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PASSING DOWN YOUR FAMILY BUSINESS

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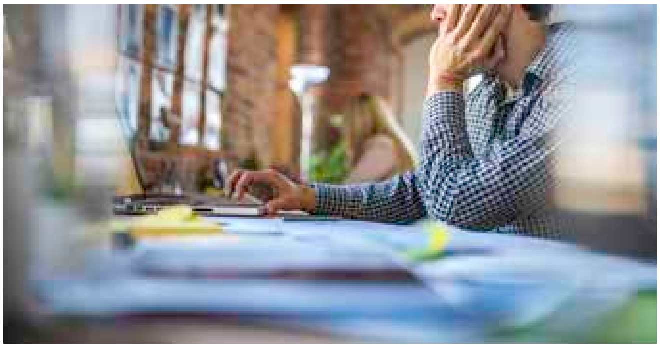
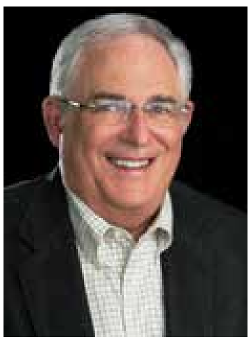


PASSING DOWN YOUR FAMILY BUSINESS

You can't run your business forever. Sooner or later you'll need to develop an exit plan. That plan might include dissolving, selling, or passing down the business to the next generation in your family.



By Steven Bankler, CPA

If it's the latter, emotions can further complicate matters. Family business owners are often caught without a safety net when the sons or daughters they always envisioned running the business one day are either unwilling or unable to do so.

A good succession plan will take this into account by outlining the roles and compensation for active versus passive heirs. Active heirs are those who keep the day-to-day business thriving. A passive heir may be one who has pursued a career outside the family business but who remains part of the business decision-making process.

When passing down a business to either active or passive heirs (or both), consider:
How involved will you be in the beginning? Business ownership is often passed on while control remains—officially or unofficially—in the hands of the original owner, which can cause significant problems. While it may take some time to "untangle" yourself from the business, make sure you have a plan to do so.

How will each heir be compensated? It might seem to make sense to give an active heir a larger salary for running the business. However, in the current tax environment it may make more sense (and lower taxes) to have a larger share of the business profits. At the same time, giving equal ownership can protect both active and passive heirs from making decisions that may not be fair to the other owners—or healthy for the business as a whole.

Will you include a buyout agreement? Your succession plan should include a buyout clause. These agreements are often used by the active heir as an option for more control when the business is ready to grow or change. Even showing that the passive owner was offered money but refused it may help loosen restraints for an active owner.

And what if you want the business to remain in the family, but no one in the family wants to be active in the business? A well-planned succession plan can cover this scenario in several ways. You and your family may choose to name a manager, CEO, or a management company/partner (depending on your business structure) from outside the family, with your heirs maintaining ownership.

Finding executive leadership from outside the family who fit the culture, values, and communication style of the "roost" can be beneficial. That person or team can offer a fresh perspective and make less emotionally driven decisions for the benefit of the business.

The key is to plan ahead, so that you—as the business owner—can make the ultimate decision on the type of succession arrangement that will keep your business and your family thriving for decades to come. Consider consulting a professional exit planner as well as a tax advisor and an attorney to help put a plan together with everyone's best interest in mind.

Steven Bankler has more than 40 years of experience in the accounting industry. Steven's expertise lies in consulting, planning, tax, and asset protection as well as exit strategy services for closely held businesses. He also provides litigation support (both as a testifying expert witness and a consulting expert), business negotiations and estate planning. For past Building Savvy tax tips and to learn more about Steven Bankler, CPA, Ltd., visit www.bankler.com