

Nine Common Mistakes in Business Succession Planning

Proper planning ensures that your business survives you

by Charles Massimo, CJM Fiscal Management

To ensure that your business survives you, avoid the following nine mistakes in business succession planning:

1. Failure to plan, AKA: procrastination. How many years prior to retirement should there be a plan? How about right now! There is no reason you can't start preparation now with a series of plans at any point in the life of the business or even before the business even begins.

2. Failure to obtain the proper valuation of the business. Because your business succession plan will likely involve selling the business or passing it to your heirs, it is important to know what the appropriate sales price or inheritance value of a business is, so that plans for its purchase for paying estate taxes can be made accordingly.

It is a wise strategy to have an updated valuation of the business on hand and have that information communicated to your family or intended successors. Should the business have to be sold in an unexpected circumstance, rather than passed on, the known valuation of the business keeps an awareness of the valuable areas of the business, as well as the loans or debts owed. This makes clean up of the financials an easier process. Additionally, the broker's assessment for the buyer's package value has greater potential to be in the range for what has been previously communicated as the value of the business.

3. Failure to take the time to address whom will be on the succession team. This often involves a tough analysis of whether family members have the skill set to run the business or whether your key succession candidates are non-family-members who may have been working in the business.

4. Failure to integrate your business succession plan into your estate plan. Many small business owners think that they can simply leave the business to their spouse or heirs when, in fact, the business comprises virtually all of their net worth. By leaving the business to one person, you've excluded all other heirs from inheritance.

5. Failure to plan for disability. It is important to incorporate disability planning and insurance into your business succession plan. What is your fall-back plan if you're injured and unable to work for four to eight months? Who would run the business? Make decisions? You want to protect your present and future income. Know the difference between power of attorney for asset management and a living trust. The power of attorney gives legal authority of your affairs over to another person should you become incapacitated, but has minimal guidelines on how assets should be managed. A living trust allows for more complete instruction to be available. On the insurance side, consider the value of having a personal disability income protection plan and professional overhead expense coverage. These together could assist with taking care of you, your family and your business.

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What's the Bottom Line?

6. Failure to identify key employees who may have concerns with your succession plan.

Ensure key employees remain with the business during any succession transfer by sharing your plan with them. This helps make certain that everyone involved with the plan is on the same page.

7. If the business is a closely held business, treating it like the family rather than as a business involving family. It's important when the business is closely held in the family to separate the family dynamic from the business dynamic as much as possible and to recognize that these different dynamics are at work.

8. Failure to diversify the business owner's net worth from the business as a whole.

Many business owners hold virtually all of their net worth in their business and find themselves in a difficult situation in a business downturn. After they are gone, their heirs may be forced to sell the business when the market for it is poor.

9. Failure to plan for contingencies. If you've decided to leave your business to an adult child, what will happen if that adult child predeceases you? Though it's not a scenario any business owner wants to consider, it should be included in your plan. For example, keeping the business within the family by passing it to a son or daughter may allow the surviving spouse to rely on the business for his or her ongoing income. However, unforeseen circumstances may alter the plan, so consider alternative strategies ... just in case.

Planning can be the difference between mortality and immortality of your business and the goals you set for it. With proper planning, your business will survive you and continue your legacy for years to come.

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