



Succeeding at Business Succession

A succession plan outlines the way a family business should be managed after the retirement of the current owners. It includes not only ways to ensure the continuity of the business, but also how to minimize the amount of taxes that must be paid. It is a process requiring planning, teamwork and constant re-evaluation.

WHEN TO START PLANNING

It's never too soon to consider business succession planning. An ideal succession plan requires you to lay the groundwork over many years. After all, how you want your business to function tomorrow will influence how you structure and operate it today.

DEVELOPING A SUCCESSION PLAN

The two key elements to a successful succession plan are:

- 1) Transfer of Power—where control over the business operation is transferred to those best suited to accept it.
- 2) Transfer of Assets—where the business' wealth is transferred to designated family members.

SUCCESSION PLANNING ALTERNATIVES

Transferring to Your Children Over Time

If your children will be taking over the business, you can begin transferring some of the business interest to your beneficiaries through a regular gifting program, which helps limit the tax liability. You can gift up to \$11,000 per year, per recipient without incurring gift taxes. However, this process could take a great deal of time.

Transferring to your Children through a Bequest

The IRS allows a five-year tax deferral for estate taxes incurred when a closely held business is included in your estate, and then allows the tax to be paid in annual installments over 10 years. This gives your beneficiaries time to raise funds or take advantage of better interest rates. To qualify, the business must exceed 35 percent of your gross estate and must meet other requirements.

Selling your Business to Family

If you sell your business for full fair market value to a family member, it is not subject to gift or estate taxes. However, if the sale takes place before your death, it could be subject to capital gains tax.

Transferring Business Interest with a Buy-Sell Agreement

This allows you to keep control of your interest in the business until a specified event occurs—such as your retirement, disability, divorce or death. Once the trigger event occurs, the buyer must buy your interest from you (or your estate) at fair market value.

Private Annuities

This allows you to transfer complete ownership of the business to a family member (or another party/buyer), who then makes an unsecured promise to make periodic payments to you for the rest of your life. Because this is a sale and not a gift, it allows you to remove assets from your estate without incurring gift or estate taxes.

The risk is that the buyer's promise must be unsecured for you to receive the tax savings—so you could lose your money if the buyer fails to pay.

