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IPC Business Owners Report

Succession Planning Issues for Family-Run Businesses

Sooner or later, everyone wants to retire. But if you own a family business, retirement isn't just a matter of deciding not to go into the office any more. Besides ensuring that you have enough money to retire on, the whole question of what happens to the business when you're no longer running it becomes paramount. Who's going to manage the business when you no longer work the business? How will ownership be transferred? Will your business even carry on or will you sell it?

Succession planning seeks to manage these issues, setting up a smooth transition between you and the future owners of your business. With family businesses, succession planning can be especially complicated because of the relationships and emotions involved - and because most people are not that comfortable discussing topics such as aging, death, and their financial affairs.

But comfortable or not, succession planning should be a priority for any family business. More than 70% of family-owned businesses do not survive the transition from founder to second generation. In most cases, the "killer" is taxes or family discord, both issues that a good family business succession plan will cover.

Think of business succession planning as broken into three main issues; management, ownership, and taxes. It's important to realize that management and ownership are not necessarily one and the same. You may decide, for instance, to transfer management of your business to just one of your children but transfer equal shares of business ownership to all your children, whether they're actively involved in operating the

business or not. The taxes component of succession planning looks at the minimization of taxes upon death. There are asset transfer tax strategies that will help you do this, such as freezing the value of your interest in the company while you transfer ownership to your children. Accountants and lawyers who specialize in succession planning can provide invaluable advice about these tax strategies.

For many family businesses, family is the primary emphasis of succession planning. Whether you're thinking about the future management of your business, how ownership is going to be passed along, or taxes, you won't be able to help thinking about how your decisions will affect your family. Have you been putting off succession planning?

Use these tips for family business succession planning to get the succession planning process underway and ensure a smoother transition from one generation to another.

- 1) Start succession planning early. Five years in advance is good. Ten years in advance is better. Many business advisors tell budding entrepreneurs to build an exit strategy right into their business plan. The point is, the longer you get to spend on family business succession planning; the smoother the transition process is likely to be.
- 2) Involve your family in business succession planning discussions. Making your own succession plan and then announcing it is the surest way to sow family discord. Opening a dialogue among family members is the best way to begin the process of a successful succession plan — one where close attention is paid to the personal feelings, ambitions and goals of everyone concerned.
- 3) Look at your family realistically and plan accordingly. You may want your first-born son to run the business, but does he have the business skills or even the interest to do it? Perhaps there's another family member who is more capable. It may even be that there are no family members capable of or interested in continuing the business and that it would be best to sell it. Examine the strengths of all possible successors as objectively as possible and think about what's best for the business.
- 4) Train your successor(s) and work with them. How can you expect your successor to take over and run your business successfully if you haven't spent any time training him or her? Your family business succession plan will have a much better chance of success if you work with your successor(s) for a year or two before you hand over the reins. For solo entrepreneurs, sharing decision making and teaching business skills to someone else can be difficult, but it's definitely an effort that will pay big dividends for the business.
- 5) Get outside help with your succession planning. Lawyers, accountants, financial advisors - there are many professionals that can help you put together a successful succession plan. There are even companies that specialize in family business succession planning, who will facilitate the process of working through both family and succession plan issues.

If you want to pass your family business along to the next generation, putting off succession planning is the worst thing you can do. A good succession plan can ensure that you have the funds you need to retire and that the business you have built continues to thrive. If you would like to begin the discussion of a good succession plan, our firm has specialists in this area. For an initial consultation, please call our offices for an appointment.



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