

GETTING STARTED

PLAN YOUR BUSINESS'S SUCCESSION

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Business owners often find succession planning baffling. Clients call us, incredulous, asking why so many consultants are pushing them to address a problem they don't understand. They ask, "What is business succession planning, anyway?"

Business succession planning is the process by which business owners determine the manner in which new management and ownership will replace current management and ownership. It can take many forms: It can address a near-term change in control, ownership, or management. It can also consider a transition far into the future, but still include plans to keep the business alive if an unexpected death or disability occurs, which could lead to the erosion of the company's core principles. Business succession planning seeks to maximize the value of your business to you and to future generations of your family.

Successful business succession planning works differently for different people. The most successful business succession plans result from active thinking by business owners who set their own goals, then connect their succession plans to those goals. Let's look at a typical process we would use to develop such a plan for your business.

Set Goals

As a business owner, once you understand the concept of business succession planning, your next logical step is to decide how such planning fits your specific needs.

If you are a relatively young owner of a growing business, you may not contemplate a change in ownership or control for many decades. You may, however, undertake business succession planning to deal with the possibility that your health will deteriorate or that you will die prematurely.

But if you are a mid-career owner of a valuable or rapidly growing business, you may undertake business succession planning in anticipation that your business will create estate taxes many years in the future. Here, you may wish to reduce that estate tax burden by divesting yourself of ownership at an early age.

And if you are a late-career owner, you may undertake business succession planning to create liquidity for retirement. You may want to transition the business to younger family members so they can continue the business even after you retire. Alternatively, you may seek outside capital to grow your company to better position it for sale to an outside party before you reach an age when you no longer wish to manage the business.

Depending on your age and the particulars of your business, you will likely develop a succession plan distinct from owners at different stages of their lives—an appropriate strategy because individual owners have different goals. Knowing your goals is essential: it allows you to select the right planning tools to meet your needs.

Be Proactive

No matter what your reason for business succession planning, be proactive. Set your own goals. Set deadlines. Create your own process that suits your needs. When meeting with your advisors, express your goals. If an advisor says you need an ILIT, GRAT, IDGT, SCIN, private annuity, or anything else with a catchy name, stop the conversation and ask how the suggested tools fit your needs. Each business succession planning tool can be effective. Each, however, is useful only to solve certain problems. If you don't have those problems, then that particular tool may not serve your goals.

As you move ahead with business succession planning, don't forget the old saw, "The perfect is the enemy of the good." You cannot anticipate everything that will happen. You cannot always control your own health or the health of others. Your business could have significant, unexpected setbacks—or it could have serendipitous windfalls.

Do not use uncertainty as an excuse to procrastinate. You will update your business succession plan periodically. Taking advantage of what you know and can control, you can develop a plan that fits you and your business for the foreseeable future, knowing you can adapt it as your personal situation and your business evolve.



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REQUISITE VI

The Business Succession Edition

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