

## HOW TO HELP YOUR CHILD GET STARTED IN BUSINESS

Perhaps you're thinking of helping one of your children get started in business. Since the failure rate for new businesses is high, you need to do whatever you can to increase your child's chances of success. That includes considering three M's: motivation, money, and mentoring.

**Motivation.** To succeed, your child must be motivated. He or she may like the idea of self-employment but lose interest when confronted with the realities of planning and preparation.

Before involving yourself, find out how much time, thought, and effort your child has already devoted to the proposed business. If the enterprise is no more than an idea, you can suggest approaches to researching the market and determining the resources, knowledge, and skills that will be needed. However, your input should be limited to guidance and ideas. Your child should do the work.

Once your child has completed the necessary groundwork, and if the project still seems reasonably feasible, you'll be ready to consider the next steps.

**Money.** Whether you're making a loan or buying an ownership interest, never put up more money than you can comfortably afford to lose. Try not to be the sole source of capital. Risk is part of the business experience, and your child should have some personal assets at stake. Although loans from outside sources may also be part of the mix, they should be limited in order to keep the debt service from becoming overwhelming.

Set limits. Make it clear that you'll lend or invest a specific amount and no more. You also may wish to set restrictions on the use of the funds within the business.

Put everything in writing. Loans should be supported by signed notes that stipulate repayment terms and require interest at market rates. Investments should be supported by partnership agreements, shareholder agreements, or similar documents that describe operating arrangements, profit and loss sharing, buyout provisions, and closing contingencies.

Don't forget tax planning. You probably will want to allocate any taxable income to your child, and you certainly will want to be able to write off your loss if the business goes bad. Proper documentation will be paramount, since the IRS closely scrutinizes family transactions.

**Mentoring.** Remember that the primary objective is to give your child business experience. Explain the reasons behind each of your requirements, and make it clear that the child must consider your input as a condition of accepting your money. You should offer advice freely, but let your child make most of the business decisions. Mistakes are part of the learning process.

If you're thinking about helping your child get started in a business, contact our office at (888) 388-1040. We'll be glad to offer guidelines to fit your particular circumstances.

NOTE: This article is written to provide you with information about minimizing your taxes. Do not apply this general information to your specific situation without additional details. Be aware that the tax laws contain varying effective dates and numerous limitations and exceptions that cannot be summarized easily. For details and guidance in applying the tax rules to your individual circumstances, please contact us.

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