

WHAT IS ROBS FUNDING

AND SHOULD
I USE IT?



TABLE OF CONTENTS

2 WHAT ARE ROLLOVERS AS BUSINESS START-UPS (ROBS)?

A BRIEF HISTORY OF ROBS

3 STEPS TO CREATE AND FUND ROBS

1. Establish a C-Corporation
2. C-Corporation Sponsors a 401(k)
3. Roll Pre-Tax Retirement Funds into the 401(k)
4. 401(k) Purchases Common Stock
5. The C-Corporation Buys or Funds a Business

4 THE BENEFITS OF ROBS

- Fund a Cash-Rich Business
- A Direct Route to Profitability
- Control Your Retirement Accumulation

5 THE DRAWBACKS OF ROBS

- You Need to Work With an Expert
- Compliance is Key
- You're Now Responsible for a Business

6 ROBS FREQUENTLY ASKED QUESTIONS

7 HOW TO GET STARTED WITH ROBS

- Contact Tenet Financial Group

WHAT ARE ROLLOVERS AS BUSINESS START-UPS (ROBS)?

ROBS aren't a tax loophole!

While the tax code doesn't name them specifically, IRS Section 4975(d) (13) sets the precedent for ROBS, and they're recognized by the IRS.



The purpose of a retirement fund is to generate wealth while you work, so that one day, you can stop working and continue to support yourself. Unfortunately, that means trusting someone else to manage your money in the meantime: a financial advisor, fund manager, investment broker, etc. You're at the mercy of the market and whatever funds you're invested in.

Rollovers as Business Start-Ups (ROBS) offer an alternative option to generating retirement wealth. **They're the only legal way a person can use their retirement funds to finance or buy a new or existing business.** You'll need to take an active role in managing that business, but it's nevertheless an opportunity to take control over your retirement funds.

Whether you're buying a franchise or starting up a passion project, ROBS make it possible to use your retirement savings to fund a revenue stream that will continue to support you long into retirement.

A BRIEF HISTORY OF ROBS

The option for Rollovers as Business Start-Ups came into being as part of the Employee Retirement Income Security Act (ERISA) of 1974. ERISA gave employees more control over how they could save for retirement and opened the door for different types of qualified retirement funds. ROBS was a natural strategy borne out of many people's desire to have more control over their retirement wealth as an active investment, instead of passive accumulation.

STEPS TO CREATE AND FUND ROBS

The process for creating and funding ROBS is complex and requires the help of a financial professional familiar with this strategy. Thankfully, the strategy itself isn't difficult to understand. Here's a look at how ROBS allow you to tap into existing retirement savings to buy or fund a business.

1

ESTABLISH A C-CORPORATION

To remain compliant with IRS Section 4975(d)(13), prospective business owners need to incorporate. The entire philosophy of ROBS hinges on the formation of a C-Corporation. C-Corporations can issue stock to sell equity – a key component of ROBS. Without a C-Corporation to facilitate a sale of stock, you risk being in violation of IRS Section 4975(c) Prohibited Transaction Rules.

2

C-CORPORATION SPONSORS A 401(K)

Once incorporated, the C-Corporation needs to offer a 401(k) – not an IRA or other qualified retirement plan. The second part of a ROBS strategy involves rolling funds into this 401(k) and using them to facilitate the purchase of company equity. There are many benefits, rights and features of a 401(k) and you will have design options – such as Profit Sharing – and other ways of creating a custom plan.

3

ROLL PRE-TAX RETIREMENT FUNDS INTO THE 401(K)

Once the C-Corporation and corresponding 401(k) are established, business owners execute a rollover—this is where ROBS gets its name. It's as simple as transferring pre-tax retirement contributions from an existing IRA, 401(k) or other qualified pre-tax retirement fund into the company's 401(k). This rollover doesn't trigger a taxable distribution, which means you're able to fund the new 401(k) without paying tax or an early withdrawal penalty.

4

401(K) PURCHASES COMMON STOCK

With the new 401(k) funded via a rollover, you're now able to use those funds to purchase stock in the C-Corporation. This facilitates cash into the C-Corporation and establishes an ownership stake by the individual who owns the 401(k): you. The cash-rich C-Corporation then acts as a middle-man to buy or fund a business.

5

THE C-CORPORATION BUYS OR FUNDS A BUSINESS

The final step in a ROBS strategy is for the C-Corporation to buy or fund a business. There's plenty of options to consider, giving you the ability to make a confident investment. Buy a franchise, start a local business, delve into ecommerce or assume ownership of an independent business – whatever most appeals to you!



BENEFITS OF ROBS



What makes ROBS such an appealing source of funding? Being in total control over their investment is just the start! ROBS funding also helps businesses grow quicker, reach profitability sooner and grow their retirement savings in a major way.

FUND A CASH-RICH BUSINESS

Instead of going in debt to purchase a business, you'll have the ability to tap into your existing retirement savings. That means only being indebted to yourself! You're putting your hard-earned savings to work, which means starting or buying a business using earned equity financing, instead of debt financing. You won't need to worry about paying interest on your own money and can instead focus on keeping more money in the business, to fuel growth.

Better still? ROBS is a fast funding method of four weeks on average. It often takes much longer to underwrite a business loan or to apply for small business loans or lines of credit.

A DIRECT ROUTE TO PROFITABILITY

Less of a debt burden on the business means a quicker path to profitability. As a new business owner, this is important! Too many businesses go out of business because they're hampered by a weighted balance sheet. Your decision to fund with equity and keep cash in the business allows you to grow quicker and establish safeguards that protect the business from disruption or uncertainty. Get ready for a smoother path to profitability.

A profitable business means a stronger path to retirement. Your successful business will generate wealth that passes back to you as the owner, through your 401(k), salary and any dividends the company pays.

CONTROL YOUR RETIREMENT ACCUMULATION

The success of your business puts you in control over your retirement in a way passive investing simply can't. The stronger the cash flow and profitability of your business, the more you're able to contribute back into your retirement fund—tax-deferred! It's an opportunity to optimize business equity and value.

Use your business as a primary generator for income and retirement savings, and develop an exit strategy that sets you up for even greater financial gain in the future. Done right, you can reaccumulate your retirement savings, build far beyond them and sell your business for a hefty profit when the time comes to finally retire.

DID YOU KNOW?

Through the C-Corporation ownership structure and 401(k), you can set aside tax-deductible retirement savings for yourself.



DID YOU KNOW?

Funds from a ROBS can be used as the non-borrowed equity injection needed for most SBA Loans and to demonstrate post-close liquidity.



DID YOU KNOW?

When you are ready to exit the business, your C-Corporation will sell the shares of stock and create a cash-rich position for you once again.



CHALLENGES OF ROBS



ROBS are complex, and there are more than a few considerations you'll need to make before rolling your retirement funds over into a business. Here's a look at some of the potential drawbacks and some of the obstacles that can come with this strategy.



ROBS is not the right option for every entrepreneur. A qualified TPA will help you review and understand your options.

YOU NEED TO WORK WITH AN EXPERT

Setting up and executing a successful ROBS strategy takes a lot of work—and a lot of know-how to make sure it's done correctly. Everything needs to happen smoothly to avoid taxable events, IRS penalties and other common problems. It's not enough to work with a financial advisor or investment manager: you need to work with an experienced ROBS expert.

Make sure you're partnering with a qualified Third-Party Administrator (TPA) that can assist you in the ROBS process from beginning to end: from C-Corporation formation to planning your exit strategy. It pays to work with a steward that can help you establish the bedrock to a retirement-funded business.



You'll need to get familiar with IRS Form 5500, as well as IRS Form 1120. Make sure to find a tax professional that understands pass-through entities and ROBS.

COMPLIANCE IS KEY

A ROBS strategy must follow specific stipulations in order to remain IRS compliant. Forming a C-Corporation means setting up a pass-through entity. Moreover, you'll also need to handle the rollover of funds from your current retirement to a new C-Corporation-sponsored 401(k). It takes a keen understanding of IRS regulations and the tax code to facilitate it all smoothly.

As a legitimate business entity, your C-Corporation will need to file taxes annually, such as IRS Form 5500. Working with a tax professional is recommended to ensure initial and ongoing requirements are met.



Many people choose to go into business with a partner, spouse or business consultant, as a way to maximize the success (and lower the risk) of their ROBS strategy.

YOU'RE NOW RESPONSIBLE FOR A BUSINESS

Funding a business through retirement savings is a great way to take an active role in creating wealth. That said, you'll now have to manage a business! From operational decision-making to financial management, your oversight directly translates into the success or failure of the business. It's time to adopt an owner mentality, rather than the employee mentality you have likely held your entire career.

It's important to ask yourself if you're ready to undertake the responsibility that comes with business ownership—and the weight of success or failure that follows it. If you are, there's no better way to fund your venture than ROBS!



ROBS FREQUENTLY ASKED QUESTIONS

Have questions about ROBS? Below are a few of the most common. If you have additional questions, make sure you're speaking with a ROBS expert.

WHAT TYPES OF RETIREMENT PLANS QUALIFY TO FUND ROBS?

While IRA and 401(k) funds are the most common types of pre-tax retirements accounts rolled into ROBS, they're not the only ones eligible. 403(b) and 457(b) plans, Simplified Employee Pensions (SEPs), Keogh Plans and Thrift Savings Plans (TSPs) all qualify.

CAN I USE OTHER SOURCES OF FUNDING AS PART OF A ROBS STRATEGY?

Many people use both a ROBS funding strategy and a Small Business Administration (SBA) Loan to fund their new business. The two are not mutually exclusive and actually work together quite well.

CAN I USE ROBS TO START OR FUND A BUSINESS WITH A PARTNER?

Definitely. The C-Corporation equity structure allows you to issue ownership stakes accordingly. Many people using ROBS to start a business do so alongside a business partner, spouse or advisor who can contribute to the business' long-term success.

WHAT TYPE OF BUSINESSES ARE PROHIBITED UNDER THE ROBS FUNDING MODEL?

IRS criteria for ROBS dictates that the business must be an "active operating company." Businesses that do not fit this description include lending and investing companies, or single investments in real estate. Businesses must also be legal at the federal level.

HOW ACTIVE DO I NEED TO BE IN THE BUSINESS AFTER IT'S FUNDED?

Business owners need to maintain an active presence within the company and take a regular salary. IRS guidelines are purposefully ambiguous, and owners often have the ability to create their own role as an active employee.

DOES THE BUSINESS NEED TO REMAIN A C-CORPORATION FOREVER?

It's best to keep the business as a C-Corporation for the life of the company. Transition to a different business model could trigger an early withdrawal penalty that applies to any and all funds used to purchase the business through the C-Corporation.

HOW DO I REPLENISH MY RETIREMENT SAVINGS?

You can contribute up to 100% of your salary to your new 401(k), up to the annual limit. If you're age 50 or older, you can also make catch-up contributions to maximize retirement savings. There is no set repayment schedule for retirement savings.

WANT TO LEARN MORE ABOUT ROBS? It's vital to sit down with an experienced financial professional to understand the tax, legal and business ramifications of using ROBS to buy or fund a business—and to stay compliant in running your business.

HOW TO GET STARTED WITH ROBS



Are you interested in taking advantage of your existing retirement savings to buy or fund a business? ROBS offers a unique opportunity that can put you on the path to running a profitable business, while also funding your retirement. To get started with ROBS, make sure you're working with a qualified expert who's deeply familiar with the process.

TENET FINANCIAL GROUP IS HERE TO HELP.

We're dedicated to helping business owners navigate the ROBS funding process, start to finish. From franchising to recapitalization, our veteran advisors get you funded quickly and securely, so you can focus on your business.

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