BUSINESS SUCCESSION: PASSING AND NOT DROPPING THE BATON

Many business owners work for years or decades to develop a successful business. However, without proper planning, the business may become worthless after the owner's death, divorce, retirement or disability. There are several non-tax steps owners can take to achieve a successful exit strategy.

WRITE A MISSION STATEMENT.

Owners are often faced with the larger succession questions: Who will run the business? Who will own the business? How will estate taxes get paid? How can estate tax savings be maximized? These issues are difficult to tackle all at one time, which explains why many owners never put a succession plan in place.

These questions come into focus when mission statements are prepared for the family and the business. Your mission statement can be a brief description of your long-term family and business goals.

Consider the following questions to shape your business's mission statement:

- When do you want to leave the business?
- Do you want your spouse or family in the business?
- Do you want the business to continue after you step away or do you want it sold?

ADD OUTSIDERS TO YOUR BOARD OF DIRECTORS.

Especially in family businesses, tensions frequently arise if multiple children or children from different marriages are involved in the ownership and management of the business. One child may wind up taking over the business, while the other children become passive investors. The passive investors typically want larger dividends, while the children running the business want to reinvest any profits back into the business.

Adding outsiders to the board of directors can minimize these types of intra-family conflicts. Independent board members help keep the focus on what is best for the business and serve to minimize family issues that can impact business operations.

Many owners are reluctant to add outsiders to their board of directors because they think that the board members need to be the owners; however, there are many talented outsiders who actively serve on boards without acquiring ownership interests.

START NOW. DON'T WAIT.

Developing your exit strategy, as soon as possible, gives your business the best chance to survive future events.

Your children and others may need time and training to develop the skills necessary to manage a business. Customers, banks, creditors and others may need a transition period to get used to or familiar with the future owner, especially in a service business.

Early planning also allows for gradual gifting of ownership interests to the next generation. There are several techniques that can take advantage of today's low interest rates, including installment sales, grantor-retained annuity trusts and other gifting vehicles. These can pass on future appreciation to the next generation and reduce future estate taxes.

If you would like to have your business succession plan reviewed, or if you would like any further advice on wealth transfer planning, please contact Sean Fahey at 317-633-4884 or sfahey@hallrender.com or your regular Hall Render attorney.

To learn more about Hall Render's estate planning practice, please click here.