

Shavano

August 2021

A publication exclusively for the residents of Shavano Park

LIVING



Inaugural Graduation Edition
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KJ
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SIX EARLY MOVES **for Family Business Succession**

business beat

There is only one certainty for business owners: You won't be able to stay at the helm forever. You'll exit, either by choice or by circumstance. Some business owners prepare years in advance for that day, but family business owners don't often have such a clear vision in place.

Overlooking a smart exit plan can lead to high taxes (sometimes 40% of the sale — even to heirs) or worse: a sudden dissolving of the business you worked so hard to build. Here are six ways to change that potential outcome for your family business:

GET PLANNING. The most recent PwC Family Business Survey found that families who run businesses together have fallen woefully behind on having important strategic documents in place. Only 47% have a shareholder's agreement, 19% have emergency and contingency procedures, and 18% have entry and exit provisions. Don't forget the "business" part of the family business. Have a smart exit strategy that includes the plans above and other tools like a buyout agreement.

SEPARATE YOUR BUSINESS FROM YOUR PERSONAL LIFE. Do you know how interconnected your business and personal assets are? Find out. Too many family business structures don't provide optimal asset protection between the company and family. A good structure can also establish order and governance, which can, in turn, cut down on family disputes over business decisions.

GET YOUR HOUSE IN ORDER TOO. Tend to your personal estate plan. Only 34% of small business owners have a will (the most basic building block). Neglecting an estate plan can lead to higher estate taxes and other problems. For instance, not naming a power of attorney can tie up your finances for heirs who need it to run the business, and lack of a written plan may keep the keys to the business away from those who need them (while the courts decide what to do).

BE HONEST WITH YOURSELF. Passing a business down to family is so complicated that most don't succeed. Too often, heirs are uninterested in or incapable of running the family business. "Passing the legacy of a successful enterprise to children can be one of the greatest thrills of a parent's life," states our colleague John F. Dini, an exit planning consultant and coach. "When the kids don't cut it, however, it is wise to face facts and plan accordingly. Glossing over the issues will inevitably lead to more pain down the road."

HAVE A GOOD SALE STRATEGY. Remember that business owners can owe more than 40% of the total amount paid for the sale in taxes. Avoid this by understanding the difference between capital gains and ordinary income. A sale price that looks better than another on paper may end up hitting your wallet harder come tax time. And if you think you can avoid a tax bill by gifting your business to your heirs instead of selling, think again. That decision could cost you both dearly, depending on several critical factors.

STAY AHEAD OF CHANGING TAX LAWS. Capital gains, estate, and other taxes are changing under the current Biden administration. Each of these tweaks could result in thousands more in taxes if you don't plan accordingly. If ever there was a time to evaluate your exit plan, business structure, and estate plan, it's now. Few plans that made sense over the past four years will still make sense by the end of 2021.

Passing a business down to the next generation is easier said than done. For the business to survive the transfer, be mindful of the costs and plan ahead. The next generation will thank you.

Steven Bankler has more than 44 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. Visit www.bankler.com for additional tax strategy tips and to learn more about Steven Bankler, CPA, Ltd.

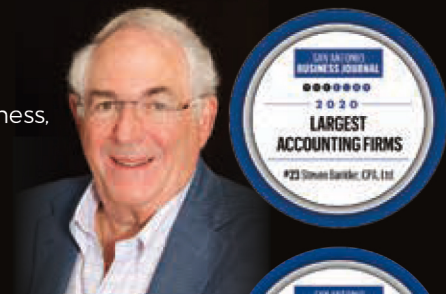
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