

Planning Partners PressTM

A Fax Update From The National Network

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Business Succession Planning:

Keeping it in the Family

(Part 2 of 2)

In the first part of this article, we introduced the idea that a successful transfer of a business, from the founder to his or her children, requires comprehensive and early planning. Some owners might have sufficient assets for retirement, and may want to gift the business to their children.

However, in most cases, the owner will wish to sell the business. Many self-made entrepreneurs will sell rather than gift, simply to teach their children the value of hard work, and not having things handed to them. Others will require the proceeds of the sale to continue to support, during retirement, the lifestyle to which they've become accustomed.

Conflicts of some sort are probably inevitable between children working in the business (insiders) and those not involved in the business (outsiders). Sometimes the problems are more with the children's spouses than the children themselves!

Typical things that the kids fight about include:

- Outsiders may believe insiders' compensation is excessive and outsiders are not being treated equally.
- Outsiders may question day to day business decisions, especially capital expenditures.
- Insiders may believe they are working too hard, deserve more compensation, and that the outsiders are always asking for a greater return as shareholders than they are entitled to.

Conflicts may also develop between the insiders themselves, so it is important to plan who will be in charge, and how the business will run. This argues for a lifetime transfer on the part of the owner, so that everyone can see the succession plan at work, and the owner can serve as mediator if required.

If the succession doesn't take place until the owner dies, there are typically four options for how to transfer the business to the children:

1. Transfer the business equally to all children.

2. Transfer the business to insiders only and make distributions of equal value to outsiders with other assets.
3. Transfer business to insiders only and make distributions to outsiders of other assets, regardless of value.
4. Transfer business equally to all children and provide for redemption in a buy-sell agreement.

Each of these approaches is problematic. A purely equal distribution is usually disastrous for the business. If the owner tries to equalize with other assets, who decides what's "equal?" What if there are not enough other assets? Giving other assets of non-equal value to outsiders may work, but the owner is often uncomfortable if not treating the kids equally.

All in all, it is usually better to let the insiders have the business, and keep the outsiders outside. Life insurance becomes a great tool for the insiders to fund the purchase of the business, and for the outsiders to also receive their fair share.

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!

