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As we enter the final quarter of the year and as various things come up having to do with the pandemic, many changes have likely had to take place in your business. How might this affect the future of your business? In terms of succession planning, the pandemic may or may not have an impact, but nonetheless, it is never too late to be putting one's succession plan in place, whether that is selling to a different party, the next generation, or shut-down of the business and everything that goes with it. This month's article hopefully provides some thought-provoking information.

Best Regards,

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FAMILY BUSINESS SUCCESSION PLANNING—

PLANNING NEEDS TO START EARLY

BY ***SUSAN WARD*** | the balance small business

Every company that wants to pass on its business to the next generation needs a business succession plan.

Sooner or later, everyone wants to retire. However, determining what happens to the business can be as important as ensuring that you have enough money to retire on. Who's going to manage the business? How will ownership be transferred?

With family businesses, succession planning can be especially complicated because of the relationships and emotions involved and because many people are not comfortable discussing topics such as aging, death, and financial affairs.

BUSINESS STRUCTURE, OWNERSHIP, AND TAXES

The assets of a sole proprietorship or partnership are indistinguishable from the personal assets of the owner. Separate the business from yourself by forming a corporation that can continue to operate after it is sold or after the owner has died.

If transferring the business, it's important to realize that management and ownership are not the same. You may decide, for instance, to transfer management of your business to just one of your children but transfer equal shares of ownership to all your children, whether they're actively involved in operating the business or not.

However management and ownership are defined, accountants and lawyers who specialize in business succession planning can provide advice about strategies to minimize taxes when the transfer takes place.

By reorganizing your corporation to exchange your common shares in the business for preferred shares with a fixed value equal to the common-share value, you can pass all future capital appreciation and income tax liability on that future appreciation to your children while you retain control, and access to the current value of the business, in effect freezing the corporation.

SUCCESSION PLANNING TIPS

Family is the primary emphasis of succession planning for many businesses. Whether you're thinking about the future management of your business, how ownership is going to be passed along, or taxes, you won't be able to help thinking about how your decisions will affect your family. Consider six key tips to have the best chance at a successful transition.

1) START PLANNING EARLY: *Five years in advance is good, but 10 years in advance is better. Many business advisers tell budding entrepreneurs to build an exit strategy right into their business plan. The longer you get to spend on succession planning, the smoother the transition process is likely to be.*

2) INVOLVE FAMILY MEMBERS IN DISCUSSIONS: *Making your own succession plan and then announcing it is the surest way to sow family discord. Discussing the plan helps to identify who in the family wants to be involved directly and who is focused elsewhere. It also might help some family members find interest in the business they didn't know they had.*

3) BE REALISTIC: *You may want your first-born son to run the business, but does he have the business skills or even the interest to do it? Perhaps there's another family member who is more capable. It may even be that there are no family members capable of or interested in continuing the business and that it would be best to sell it. Examine the strengths of all possible successors as objectively as possible.*

4.) DO WHAT'S BEST FOR THE BUSINESS: *Making sure everyone has equal shares seems nice, but it may not be in the best interests of your business. It may be fairer for the successor(s) you have chosen to run the business to have a larger share of business ownership than family members not active in the business. Another alternative is to use voting and nonvoting shares so that only some of the family shareholders can make decisions on company policy. It may be best to transfer both management and ownership to your chosen successor and make other financial arrangements to benefit your other children.*

5.) TRAIN YOUR SUCCESSOR(S): *How can you expect your successor to take over and run your business successfully if you haven't spent any time training him? Your succession planning will have a much better chance of success if you work with your successor(s) for a year or two before you hand over the reins. For solo entrepreneurs, sharing decision making and teaching business skills to someone else can be difficult, but it's definitely an effort that will pay big dividends for the business.*

6. GET OUTSIDE HELP: *Lawyers, accountants, financial advisers, and others can help you put together a successful succession plan. There even are companies that specialize in family business succession planning that will facilitate the process of working through issues.*