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Succession Plan for Family Business and Related Estate Planning

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Managing the Business ...and the Family Participants

Step 1

- Identify:
 - Owners & family members working in the business
 - Family members NOT in the business
 - Other KEY PERSONS



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Plans for Business

Step 2

Prepare Business for:

- Sale to family member
- Succession by gift or inheritance



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Plans for Business

Succession/Gift Considerations:

- Family members wish to continue?
- Same goals as owner?
- Able to run business without owner?
- Will non-successors create issues?
- Succession discussed?
- Children interviewed without parents?



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Present Business Practices



Fair Market Value:

Are family members:

- Overpaid?
- Receiving perks?
- Unqualified for position?

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Present Business Practices

Also consider:

- Who is in charge
- True value, post clean-up
- Business goals



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Succession: Potential & Pitfalls

Leadership



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Succession: Potential & Pitfalls

Management



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Succession: Potential & Pitfalls

Governance



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Succession: Potential & Pitfalls

Keys to Success



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Giftgng a Business

Consequences:

- Federal Gift Tax = 40%
- Use of Minority Discount
- Cost Basis = Owner's
- Equalization
- Appreciation
- GST Exemption



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Selling a Business



Consequences:

- All or Partial
- Discount Valuation
- Basis Benefits
- Capital Gains
- Income to Owner
- Appreciation out of estate
- GST Exemption

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Passing a Business at Death

Benefits:

- Step up in cost basis
- No capital gains during life
- Potential estate tax/payment issues
- Problematic partnerships avoided



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Buy/Sell Agreements

Benefits:

- Agree or not
- Death, Disability, Retirement
- Funding
- Valuation



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Exit Strategies

- Self-Canceling Installment Note
- Family Limited Partnership
- GRAT
- GRUT
- Private Annuity



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Exit Strategies

Consider:

- Federal Estate/Gift Tax
- Capital gains tax
- Retaining control
- Lifetime income
- Creditor protection
- Potential risks
- Formalities + follow-through
- Planning costs vs. benefits



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