

Planning Partners PressTM

A Fax Update From The National Network

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Business Succession Planning:

Keeping it in the Family

(Part 1 of 2)

Many professional advisors are surprised to learn that the hard part of business succession often has nothing to do with taxes, legalities, or buy-sell strategies. The hardest part is often dealing with the family issues – especially when some children are involved in the business, and others are not. Approximately 90% of American businesses are family-owned, but only 30% survive to the second generation – and even less to the third. A primary cause for so many failures is lack of planning.

You can serve your business owner clients by helping them think through all the issues long before the founder becomes seriously ill or passes away. Consideration should be given to both immediate operational needs and future strategic goals. Who will actually control the business? Who will run day to day operations? How and when will a transition take place?

Business succession is part of a good estate plan. In one sense, the family business is simply one asset that needs to be planned for, but it's often the largest and most important. It is usually also the most difficult to plan for effectively. Several months ago, we discussed selling a business to non-family members. In this article, we'll focus on transferring the business to the owner's children.

Major conflicts often arise because of the great polarity of interests between the players. The founder of the business (often the father) has a vision of how things should be run, both now and in the future. The business is something that he has created from scratch, and has poured everything into – perhaps for a lifetime.

Mom may or may not be involved at all. Then there are the children – some who depend on the business for their livelihood, and others who have no interest whatsoever. And of course, even in an interfamily transfer of the business, we must consider the faithful long-term employees!

Some owners may wish to control the business until their dying day; others may choose to dispose of the business during lifetime and enjoy a more leisurely retirement. Transfers of a family business to the children may be by gift or sale.

Gift-giving often has estate planning advantages, since lifetime gifts can reduce the value of the owner's gross estate. If the owner has plenty of other assets to live on during retirement, and is concerned about estate taxes, he or she might want to consider gifting.

A well-designed gifting program will remove both assets and appreciation from the estate. They can even be leveraged if the gifts qualify for discounts for fractional interests or lack of marketability. There are many legal considerations in a gifting program, so the client's attorney should be involved in the plan.

We'll further discuss both gifting and sale strategies to children in our next issue.

PERSONALIZE ME!

This area of the Planning Partners Press newsletter is used to provide information about your firm, upcoming workshops, and biographical information.

Examples include:

Upcoming Workshops

Truth About Estate Planning Workshop

- May 7, 2025 at 2:00 p.m.
- May 12, 2025 at 7:00 p.m.

Biographical Information

Attorney Robert Smith limits his practice to the area of Estate Planning and Administration. Our offices are located ...

Or even graphics!

