Succeeding At Business Succession

Inc magazine reported that sixty-six percent of small-business owners have no formal succession plan.[1] While the number may shock you, it probably doesn't surprise you since so many small business owners are consumed by the myriad responsibilities of running their businesses.

Nevertheless, owners ignore succession planning at their peril, and possibly at the peril of their heirs.

There a number of reasons for business owners to consider a business succession plan sooner rather than later. Let's take a look at two of them.

Estate Tax Bill

The first reason is taxes. Upon the owner's death, estate taxes may be due that a proactive strategy may help to better manage.[2] Failure to properly plan can also lead to a loss of control over the final disposition of the company.

Second, the absence of a succession plan may result in a decline in the value of the business in the event of the owner's death or unexpected disability.

The process of business succession planning is comprised of three basic steps:

1. **Identify Your Goals:** When you know your objectives, it becomes easier to develop a plan to pursue them. For instance, do you want future income from the business for you and your spouse? What level of involvement do you want in the business? Do you want to create a legacy for your family or a charity? What are the values that you want to ensure, perhaps as they relate to your employees or community?

2. **Determine Steps to Pursue Your Objectives:** There are a number of tools to help you follow the goals you've identified. They may include buy/sell agreements, gifting shares, establishing a variety of trusts or even creating an employee stock ownership plan if your desire is that employees have an ownership stake in the future.

3. **Implement the Plan:** The execution step that converts ideas into action. Once implemented, you should revisit the plan regularly to make sure it remains relevant in the face of changing circumstances, such as divorce, changes in business profitability, or the death of a stakeholder.

Keep in mind that a fundamental prerequisite to business succession planning is valuing your business.

As you might imagine, business succession is a complicated exercise that involves complex set of tax rules and regulations. Before moving forward with a succession plan, consider working with legal and tax professionals who are familiar with the process.

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1 Inc.com, June 20,2014

[2] Typically, estate taxes are due nine months after the date of death. And estate taxes are paid in cash. In addition to estate taxes, there may be a variety of other costs, including probate, final expenses, and administration fees.

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