Succession Planning

Ninety-four percent of sole practitioners DO NOT have a written succession plan. As a business owner, a plan for determining the ownership of your business is not optional. If you become disabled, medically unable or suffer any other life-altering condition that would prevent you from maintaining control over your business, who would take over? Do you have someone in mind? Does that person know?

The scenarios mentioned above are dramatic and less likely to occur, but at some point you will not be in control of your business. A well-crafted succession plan needs to be drafted and executed according to your wishes. Whether it's due to medical issues or you simply want to plan for the day when you sell your business to an employee, family member or an external buyer, having a plan ready to implement will make the process run smoother.

When Should a Succession Plan be Drafted?

Ideally, a business owner should start planning at least a couple years in advance if possible. A longer time period allows for more thorough analysis of options and the ability for the business owner to get comfortable with the decisions made. Even though a plan may be crafted years in advance, there is always the ability to revisit the plan and make adjustments as circumstances or perceptions change.

There are many options available to business owners when it comes time to sell the company, including a sale of assets, a sale of stock, a sale to an Employee Stock Ownership Plan (ESOP), a sale to employees/family or an acquisition. Every one of these options involve tax and non-tax issues. Failing to develop and properly implement the succession plan could lead to the liquidation of the business, including bankruptcy. That's why it is imperative that business owners plan for their exit through a comprehensive succession plan.

Typical Components of a Succession Plan

Owners of closely-held organizations have many options to consider, such as:

- Who will have control of the business
- Will I retain income to fund my retirement
- Satisfying estate planning objectives
- How will the company continue to run
- Concern for the workforce
- Will the business remain at its current location
- Reducing transfer and income taxes
- Providing for liquidity
- Paying estate taxes

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