The Top Ten Steps of Succession Planning for the Privately-Held Business

Succession planning for the privately-held business is an orderly process by which the ownership and management of a business are transferred to the next generation in a tax efficient manner. The steps are as follows:

1) **Personal Financial Plan**. The process should start with a personal financial plan for the business owner. This critical first step guides the remainder of the process. Does the owner need additional retirement income from the business? Is the owner in a financial position to gift ownership to family members without any consideration? A personal financial plan for the business owner will project the retirement income needs of the business owner and compare that to income available from other sources. This will allow you to assess how much income the business owner still needs or desires from the business.
2) **Family Plan**. A Family Plan will then access the future roles of family members for those both active in the business and those not actively involved in the family business. This includes fairness of compensation issues from the business and fairness of inheritance issues for everyone.
3) **Business Strategic Plan.** What is the Strategic plan for the business looking beyond the owner's retirement? This will assess the economic outlook of the industry and look at financial trends. Is the business still anticipated to be in a growth mode?
4) **Corporate Governance**. Establishing a more formal corporate governance structure of the entity is an important part of the succession plan. This will include a "real" Board of Directors and establish corporate officer accountability and a compensation structure that rewards achievement.
5) **Tax and Legal Entity**. Is the business operating out of the right entity such as a C Corporation, an S corporation or LLC? Is the real estate ownership separated from the operating entity? The right entity can be critical to the options available for the ownership transfer and the future tax burdens.
6) **Operating Agreement.** Make sure you have your corporate attorney involved in the drafting of the operating agreement and the shareholder's buy sell agreement of the business before any ownership transfers are made. This is very important to restrict the future transfer of ownership and assure how an owner's equity is handled due to an owner's death, disability, retirement, or other separation of service.
7) **Transfer of Ownership Tools**. Consider all the tools for the tax efficient transfer of ownership including stock gifts, stock sales, self cancelling installment notes, grantor retained annuity trusts, redemptions, employee stock ownership plans, charitable remainder unitrusts, family limited partnerships and intentionally defective grantor trusts.
8) **Owners Estate Plan**. Working with your estate attorney and updating the estate plan of the business owner should be part of this process. Make sure your estate documents are current and updated properly for the new succession plan.
9) **Soft Side Issues**. Consider getting additional help with the soft side issues. CPAs and financial advisors are very good at handling the business transition from the hard side of financial planning and efficient tax structure. Often times, however, additional help is needed on the soft side issues such as leadership training and transition, communication, conflict management and selecting the right people for the next generation of management. HR professionals, executive coaches, and leadership trainers can be very important members of this team.
10) **Start The Process.** Start now, be thorough, and make this process a priority. Too often, this process is started so late in a business owner's career that many of the potential options available are off the table. The earlier the better to start this process, but if it has not been started yet, today is the time to begin. Follow through to implementation and let the American dream continue for generations to come.

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