

## **Succession or Exit? What is Your Plan?**

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The majority of businesses in the United States are “closely-held”. This means that they are not publicly traded and there is no ready market in which to sell these companies. It is estimated that of all the U.S. small businesses, approximately 40% of these are currently owned by individuals aged 50 or older. Most of these owners have not done any planning with respect to their business. Often, over 80% of a family’s wealth is tied up in the business and is illiquid. A lack of planning could lead to the family’s assets being diminished, or worse, ending up in the wrong hands.

Owners of businesses can be faced with unexpected health issues that lead to disability, early retirement, or even death. Divorce of the business owner can lead to the ex-spouse either owning a significant portion of the company, or draining the company’s assets as part of the marital dissolution. Family run businesses where not all of the children work for the company can lead to a multitude of estate planning issues.

The succession plan focuses on who will run the company either upon the owner’s retirement or death. Exit planning concentrates on the owner’s sale of the business, either during life or upon death. The potential buyers of a family business generally are the owner’s children, key employees or an outside third-party buyer.

There are several planning options available to the business owner. They include buy-sell agreements, stock bonus plans, deferred compensation plans, qualified retirement plans including employee stock ownership plans (ESOP), non-compete agreements, consultation contracts, and death transfers using wills or trusts. Each of these planning alternatives has their advantages and disadvantages.

Because these companies are not publicly traded they are hard to value. The assembly of a team of professionals to assist the business owner is strongly suggested. The team usually is comprised of attorneys (corporate and estate), financial advisors, certified public accountant, and a valuation analyst. This team is critical to the process and the members need to communicate with each other on a regular basis. It is clearly beneficial when several of these roles can be filled by one individual or firm. For example, many CPA firms have financial advisors, tax specialists and valuation analysts under the same roof. This increases the likelihood of better coordination, and can result in reduced fees.

Some of the questions the business owner should be asking are:

When do I want to retire or sell?

How much longer do I want to remain active in the business on a full or part-time basis?

How much money do I need in retirement? What are my other financial resources?

How do I want to get paid? Over time or in a lump-sum?

Who do I want to own the business after I am gone? Family? Key Employees? Third-Party?

The sooner these questions are asked and answered, the sooner the planning process can begin. These are not easy questions to answer, and the process takes time. As the proverbs say “If you fail to plan, then you plan to fail”.

If you would like to discuss how you can begin the process of planning for the succession or exit of your business, please contact, Peri Ann Aptaker, Esq, CPA/PFS, CFP<sup>®</sup>, CBA, Director of Wealth Management Services at 401-274-2001.