

Personal Planning Tips for Business Owner Succession

By Bobby Gentry

You have spent your life building a business that you are proud of. As you reflect on the next phase of your life, you want to leave a thriving business for the next generation. With a generation of business owners aging into their retirement years, it is becoming increasingly important for these planning conversations to take place. A recent study showed that 51% of small business owners are over the age of 50. A similar study found that 58% of business owners do not have a specific succession plan in place. If you're feeling unprepared, you are not alone. Here are some tips to help you get started.

Build the (Planning) Dream Team

As you begin to think about this next phase of your life, it helps to have professional guidance and counsel to navigate the many difficult decisions ahead. A team of professional advisors can help you to:

- understand and articulate your goals (perspective)
- determine the tax, legal, and financial strategies to best accomplish those goals (technical expertise)
- help you navigate the potholes, speed bumps and roadblocks that inevitably come up on your journey (experience).

Collaboration is an essential element in this well-functioning team. Each team member provides technical expertise in a different discipline. Furthermore, each advisor has his or her own set of experiences dealing with similar issues from which to draw. This provides the opportunity to bounce ideas off each other and to create a thoughtful plan that has been considered from different perspectives. We have seen these situations play out with—and without—collaboration among advisors and strongly suggest the former in finding a team that can cohesively recommend the best solution for you. While this team is important, you should ultimately identify one member to serve as the “quarterback” or “go-to” person who will spearhead the overall team.

The value of good advice can be hard to quantify when everything goes according to plan. A well-executed plan can save you money on taxes, legal fees and the intangible heartache along the way. Start your team with an existing trusted advisor and ask him or her to help build out this team. Additionally, online resources offer lists of credentialed professionals in your area. Visit the Estate Planning Council of Seattle's website at www.epcseattle.org for a directory of planning professionals serving the Puget Sound area.

Understand Your Desired Outcomes - Goals Drive Strategy

Once you have your planning team in place, it is time to start articulating your desired outcomes. Every business owners' priorities and goals are unique.

- From an ownership perspective, do you plan to transfer or sell ownership to your family or employee group, will you try to maximize value by selling to a third party, or might you consider some combination of the two?
- Who will run the business when you're gone, and does that person have the knowledge and desire to take the reins?

- From a financial and estate planning perspective, how much money do you need from the business to achieve the financial goals your family desires and can the economic interest be transferred in a tax efficient way?

Your planning team helps draw out these goals by asking questions designed to get you thinking. Often, there are competing priorities which will take time to work through with your team. Once you can articulate exactly what you want, your team can put together potential strategies, pulling in additional professional expertise, and executing the agreed upon strategies.

Communicate

During the initial discovery and planning phase it is critical to have open communication and collaboration with your advisors. Many strategies can work for any desired goal; the key is finding the one that works for you and having open lines of communication to help throughout the process. Once a strategy is agreed upon, it is important to control the narrative during this transition period. Clear communication with key stakeholders, whether with future owners and managers, your family, or your planning team, will help make this transition smoother. It is equally important that news of any change doesn't get out to your customers or employees. Keep the conversations with your key stakeholders private and carry on with business as usual with everyone else.

Don't Wait

The most common mistake we see business owners make is not having a plan in place. Often, planning is done after many tax saving opportunities are either no longer available or a good opportunity was missed. Having a team in place to build the plan long before a sale or transition is imminent provides the best opportunity to take advantage of all the various strategies.

As an example, a business owner brings his team together knowing that he wants to sell his business in the next year or two. If the business is structured as an LLC, the business owner would not be able to convert it to a C-Corporation to take advantage of the Qualified Small Business Stock rules to reduce or eliminate his capital gains tax bill, potentially missing out on over \$2 million of tax savings. To qualify for these savings, the owner would need to hold the stock for five years after converting to a C-Corp, throwing off his timeline of one to two years.

When people think of business succession planning, they usually think of a specific plan for retirement or passing their business to their children when they're ready. However, the planning that is done with your team will also put into place a structure and plan for unforeseen circumstances, such as an untimely death or disability. A well thought through succession plan will provide for financial and management stability during these stressful times.

Start Today

Succession planning will help you provide a legacy for your family and your business. Starting today will give your planning team a head-start and give them every tool at their disposal to optimize your plan. Talk to your trusted advisors today to get the process started.

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