Business Owners: Have You Planned Your Exit?

By Kevin L Von Tungeln

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You've worked hard building your business, but have you thought about what will happen when you are no longer there running the show?

According to one study (*Small Business Review*, Summer 2001), only 30% of all family-owned businesses survive to the next generation; only 12% make it to the third generation; and a meager 3% are functioning into the 4th generation and beyond.

Why? Most business owners simply do not plan an exit. They do not do proper estate planning, which often results in unnecessary estate taxes that drain the life out of their businesses. And they do not plan for a successful transition to the next generation.

Who could take over your business? You may have more choices than you think.

Family members are often a logical choice. Most business owners feel a certain pride in being able to pass down a family business. In fact, you may already have a child or two working in the business with you.

Depending on your financial needs, you can gift and/or or sell your business to family members. Some techniques will provide you with retirement income and let you transfer the business at a discount, saving estate and gift taxes. Most let you keep some control.

Be sure to consider family members who will not be involved with the business. Life insurance is often used to "equalize" inheritances. You also need to be objective when considering the abilities of family members whom you consider potential successors.

Business partners are also logical options. You can have reciprocal buy/sell arrangements with each other, so that when one of you is ready to retire or dies, the other automatically buys his/her share of the business. Life insurance is often used to fund these arrangements.

Your employees could also be a source. An Employee Stock Ownership Plan lets your employees enjoy the benefits of ownership, yet you can keep control until your retirement or death.

How about a charity? Charitable trusts can provide terrific income, capital gain and estate tax savings. With a charitable remainder trust, you can receive a lifetime income. And you have the added benefit of helping a charity that has special meaning to you.

Of course, you can also consider an **outright sale** to another company. But the tax benefits are usually not as good as other planning options.

A good business succession (exit) plan should also provide for the possibility of a long-term illness or disability. Make sure you work with an experienced professional who can help you evaluate your goals and objectives, and can provide you with the best options for your situation.

Kevin Von Tungeln is the Managing Partner of EstatePlanningSpecialists.com and Thompson Von Tungeln, P.C. Kevin practices exclusively in the areas of estate planning, probate, wills, conservatorships and trust administration. Visit http://www.EstatePlanningSpecialists.com or http://www.linkedin.com/in/kevinvontungeln to learn more.