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HOLLMAN DEJONG & LAING S.C.

TAX AND WEALTH ADVISOR ALERT: THE NEED FOR SUCCESSION PLANNING

*(*This is second of our 11-part series of articles based on our book *The Art, Science and Law of Business Succession Planning*. Complimentary copies are available to the clients and friends of the firm.)

"Why do I need succession planning?"

"Can't I just hand my business over to my children?"

"Why can't I just leave the business to someone in my will?"

As a law firm focused on helping business owners plan for the succession of their businesses, we hear these questions, and others like them, all the time. We understand. After spending decades dealing with all the details of a successful family business, the last thing many business owners want to do is handle more details. When the time comes, they wish they could just wave a wand, instantly transfer their company to someone else, and not think about it anymore.

Unfortunately, that's not how it works. Until you've actually completed the transfer of your business to someone else, the details of the exchange are yours to deal with— and if you don't spell out the transition clearly, you leave the door open for unexpected results.

Think of it this way: You've put years into building this business. You've invested time, money, blood, sweat and tears, and that investment is now paying off. Your business provides well for your family, and you want it to continue doing so for many years to come, long after you retire, long after you pass away. For this to happen, at some point you must give control of the business to a successor, whether a family member or an outsider.

The only way to do this safely is through succession planning. Isn't your investment worth protecting through the vulnerabilities of succession, even if it means a few more details along the way?

Succession Planning Is a Process, Not an Event

Many people think of transferring a business as a one-and-done event. In reality, effective

succession planning begins years before the transfer actually occurs (hence the “planning” part). Once the plan is in place, as your life and business evolve, you may need to make updates and changes to the plan, until the time comes to pass the business to your successor.

Challenges Involved with Succession Planning

Succession planning can be challenging; there are often a few difficulties along the way. That is why we advise business owners to begin thinking about, and planning for, succession as early as possible. There are two basic reasons why succession planning can be difficult:

1. You must attempt to predict future events with as much accuracy as possible. Of course, none of us can know the future; we can only predict it. Succession planning requires you to predict you’ll be ready to retire at a given age, for example, and your successor will be prepared to take over management or ownership of the business when you’re ready to transfer it. You’ll also need to anticipate as many variables as possible. What happens in the event of a health crisis, a natural disaster or a financial hit? What happens if your appointed successor dies? What happens if a successor divorces and remarries? A good succession plan forecasts one outcome, but it remains flexible to account for other possible outcomes, as well. Developing a succession plan that achieves this balance requires careful forethought and attention to detail.
2. In a family owned business, you must account for emotions and attitudes, not just facts and figures. Everyone associated with the business will present some sort of emotional variable, and every decision you make concerning your business may touch on those emotions. You must take into account the emotions of close and extended family members, as well as the emotions of your employees and associates who must work under new management or owners. Even your own emotions will come into play as you weigh these decisions.

Succession Planning Involves Multiple Layers

For most business owners, ”succession” involves more than just handing the reins to someone else. You’ll need to address questions of ownership and management of the company, both of which may occur at different times:
Ownership succession planning usually intertwines with your estate planning, because your business is part of your estate.

Management succession planning addresses who will run the company when you step down–whether it’s a family member, a key employee or someone else.

You can see how quickly succession can become complicated and convoluted. A well-constructed plan can avert many of these complications before they derail the process and give you peace of mind, knowing you have “the bases covered”.