



## Succeeding at Business Succession



Family businesses account for 54% of private sector Gross Domestic Product (GDP), yet 43% of family businesses have no formal succession plan. While those numbers may shock you, it is not surprising that many small business owners are consumed by the myriad responsibilities of running their businesses.<sup>1,2</sup>

Nevertheless, owners ignore succession preparations at their peril and possibly at the peril of their heirs.

There are a number of reasons for business owners to consider a business succession structure sooner rather than later. Let's take a look at two of them.

The first reason is taxes. Upon the owner's death, estate taxes may be due, and a proactive strategy may help to better manage them. Failure to properly prepare can also lead to a loss of control over the final disposition of the company.<sup>3</sup>

Second, the absence of a succession structure may result in a decline in the value of the business in the event of the owner's death or an unexpected disability.

The process of business succession is comprised of three basic steps:

- 1. Identify your goals:** When you know your objectives, it becomes easier to develop a plan to pursue them. For instance, do you want future income from the business for you and your spouse? What level of involvement do you want in the business? Do you want to create a legacy for your family or a charity? What are the values that you want to ensure, perhaps as they relate to your employees or community?
- 2. Determine steps to pursue your objectives:** There are a number of tools to help you follow the goals you've identified. They may include buy/sell agreements, gifting shares, establishing a variety of trusts, or even creating an employee stock ownership plan if your desire is that employees have an ownership stake in the future.
- 3. Implement the strategy:** The execution step converts ideas into action. Once it's implemented, you should revisit the strategy regularly to make sure it remains relevant in the face of changing circumstances, such as divorce, changes in business profitability, or the death of a stakeholder.

Keep in mind that a fundamental prerequisite to business succession is valuing your business.

**As you might imagine, business succession is a complicated exercise that involves a complex set of tax rules and regulations. Before moving forward with a succession, consider working with legal and tax professionals who are familiar with the process.**



## FOOTNOTES

<sup>1</sup>*FamilyBusiness.org, 2023*

<sup>2</sup>*FamilyBusinessCenter.com, 2023*

<sup>3</sup>*Typically, estate taxes are due nine months after the date of death. And estate taxes are paid in cash. In addition to estate taxes, there may be a variety of other costs, including probate, final expenses, and administration fees.*



## DISCLOSURES

*The content is developed from sources believed to be providing accurate information. The information in this material is not intended as tax or legal advice. It may not be used for the purpose of avoiding any federal tax penalties. Please consult legal or tax professionals for specific information regarding your individual situation. This material was developed and produced by FMG Suite to provide information on a topic that may be of interest. FMG Suite is not affiliated with the named broker-dealer, state- or SEC-registered investment advisory firm. The opinions expressed and material provided are for general information, and should not be considered a solicitation for the purchase or sale of any security. Copyright FMG Suite.*

*All securities are offered through Hightower Securities, LLC, member FINRA and SIPC, and advisory services are offered through Hightower Advisors, LLC, a SEC registered investment advisor. In preparing these materials, we have relied upon and assumed without independent verification, the accuracy and completeness of all information available from public and internal sources. Hightower shall not in any way be liable for claims and make no expressed or implied representations or warranties as to their accuracy or completeness or for statements or errors contained in or omissions from them. This is not an offer to buy or sell securities. No investment process is free of risk and there is no guarantee that the investment process described herein will be profitable. Investors may lose all of their investments. Past performance is not indicative of current or future performance and is not a guarantee. This document was created for informational purposes only; the opinions expressed are solely those of the author, and do not represent those of Hightower Advisors, LLC or any of its affiliates.*

*Hightower Advisors, LLC is an SEC registered investment advisor. Securities are offered through Hightower Securities, LLC member FINRA and SIPC. Hightower Advisors, LLC or any of its affiliates do not provide tax or legal advice. This material is not intended or written to provide and should not be relied upon or used as a substitute for tax or legal advice. Information contained herein does not consider an individual's or entity's specific circumstances or applicable governing law, which may vary from jurisdiction to jurisdiction and be subject to change. Clients are urged to consult their tax or legal advisor for related questions.*