AUGUST 2019 EDITORS: ALAN F. GALLUP | PAULA PARRISH

FRANCHISE CONNECTION

A NEWSLETTER FOR FRANCHISEES, PROSPECTIVE FRANCHISEES & RESTAURANT OWNERS

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Estate Planning: An Introduction

Andrea Lovell & Alan F. Gallup

National Franchise Sales is privileged to play a role in helping the community of franchise owners amass fortunes through franchise restaurant ownership. But all too often we witness the loss in estate values as the result of taxation or the lack of succession planning.

Over their lifetime Franchise owners spend a great deal of time and energy evaluating franchise opportunities and developing their businesses. However, franchise ownership is unique in that franchises businesses cannot easily be passed on to family members either due to franchise ownership restrictions or other career choices already made by the family members. As such, the need to formulate an exit plan will eventually be an imperative.

It is clear that there is a great need for many of our clients to start their estate and exit planning. Unfortunately, too many franchise owners make the mistake of thinking that the time to develop an exit strategy or succession plan is when they are ready to sell the business or retire. But most of the value that could have been generated or preserved by developing and implementing a productive succession plan could already be lost if the plan is started too late.

With this concern in mind, NFS has been working collaboratively through the Estate Planning Institute with specialists skilled in exit planning strategies with tax minimizing techniques. In this Franchise Connection Newsletter and going forward, we will be sharing relevant information and articles from a select group of estate planning experts.

Reduce Taxes and Defer Gains through Qualified Opportunity Zones

by Gregory Banner CRTP

The Tax Cuts and Jobs Act of 2017 established tax incentives for investors to invest in under-developed markets called "Opportunity Zones." The Act allows an investor to defer the capital gains from any asset sale into a real estate asset or business that is located within any of almost 9,000 targeted areas across the US. To attract investors, the Tax Reform Bill offered the following tax benefits to investors:

- Deferral of capital gains for the sale of property, stock, business or other assets, assuming gains are invested in a Qualified Opportunity Fund (QOF) within 180 days of the sale.

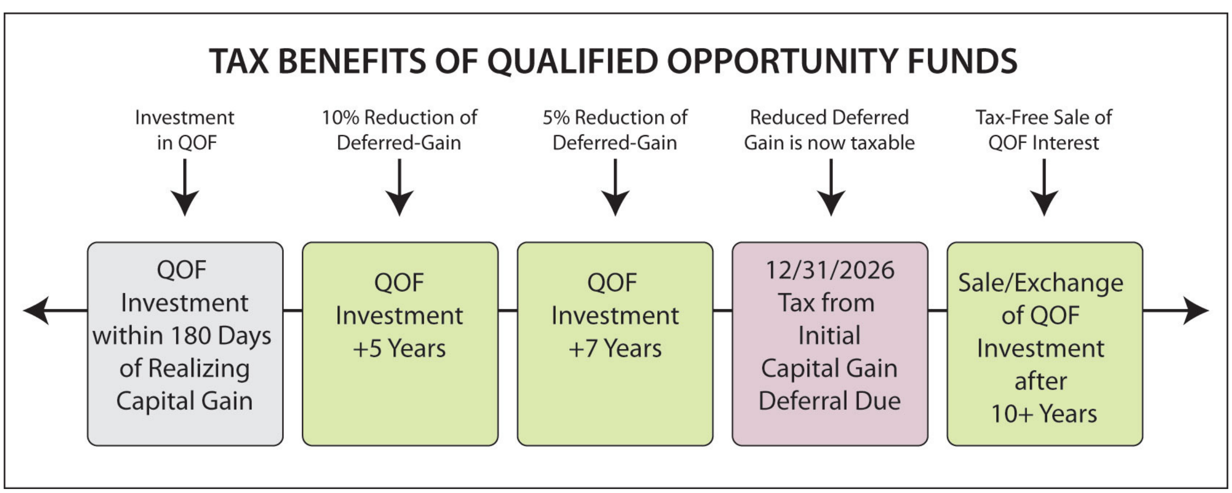
- Reduction of taxes for the deferred portion of the capital gains of up to 15% of the original taxable amount (based on the holding period of the property).

- Tax-free growth of the property in a QOF investment that is held for 10 years or more. Meaning no tax on any capital gain from an investment on a QOF assuming all regulations are followed.

These investments must be made into one of the designated areas that were identified by each State governor and the US Treasury in 2018. These zones typically were identified because they fell below the median household income for the area based on 2008 census data; however, some of these areas have improved substantially since 2008 and can present great opportunities for investors with the proper due diligence.

How it works:
At the time of sale of a business or real estate, an investor would normally be taxed on their capital gain; however, instead they roll the capital gain into a QOF.

Investors are then eligible to defer taxes on the gains and receive the benefits mentioned above, assuming they stay in the QOF for the appropriate time periods. See the Tax Benefit Timeline below:



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Timing:

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The investor has 180 days to re-invest funds in a QOF from the date of the sale creating the capital gain. (with a few exceptions not discussed here)

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If the funds in the QOF are held for 5 years prior to 12/31/2026 and comply with the IRS rules, the deferred capital gains that were invested receive a 10% adjustment to the basis. If those funds are held 7 years prior to 12/31/2026 then the deferred tax liability is reduced by another 5% equaling an adjustment to deferred gains of 15%. This means you only pay capital gains taxes on 85% of the amount you originally deferred.

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After a 10 year period, investors in the QOF get a full step-up in basis to fair-market value of the property sold. This means no capital gains tax on any appreciation earned.

Structure

These QOZ’s are self-certifying to the IRS and are governed by IRS code. QOZ’s have several rules and guidelines that need to be followed in order to qualify for all of the tax incentives the code provides. All of the income those investments generate flows to the investors and is taxed accordingly.

For more information on Qualified Opportunity Zones please reach out to the article's author Gregory Banner CRTP at 858-455-1825 or gregbanner@asset-preservation.com. Greg is a licensed tax professional helping his clients minimize the tax consequences of decisions they make.

NFS SPOTLIGHT: RICK KOWALSKI

RICK KOWALSKI
MANAGING DIRECTOR
949.336.7431

Rick Kowalski is an experienced restaurant industry professional with over 25 years in QSR, Full Service and Fast Casual restaurants. He has held executive positions in franchised brands including Wienerschnitzel, KFC, El Pollo Loco, Hilton Hotels Corporation, Sizzler and Dunkin Brands. He joined National Franchise Sales as an Advisor working in the Newport Beach, headquarters office.

As Sizzler's Vice President of Marketing, Rick was instrumental in re-positioning the brand with new imagery, products and brand identity and at Dunkin Brands Rick worked with international franchised and licensed partners to drive record levels of trading profit with re-energized marketing, new product rollouts and operational improvements. He has a keen understanding of operations and what it takes for franchisees to be successful.

Rick and his team were responsible for taking the It's A Grind Coffee House franchise to regional prominence doubling the size of the company in less than 5 years and selling over 200 franchises. He facilitated the sale of the company to the Gloria Jean's group in Sydney, Australia.

Rick also helped launch splick-it, a mobile ordering, payment and marketing platform,

owns a patent for a foodservice technology product and he consults with over 15

private equity companies regarding acquisitions in the food service space.

Having a seasoned ability to understand franchisees, franchisors and a strong knowledge of the restaurant business, Rick will help NFS sellers and buyers efficiently navigate through the complexities of the resale process. As Brand Specialist for Round Table Pizza, KFC, Golden Corral, Schlotzsky's, Yogurtland, Dickey's Barbecue and Wienerschnitzel Rick will focus on the franchise community within these brands.

Rick and his wife have two daughters and live in south Orange County. He is a graduate of Arizona State University and holds an MBA from Pepperdine University.

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BRAND SUMMARY: FIREHOUSE SUBS

by Brittany Solaas | NFS Firehouse Subs Brand Specialist

Firehouse Subs® is a fast casual restaurant chain with a passion for Hearty and Flavorful Food, Heartfelt Service and Public Safety, which first opened in 1994 and began franchising in 1995. Firehouse Subs is a brand built on decades of fire and police service, steaming hot subs piled higher with the highest quality meats and cheeses, and its commitment to saving lives through the creation of Firehouse Subs Public Safety Foundation®. Built upon a family of franchise operators who share the same passion for serving others, Firehouse Subs consistently ranks No. 1 among fast casual brands in the categories of food quality, friendly service, and taste and flavor. The brand produced the second-fastest growth in U.S. franchise units as ranked by Nation's Restaurant News. To date, the company surpassed opening over 1,000 stores and has donated over $24 million to hometown heroes.

FIREHOUSE SUBS

FOUNDED BY FIREMEN™

BRITTANY SOLAAS
ADVISOR | TRANSACTION MNGR
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Franchisee Qualifications:
- Credit score of at least 650
- Minimum Net Worth of $350k and Liquid Assets of at least $80k
- Previous restaurant Management and/or Ownership experience is recommended
- Operator must be at least 50% Partner and devote F/T to Business
- Buyer must live within close proximity to the restaurant(s)

Training:
- Discovery Day in Jacksonville Florida
- Operationally approved buyers will spend 1 week of discovery in North Carolina
- After financial approval, new buyers will have an additional ~7 weeks of training local to the buyer's market

Franchise Fees:
- Initial Franchise Fee $20k per unit
- Royalties 6%
- Transfer/Training Fees $10k

Advertising Fees:
- Marketing: 1% National | 2% Local

Leases:
- Leases must be approved by Franchisor prior to transfer and must be co-terminus with the existing Franchise Agreement and options.

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