Moving On

How to develop a plan to get the most out of your business after you're gone **Interviewed by Lisa Murton Beets**

A lot of business owners avoid the topic of business succession planning. They're happy doing what they're doing and life is good.

But what if something happens? What if the owner has a significant health event or dies? What if the family takes over when that was not the owner's intention at all?

There can be a lot of strife and unnecessary financial loss without a plan in place. The owner knows the business better than anyone and should be the one who decides how to maximize its value after he or she is gone.

Many owners reason that they don't have the time to develop a plan. However, it can be done in manageable steps.

"You can at least get started on defining your goals and then, through regularly scheduled meetings, craft the plan over the course of several years if need be," says Chuck Kegler, director, Kegler, Brown, Hill & Ritter.

Smart Business asked Kegler for guidance on how owners can best navigate this process.

Chuck Kegler
Director
Kegler, Brown, Hill & Ritter

What is the starting point for business succession planning?

First you must come to the point of acceptance that you're not going to be around forever, and that developing a plan is in your family's best interests. Then you need to define your goals. There is no cookie cutter way to develop a plan. Goals, families and finances are all different, so therefore, each plan is different.

Also, there may be conflict among the goals — everyone wants to have their cake and eat it too, but that's not always going to be the case. Owners can get very overwhelmed with the goal identification process. Anything their adviser can do to simplify the process — such as breaking down the goals into several categories — and keep the owner focused will help move the process along.

What happens after the goals have been identified?

The next step is to have a business valuation conducted by a third-party firm. How much is the business actually worth? Most owners don't really know. Interview two or three investment bankers (brokers) and ask how they would go about selling your business. What do they think it's worth? Brokers and investment bankers will often provide valuation estimates for no charge in hopes of being engaged to sell the business. Once you have a sense of a range of values you can work on the exit model — will you sell to an independent party, to family members or employees, or transfer the company to the next generation? How will your decision impact all of your other goals?

What are some of the most common roadblocks the owner will face during this process, and how does he or she overcome them?

The roadblocks will depend on the road taken. Even if you think it's relatively straightforward (e.g., I'm transferring the business to my son), there are still many decisions to be made. Will this decision create conflict among the other siblings? How much money will they get, even those who don't work in the business? Will any of this be gifted? Will your son pay you? How will your health care needs be provided for? What if you become disabled? Based on your goals and future needs, how much money will you actually need? Do you still want capital to invest in other opportunities in the future? Do you need some degree of certainty in terms of a guaranteed future income stream, such as an annuity? How would that decision impact your children at the time of your death? The answers to these questions may require you to refine your goals.

Owners who want to sell have other issues to consider. Unless an owner has health problems, is overly stressed, or just wants to get rid of the business, it may be decided that he or she 'can't afford' to sell. Perhaps the proceeds from the sale will not enable the owner to maintain the lifestyle to which he or she is accustomed. On the other hand, if the most important goal is, 'I need more time for my personal life,' the owner might come to the conclusion that, 'yes, this will be a different life than I am used to, but I can do this.'

What are some key considerations for structuring a plan that minimizes exposure to taxation?

There are two primary taxes to think about. First, if you're selling, how do you minimize the income tax side? The goal is to pay one level of tax at the capital gains tax rate. Next, there are the gift and estate taxes. The $5 million ($10 million for married couples) exemption has been extended through 2011 and 2012, so many owners think the financial pressure involved with making estate planning decisions is off. However, that's temporary — we don't know what's going to happen Jan. 1, 2013. Even the least informed members of Congress understand that we have a significant deficit and that an easy way to reduce some of that deficit is to go back to the $1 million/55 percent exemption. If this happens, it will once again change the estate planning ball game. <<

CHUCK KEGLER is a director, as well as chair of the business and tax and estate planning areas, at Kegler, Brown, Hill & Ritter. Reach him at (614) 462-5446 or ckegler@keglerbrown.com.