Top Ten Steps of Succession Planning

Succession and exit planning is a highly personal process. There are no one-size-fits-all plans. Every plan must consider the unique individual circumstances of its situation. For that reason, a successful exit and succession plan should be easily updated based on the current state of affairs.

Force yourself to start the process or, at the very least, take a fresh look at your company. At best, you will have a long term plan in place that protects you and your business.

1. **Personal Financial Plan.** This critical first step guides the remainder of the process. Does the owner need additional retirement income from the business? Is the owner in a financial position to gift ownership to family members without any consideration? A personal financial plan for the business owner will project the business owner's retirement income needs and compare that to income available from other sources allowing the business owner to assess how much income is still needed or desired from the business.
2. **Family Plan.** A family plan will access the future roles of family members for those both active and not actively involved in the business. The plan includes fairness of compensation issues and fairness of inheritance issues.
3. **Business Strategic Plan.** What is the strategic plan for the business beyond the owner's retirement? This will assess the economic outlook of the industry and look at financial trends. Is the business still anticipated to be in growth mode?
4. **Corporate Governance.** Establishing a more formal corporate governance structure of the entity is important and includes a "real" board of directors, establishing corporate officer accountability, and a compensation structure that rewards achievement.
5. **Tax and Legal Entity.** Is the business operating out of the right entity such as a C Corporation, an S corporation, or LLC? Is the real estate ownership separated from the operating entity? The right entity can be critical to the options available for the ownership transfer and the future tax burdens.

6. **Operating Agreement.** Make sure a corporate attorney is involved in the drafting of the operating agreement and the shareholder's buy sell agreement of the business before any ownership transfers are made. This is important to restrict the future transfer of ownership and assure how an owner's equity is handled due to an owner's death, disability, retirement, or other separation of service.
7. **Transfer of Ownership Tools.** Consider all the tools for the tax efficient transfer of ownership including stock gifts, stock sales, self cancelling installment notes, grantor retained annuity trusts, redemptions, employee stock ownership plans, charitable remainder unitrusts, family limited partnerships and intentionally defective grantor trusts.
8. **Owner's Estate Plan.** Work with an estate attorney and update the estate plan of the business owner. Make sure estate documents are current and updated properly for the new succession plan.
9. **Soft Side Issues.** Often times, additional help is needed on the soft side issues such as leadership training and transition, communication, conflict management, and selecting the right people for the next generation of management. HR professionals, executive coaches, and leadership trainers can be important members of this team.
10. **Start The Process.** The sooner you start the process, the more options are available. There's nothing worse than watching a business go up in a "fire sale" because a strategic buyer thinks the owner doesn't have any options other than to sell.

As a business owner, take the necessary steps to protect the investment that has consumed your heart, soul, passion…and has most of your net worth! What could be more important?

Mike Gillis, CPA/PFS is Managing Partner of DMJ & Co., PLLC an accounting and business consulting firm in Greensboro, NC and is experienced in tax consulting and planning, exit planning for privately-held business, and litigation support on tax matters. For more information, contact him at 336-275-9886 or mgillis@dmj.com.