Have You Created a Transition Plan for Your Business' Future?

Busting the four myths of business transition planning

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Key Points

- Planning for business transition doesn't mean giving up control of your company
- Transition planning isn't a distraction, it's another component of protecting and strengthening the legacy you've built
- As a business owner, you owe it to yourself, your family, employees, and customers to plan ahead

If you are a business owner who has put off creating a transition plan for your business, you are not alone. According to a 2017 survey of 200 business owners conducted by Wilmington Trust, 58% of the respondents have yet to take this important step.

While it may seem like the last box to check, planning for the next generation of owners and managers well in advance usually leads to better operational, financial, and tax outcomes. That remains true whether the transition involves a sale to an outside buyer, passing to the next generation of family, or selling to employees. As a business owner, you owe it to yourself, your family, employees, and customers to plan ahead.

Myth 1:

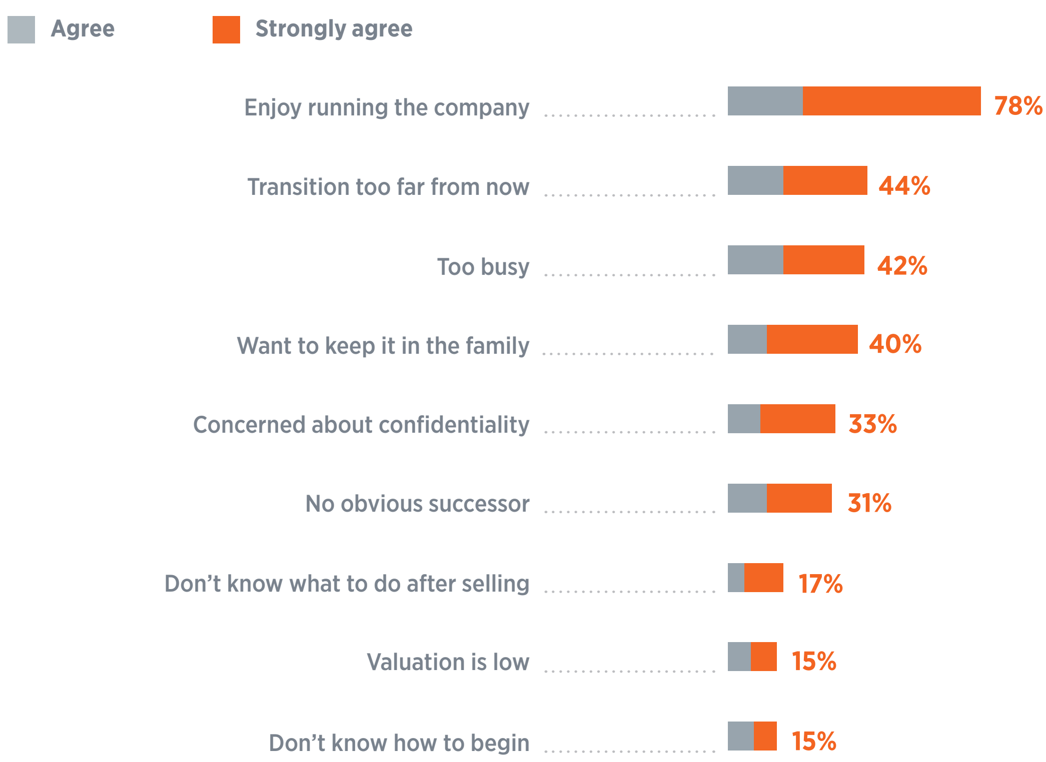
Planning for business transition means giving up control of your company

When asked why they don't have a long-term plan, 78% of business owners say it is because they enjoy running their company, according to the Wilmington Trust survey.

Reality: Maintaining control of your company and transitioning ownership to the next generation to achieve tax savings are not necessarily mutually exclusive. Many entrepreneurs transfer their economic interest in their business to next generation family members for tax purposes while retaining control. In some cases this may be done by transferring non-voting ownership interests or transferring ownership interests in trust.

Planning to convert your interest to liquidity, however, can often mean relinquishing some degree of control to a new owner. Generally speaking, the degree of relinquished control will depend upon the amount of liquidity that you wish to extract from the business.

Reasons for NOT having a specific plan



SOURCE: *The Power of Planning*, 2017 research report, Wilmington Trust.

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Myth 2:

There is no downside to waiting until you are close to an actual ownership or management transition to craft your plan

The second-most-common reason owners say they don't have a long-term plan is that the event is too far in the future, with 44% citing this perception.

Reality: You have no way to be certain when you will transition your business. Illness, injury, or death, for example, could unexpectedly leave you incapable of continuing to lead the business. At the very least, you need a short-term management transition plan to address that contingency.

With respect to ownership transition, many owners ultimately give their business to family members, either during their lifetime or at their death. If they are a high-net-worth individual, however, there may be a significant transfer tax cost incurred on this transfer. By developing an ownership transition plan sooner rather than later, you stand a better chance of reducing this potential tax burden. This is because the effectiveness of many strategies for reducing taxes on transfers of wealth depends on early implementation.

Myth 3:

Running and growing the business on a daily basis is more important than planning for the long term

The third-most-common reason (42%) owners say they don't have a long-term plan is that they are too busy.

Reality: There's no denying that most successful business owners became successful because they stayed focused and kept their eye on the ball. But transition planning isn't a distraction, it's really another component of protecting and strengthening the legacy you have built. In other words, transition plans help you preserve your business and the wealth that you've created for retirement and future generations. Few things are more important.

While transition planning can require serious forethought and dedicated time, many business owners plan effectively by meeting with a team of experienced advisors on a regular basis over a number of years.

Myth 4:

You don't need a transition plan if your family plans to take over your business.

40% of survey respondents cite this reasoning for failing to have a transition plan.

Reality: Owners are fortunate if they have family members enthusiastic about taking over the business. But enthusiasm isn't enough.

A robust transition plan includes long-term training and development arrangements for future leaders. It's critical that the next generation of leaders is fully prepared when they need to step up, so that the value of your business is not negatively affected by a lack of future management.

Comprehensive planning can also help maintain family harmony. Should family members have different goals and objectives with respect to the business, it's generally better to uncover and address those issues early on. If left unaddressed until the issue is forced, typically in times of stress or crisis, even the simplest decisions can become acrimonious.

The time is now

Your calendar is booked solid and has been since you started your business. But if you've learned anything, it's that you'll do whatever it takes to keep this business running because your future, your family's future, and your legacy all rely on its success.

Don't let an unforeseen event dictate the fate of your business for you. Taking steps sooner rather than later will help protect your family and your assets now and in the years to come.

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As national head of Unique Asset Administration, Fred oversees several teams that administer interests in closely held businesses, real estate, mineral interests, loans and notes, life insurance, and other unique and hard to value assets that are held in trust, agency, or custody accounts.

Fred holds a Juris Doctorate from the University of Maryland School of Law, where he was an editor on the Business Lawyer, and a bachelor's degree in economics from Williams College. He is a CFA® Charterholder and a member of the CFA Institute, the CFA Society Baltimore, the Maryland State Bar Association, and the Baltimore Estate Planning Council.

