Succession Planning for Your Business?

CONSIDER THESE SIX WAYS TO LEAN ON YOUR TAX ACCOUNTANT AS A TRUSTED ADVISOR

The journey from founding a company to successfully handing over the reins involves navigating a complex maze of financial, legal, and even emotional challenges. Robust succession planning can prepare the family-owned enterprise for new leadership or new owners while enhancing the financial stability of the business and its shareholders. This article explores six ways that a tax accountant can assist in developing a comprehensive plan that helps business owners achieve their transition goals while avoiding costly missteps.

1. HELP START THE INITIAL DISCUSSIONS

The first step, which is often the most important part of succession planning, is starting the conversation. Business owners, especially founders, often hesitate to begin a formal succession planning process because they are still heavily involved in the business's operations and perhaps find it difficult to part ways with something they created or have led for decades. They may know that honest discussions about succession or exit plans are important to the future of the company, but finding the time, and perhaps mustering the courage, to formally engage in a succession planning process can be challenging.

For many business owners, their tax accountant has been with them for years, and therefore understands the business, along with some aspects of the industry, key employee roles, and family dynamics at play. They can help think through some of the initial considerations, gather and review key documents, prioritize objectives, and map out a potential timeline.

In addition, a tax accountant can help family business owners think through some of the most pertinent questions, including:

- Should I transfer ownership of the business to family members, to employees, or should I consider an outside buyer?
- Do I need a certain level of proceeds from the business to fund my retirement?
- What is my business worth?
- What options are available to reduce the tax liability associated with gifting or selling my ownership in the business?

2. PROMOTE TAX PLANNING AND OPTIMIZATION

When working on a plan for a family-owned business, an accountant may start by evaluating the business structure to see how the owners could reduce the income, gift, and estate tax impact of any future succession or exit plan. They can help evaluate options such as gifting shares to maximize the lifetime estate tax exemption, the applicability of qualified small business stock (QSBS) tax exemptions, the benefits of an employee stock ownership plan (ESOP) transaction, and many more tax strategies. Each of these strategies takes time to evaluate and deploy, so it is best to start such discussions early to develop the most beneficial tax treatment.

3. PROVIDE STRATEGIC FINANCIAL ANALYSIS

An accountant can gain a deep understanding of the family enterprise by reviewing the operating company financial statements, company and individual tax returns, current estate plans, personal balance sheets, life insurance policies, and more to gather a full picture of an individual's personal financial affairs. With that knowledge in hand, the accounting professional can make recommendations that affect the succession plan, including ways to:

- Maximize current cash flow
- Assess and mitigate risk
- Prepare financial models that assist with scenario planning
- Recognize the tax implications of the plan

Family business owners can depend on their accountants to propose ideas that contribute to a strong succession plan based on their in-depth understanding of the business in its current form and its potential tax liabilities.

4. HELP ESTABLISH THE COMPANY'S VALUE

An accountant can assist with obtaining a qualified, **independent appraisal** of the family enterprise. The clear, defensible value for the business impacts every aspect of the succession plan, including equal distribution of the business and estate assets, obtaining insurance and financing, and supporting tax strategies. The appraisal can also provide data needed to maximize the company's current value and further solidify the family's financial security.

5. NAVIGATE FAMILY DYNAMICS AND ISSUES

Every family is unique, and melding a succession plan with individual family dynamics requires careful thought, engaged listening, and the ability to view the family business globally. Common issues include:

- Preserving the family's values and legacy
- Assessing family members' ability to manage the business
- Deciding who will control the business
- Maintaining privacy
- Addressing the needs of blended families

A tax accountant can recommend strategies that connect sensitive family dynamics with current and future goals. For example, some owners wish to retain control while they prepare to transfer the company or the proceeds of its sale to other family members. A trusted tax accountant can potentially recommend strategies that allow the owner to maintain some control while proceeding with their plans.

6. ASSIST WITH POST-IMPLEMENTATION ADMINISTRATION

After all the legal and financial documents have been signed setting the succession plan in motion, a tax accountant can assist the family business owner with administration of the plan. As the business continues to change — due to both internal and external factors — accounting professionals can provide ongoing review to help ensure the succession plan continues to meet the family's current and future needs. With a plan in place early and reviewed often, the family enterprise can be better prepared to withstand unexpected events.

HOW BDO CAN HELP

BDO's **Private Client Services** professionals assist family business owners with tax and financial planning tailored to their specific business needs while also providing thoughtful consideration of all legal, financial, and emotional concerns. We can help you develop succession plans that also identify and address estate planning and strategic tax planning issues. For more information, **please contact BDO**.

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