think it's very important to do so. But I also think it's important that existing retailers maximize what they have in front of them. In doing so, I think it will help attract more retailers to want to come downtown," said Cousins, the proprietor of the nine-month-old Wolverine World Wide shoe store at 40 Monroe Center.

Robert Gibbs heads the Gibbs Planning Group of Birmingham, Mich. He made his presence known during his recent visit, spending most of a week hosting seminars, holding workshops, asking and an-

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Telecommunications providers on increase throughout Michigan

Latest report notes continuing decrease in residential landline phones.

Pete Daly
Grand Rapids Business Journal

Michigan continued to experience a decrease last year in the number of landline telephones in use, according to a new state report, but the Michigan Public Service Commission continues to license new telecom providers, and as of the end of 2011, companies that came on the scene since 1996 were providing a larger-than-ever share of those remaining landlines.

The most important conclusion one can draw from the Status of Telecommunications Competition in Michigan is that "we still have good levels of competition in Michigan," although that is not necessarily true in remote rural areas where wireless reception is hard to get, said Robin Ancona, director of the Telecommunications Division of the MPSC.

"But there are still high levels of competition in Michigan and it's changing because competition is now coming from Voice over Internet Protocol and cell phones. You can see that people have choices and that they are taking advantage of that," added Ancona.

The report describes the status of competition in telecommunications service in Michigan, including, but not limited to, the toll calls and local exchange markets in the state. The report includes information on the traditional landline industry in Michigan, as well as information specific to Michigan on mobile wireless, VoIP and broadband.

The data for 2011 shows the total number of landlines (or what the MPSC calls "wirelines") provided in Michigan was 3,344,139, which reflects a decrease of about 283,000 lines from 2010 — typical of the average annual loss of lines over the past 13 years.

AT&T Michigan, an "incumbent" company, saw a decline in its share of the wireline market. The report states that was 54.4 percent at the end of 2011, a decrease of 2.7 percent from the previous year.

However, the commission continues to license new providers, and as of the end of 2011, competitive providers (defined as those companies that entered the Michigan market after 1996) were providing 30.7 percent of the landlines in Michigan. This not only represents an increase from last year and continues the trend of increasing competitive market share over the last three years, but it also was a new high for the competitive wireline market share in Michigan, according to the MPSC.

"There are more identified companies providing services in Michigan," said Ancona, adding that telecommunications is "still a business where we get applications all the time to be licensed. Obviously, these folks feel there is a market for their services and they are still en-

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Maybe that's too much information

Proposed laws would protect employees' online privacy.

Pete Daly
Grand Rapids Business Journal

People reveal much about themselves on social media websites such as Facebook and Twitter, including things a prospective employer would want to know. Some job applicants, in fact, have been asked to provide their Facebook account name and password so that a would-be employer can check it out.

Now, however, laws are being proposed to block that hiring tactic, and some attorneys don't think it's a wise move for employers to make in the first place.


Sikkel

"Sometimes, seeing all that is not in their best interest," said Bob Sikkel, an experienced labor law attorney at Barnes & Thornburg in Grand Rapids.

Some details found on social media accounts pertain to things an employer is barred from asking about in a pre-employment interview and cannot use as a deciding factor in making employment decisions, said Sikkel. Right now, he added, the legality of an employer to ask for access to an applicant's Facebook account "is, in my opinion, very much up in the air."

In early June, the Social Network Account Privacy Act proposed in the Michigan House by State Rep. Aric Nesbitt, R-Lawton, was approved by the House Energy and Technology Committee. The bill would ban employers from requesting an employee or job applicant to disclose user names, passwords or other information providing access to a social networking account.

In arguing for the law, Nesbitt said employers would never be allowed to inspect mail or photo albums at a person's home.

In late May, the Ohio Senate began consideration of a bill that would make it an illegal discriminatory practice for an employer to ask for or require an applicant or current employee to provide user names and passwords for online social media accounts.

Maryland has already passed

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Respond to this week's online survey.
www.grbj.com

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FAMILY BUSINESS MATTERS *Bruce Vandermeulen and Brian Boer*

Lasting family businesses have long-term strategies

When transferring a business, there are three important strategies to consider: outside accountability, long-term focus and taxes. First, a board of advisors or a formal outside board of directors will provide fresh ideas for the family and accountability. Second, a long-term strategic plan provides a roadmap for the future of the company's growth, fiscal responsibility and profitability. These strategies maximize the value of the company either in the second generation or upon a sale. Third, ownership among family members must be addressed through proper planning, which typically involves transferring the value of the company into the hands of the second-generation either directly, through trusts or the use of other vehicles. This can be accomplished through gifts prior to a sale or where the family intends to retain the business for future generations.

A successful business transition aims to maintain and preserve the value of the business while addressing how to best minimize tax erosion resulting from income, estate and gift taxes. Successful plans focus on both of these goals simultaneously with the transition structure being "tweaked" for optimal tax performance.

For business owners looking to transition their business, 2012 presents a distinct opportunity due to favorable estate and gift tax rules and historically low capital gain rates, all of which are scheduled to expire at the end of this year. Although favorable tax rules should never be the sole driver of a decision to transition your business, the conditions today present a unique opportunity for those who have held off on gifting or selling due to the potential tax costs. Whether Congress extends the current tax laws or allows them to lapse, it is still important to begin the process on transitioning your business so that ample time is available to transfer leadership in a tax-efficient manner.

Difficult decisions need to be made about whether family member(s) will be actively involved in the business or passive investors looking for a targeted investment return. It is entirely possible that non-family members are better suited to be the successor leaders. In that situation, it can be appropriate for those non-family members to have an ownership position. Finding the right ownership mix requires a careful balance between voting control and equity ownership.

Another important consideration is whether the successor is passionate about making the business theirs, or are they simply inheriting the responsibility? A blood relationship doesn't guarantee that the chosen family member will have the same entrepreneurial success you experienced. An honest discussion needs to take place to determine whether a leadership position is what they desire. The process of working through the transition is more important than how the transition is accomplished. After discussions have taken place about the dynamics of control and leadership, an appropriate and effective tax structure can be wrapped around that plan.

A team of advisors can often help identify a successor who not only wants ownership and the responsibilities that coincide, but also will maintain the business culture. Taking the charge on this part of the transition should be an advisor who can help the family become involved in the transition and develop the next generation of leaders.

It is important to find an advisor who has experience in helping families minimize taxes related to the transition. Many advisors are apt to address the income tax structure of a sale, often overlooking the estate and gift tax impact. While estate and gift tax has a less immediate impact, the impact upon arrival can be devastating when this planning has taken a back seat. Fortunately, adequate long-term planning can minimize the tax costs and help retain as much wealth as possible; and it is never too early to begin forming this plan.

While today's conditions present a unique opportunity for transition, some strategies (absent any unexpected legislative action) have been available for years and likely will be for years to come. One includes the transfer of ownership through a common but effective method of using the "annual exclusion" to gift ownership of the business without any tax consequence. The annual exclusion allows you to gift $13,000 ($26,000 if you split the gift with your spouse) of value without eating into your "lifetime exemption," which is the combined amount you can transfer over the course of your life, including at your death, without paying any gift (or estate) taxes.

While employing the transfer strategy of annual exclusion gifts, a non-controlling, non-marketable interest in your business can be very effective in helping you accomplish your wealth transfer goal. A share of stock or ownership interest in a company having these characteristics will generally be worth less than the fair market value of the company assets represented by that portion of ownership. The lack of control discount stems from the reality that owning a minority interest is significantly less valuable than owning a controlling interest, and the market discount is, in part, a recognition of the time, effort and expense required to convert the ownership to cash.

If you are looking to make a bigger splash in the amount of ownership to be transferred, there is legislation scheduled to expire at the end of the year that provides tremendous opportunity to business owners. The lifetime exemption is $5,120,000 for 2012 but is scheduled to return to $1,000,000 in 2013, meaning over five times the amount of wealth can be transferred gift-tax-free this year than can be transferred next year (assuming Congress does not modify the rules). This transfer of wealth is especially significant for family businesses with high growth potential.

If you opt to transfer your business by sale instead of gift, selling your business by Dec. 31 could provide sizeable tax savings on your gain on sale of the business. The favorable long-term capital gain rates are set to move to 20 percent in 2013 — 5 percent higher than currently. Thus, a sale by year-end would yield a substantially higher after-tax profit than a sale in 2013.

Families that want to preserve their business for future generations or transition it to a third-party buyer need a strategy. Lack of adequate planning can cripple a business, due to the inability to sustain profitable operations resulting from poor leadership or lack of resources to pay estate and gift taxes. In the sale context, lack of planning could reduce the amount of sale proceeds received by the seller due to under performance of the company.

While all transitions should begin with a leadership transition discussion, 2012 provides appealing conditions to save significant taxes for those ready to make a move. A team of advisors can help you navigate the transition to maximize the value and provide a lasting source of wealth to your family.

Bruce Vandermeulen is a senior director and Brian Boer is a tax associate at BDO. They assist families with estate, gift and trust planning needs. They can be reached at (616) 774-7000.

Telecom companies attracted to Michigan

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tering (Michigan)."

The trend now is for "facilities-based competition" to be more active in providing residential lines, according to the MPSC report. This refers to companies that do own some infrastructure, such as fiber-optic cables between regions, although their service may be delivered to the customer over terminal lines owned by the "incumbent" companies such as AT&T, which was active in Michigan under various other names prior to 1996.

Some competitors are non-facilities-based, meaning they are simply resellers of blocks of service time delivered over other companies' lines and equipment.

Federal Communications Commission data shows that the number of wireless subscriptions in Michigan continues to grow. As of Dec. 31, 2010, the FCC's most recent data, there were 8,861,000 wireless subscribers in Michigan.

While the MPSC does not have jurisdiction over most communication services that are not traditional telephone landline communications, it does monitor those other markets via existing sources of public data.

Based on those other sources, the MPSC concludes that VoIP, along with wireless services, are an increasing portion of the telecommunications market in the state. According to the FCC data, as of Dec. 31, 2010, Michigan had 81 providers of interconnected VoIP serving just more than 1.2 million interconnected VoIP lines.

Ancona said some Michigan residents are cancelling their home landlines "because they can get everything they need on their (wireless) phone," including Internet service.

She noted, however, that there is still a need for landlines, especially in remote rural areas where there are no cable Internet providers and where trees and hills prevent effective wireless transmission.

People operating businesses are less likely to give up the reliability of landlines, in any case, and landlines are also needed by alarm companies and individuals using medical alert devices.

Broadband Internet service provides customers not only with the opportunity to use VoIP service, but numerous additional benefits as well, according to economic development experts throughout the state. While the MPSC does not have authority over broadband, the MPSC said the state does seek ways to support the availability and adoption of broadband technology, one way being a partnership with the federally funded, nonprofit Connected Nation on the Connect Michigan project, which is online at connectmi.org.

Connect Michigan is engaged in a comprehensive broadband planning and technology initiative as part of a national effort to map and expand broadband service. The program began by gathering provider data to form a statewide broadband map and performing statewide business and residential technology assessments, but has since progressed to working with Michigan communities on community plans.

The Connect Michigan project has made available an interactive broadband availability map, launched May 20, 2010. Individuals can use the connectmi.org website to find sources of broadband service where they live.

Connect Michigan also offers research results on broadband adoption and barriers to adoption specific to both Michigan residences and businesses.

Michigan continues to see growth in the number of high speed Internet connections, with 4,665,000 such connections reported to the FCC as of Dec. 31, 2010, according to the MPSC. Each technology platform continues to see growth in the number of lines served, though the most dramatic increase is in the number of high-speed Internet access lines provisioned with mobile wireless, the number of which increased by almost 250 percent between December 2008 and December 2010, according to the FCC.

The 2011 annual report, Status of Telecommunications Competition in Michigan, is available on the MPSC website at www.michigan.gov/mpsc.

PDR funding options sought

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"I think that speaks to the Frey Foundation's interest in this topic," said Wilson.

Wilson said his foundation looks for collaborative partnerships, such as working with the county on an issue, but won't invest more than 15 percent in any single project. Before Wilson arrived at Frey, its board also awarded the PDR program a grant worth $250,000 over three years that requires a county match.

Wilson felt the county should build more awareness of its program before it goes ahead with a millage request. "How can that be captured?" he asked.

Wilson said he heard some exciting things from the county contingent that visited Lancaster County in Pennsylvania a few weeks ago. Lancaster is known for having one of the most successful preservation programs in the country, and Wilson said the county needs to find a way to communicate that excitement to residents here.

"They look at this as economic development," said County Commissioner Bill Hirsch, in reference to the Lancaster approach. "I think it was a great trip, and everyone benefitted from it."

"We have a pro-development program," said County Commissioner Tom Antor of the local PDR effort.

Kent County Land Bank Authority Executive Director Dave Allen went on the latest trip and said he was duly impressed. He said the Lancaster preservation program made the county so well known in the field that it drew one of the nation's largest farm machinery manufacturers to the county, and today, most of the equipment sold along the eastern seaboard is built there.

"It really turned me on my ear. I now know there is a connection between agricultural preservation and urban development," said Allen, who has been an urban developer for 19 years.

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