

The Importance of a Business Succession Plan

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Business succession planning is one of the most important tasks a family business owner should complete. If you do not have a business succession plan, make the development of this plan a priority in 2014. It is estimated that 25 million Americans own a private business. Approximately 90 percent of all businesses are private businesses or family owned. Many of these types of businesses usually do not survive under the leadership of the second generation; therefore making it critical to plan for the business' future after the initial generation of the family moves on.

Business succession planning is different than management succession planning. Business succession planning involves determining the best way to transfer ownership and management to minimize the impact of the owner's departure.

There are several factors to consider when developing a business succession plan. These factors are:

- financial security to the owner after retirement
- financial security for the family in the event of a premature death or disability
- family member interest in working in the business
- ability of a family member to successfully run the business

When addressing these factors, a business owner has several options to consider. These options include:

- sell the business during their lifetime
- have their estate sell the business after death
- transfer their business to heirs during their lifetime
- transfer their business to heirs after death

Tax implications will be an important consideration in determining the best option. A business owner should consult with their tax accountant to better understand the tax efficiency of each choice.

There are several methods business owners can consider using to transfer their ownership in the business to heirs, employees or a third party. These methods include creating a Limited Liability Company (LLC), Charitable Remainder Trust, Charitable Remainder Unitrust, Buy-Sell Agreement and Employee Stock Option Plan.

Finally, business owners are working very hard to build and manage a successful enterprise. Developing a thoughtful and tax efficient business succession plan will go a long way towards providing financial security during retirement as well as securing the future for both family members and the business.

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