GALLAGHER, FLYNN & COMPANY, LLP

Succession Planning for Business Owners

For business owners, succession planning is essential to ensure that their business will survive, if not thrive, through a transition of leadership. Business continuity is the most obvious benefit of succession planning, but not the only one.

- Planning can help provide business owners with a smooth path to retirement.
- Planning and mentorship can ensure that the next generation of leaders is trained and prepared for future responsibilities.
- Planning can be used to minimize tax liabilities and ensure wealth is transferred according to an individual's wishes.
- Planning can help to minimize potential problems among family members of closely held businesses.
- Planning can help leadership retain control over the succession process instead of having someone else make the decisions.

In this article, we'll cover key components of succession plans, unique considerations for family businesses, and important parts of the succession planning process.

Why Everyone Needs a Succession Plan

On a personal level, most of us understand how important it is to plan for the transition of our assets and liabilities after we're unable to care for ourselves. People of all income levels recognize the need for estate planning – to ensure their wishes are carried out by loved ones and their affairs are managed. With proper advanced planning, families can leave behind a legacy beyond mere wealth.

Executives for large companies also tend to recognize the need for succession planning - to ensure the corporation will operate smoothly even during major transitions. Most corporate leadership positions require a complex array of skills and experience. By actively monitoring, training, and preparing younger leaders to take on these roles, companies can save significant capital and simultaneously promote employee morale.

Small business owners, on the other hand, often neglect to engage in any succession planning. This isn't because small business owners want their business to end or fail, but because they don't know where to start. Through the succession planning process, even small business owners can identify and train potential replacements, plan for transfers of wealth and control and rest easier knowing a plan is in place.

Succession Planning for the Family Business

A 2016 survey by the National Bureau of Economic Research Family Business Alliance found that 43% of family-owned businesses don't have a succession plan, yet 75% plan to pass their business ownership to the next generation. The problem with these figures is that, absent a great amount of luck, those businesses passed on without a formal plan may not survive.

It can be incredibly difficult for a small business owner to think about retirement, let alone set aside time for formal planning – yet, it is a necessity. Succession plans work best when they are made and discussed well in advance. The next generation of leaders, even those that are children of current owners, need training and experience to successfully transition into business ownership. Moreover, failure to discuss business continuity in families with more than one child could even lead to family rifts and unnecessary litigation.

Different Components of Succession Planning

Succession planning certainly includes the identification and grooming of a successor for the business. But, there is much more to planning than just that.

Succession planning starts with defining your personal and business goals. When do you plan on retiring and how does the transition from leadership to retirement look like? What are your retirement needs and what do you hope to provide to your heirs? Do you have family members who are involved with or will be involved with your company? How do those family members play into your succession plans? Defining your personal and family goals are important because they help shape the components and strategies developed for your succession plan.

Talent Management

At the center of succession planning is identifying and growing successors to key management, not just the owner of the business. A plan should include an assessment of your existing personnel and identify potential leaders and successors within your organization. It should consider existing management and their potential timing for retirement. Defining clear paths for growth and development of future leaders not only contributes to your succession planning, but helps boost employee morale, loyalty and excitement.

Personal Estate Planning

It's hard to adequately plan for business continuity if a company's owners or leaders don't have a plan for their own personal affairs. An unexpected accident or death, without any personal planning, could significantly disrupt a family business, partnership, or even corporate governance. All individuals, particularly those in leadership positions with far-reaching responsibilities should have their own estate plans to ensure decisions can be made promptly in the event of an emergency.

Partnerships and Management Continuity

Business partnerships come with their own unique planning concern. While a partnership often involves two or more individuals, decisions will require input from a partner's family if something happens to one of the partners. This is one of the ripest areas for partnership-related disputes and business dissolutions. One of the most common ways to ensure management continuity in a partnership is the cross-purchase agreement. Cross purchase agreements usually require each partner to take out a life insurance policy listing the other partner as beneficiary. That way, if one partner dies at a time when the other partner doesn't have enough money to purchase the deceased partner's share, the life insurance proceeds will enable them to do so.

Transfers of Ownership

Your plans may include transferring part or all of your ownership to others in the future. Your corporate structure and valuation should be considered, and a strategy developed for the smooth transfer of ownership while minimizing taxes. This strategy may require a valuation of your business now or in the future.

Tax Planning and Gifting

Savvy tax planning can enhance personal and business wealth, increasing that which is passed on to the next generation. Your company's retirement plan should be assessed to minimize tax liabilities and to maximize your wealth. Gifting and estate planning tax strategies should be developed to pass assets, which may include your equity interests, to your heirs.

So these are just some of the things to consider when developing a succession plan. Every business and situation is unique so it's important to talk through a plan with an expert.

Do you Need a Succession Plan?

1. Have you defined a vision for the transfer of ownership and management of your company?
2. Have you identified one or more potential successors and defined a path to developing them for leadership?
3. Do you have plans in place in the event of your untimely death or the death of another leader within your company?
4. Do you have a cross-purchase agreement in place with partners?
5. If you passed away, would any family members be financially dependent upon your estate and if so, do your succession plans account for this?
6. Have you communicated succession plans with your family and worked through any potential issues with them?
7. Will your company have an appropriate amount of liquidity to continue operations or carry out any stock purchase agreements?
8. Do you have strategies in place to minimize taxes on your distributions, the transfer of ownership and/or the transfer of your estate?
9. Have you assessed your corporate structure and how it may affect the transfer of ownership?

These are just some of the questions that will help you assess where you stand in your succession planning.

Final Thoughts

One of the most important parts of the succession planning process may be just consulting with an objective professional. If you would like more information on how to start succession planning, contact our office today. Our experienced accountants can help with your succession planning needs, in addition to personal estate and tax planning.

GALLAGHER, FLYNN & COMPANY, LLP

Certified Public Accountants & Business Consultants

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To build these connections, we utilize our nearly 60 years of commitment to excellence. It's a commitment we reaffirm every day, as we strive to serve the unique and often evolving needs of each of our clients. By taking the time to get to know and understand the people and companies we work with, we are able to craft strategies that efficiently leverage our decades of experience and wealth of resources.

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