

# Financial, Legal & Tax Advisory

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## About the author:

Dr. Bart A. Basi is an expert on closely-held companies, an attorney, a Certified Public Accountant and the Senior Advisor of the Center for Financial, Legal & Tax Planning, Inc. He is a member of the American Bar Association's Tax Committees on Closely-Held Businesses and Business Planning.



## The 7 Steps of Succession Planning in 8 Installments

### Introduction

What is the most severe threat to the existence of your business? Some may answer "my competition", or "income and estate taxes". Even others would answer, "rising costs". While these are good answers and are concerns in day to day business operations, there is one issue that overrides everything else regarding threats to your business. The number one threat to your continued going-concern is quite simply the lack of a business succession plan.

The fact of the matter is that, as humans, our existence is finite. Companies, on the other hand, do not suffer the same consequence of being an organic being. Their existence is potentially infinite. While competition, taxes, and increased costs can weigh on a business, the most severe detriment to a business is the loss of an owner or key employee. With a business succession plan, a loss of a key person will trigger specific actions so that the business can continue its operations.

### The Problem

Recent research reveals some startling truths:

- Most closely-held businesses are owned by one shareholder.
- A majority of businesses do not have a full and active succession plan in place.
- Fewer than half have a successor in line and prepared.
- More than half of business owners in the United States are 55 years of age or older.
- A good percentage of the owners are 65 years of age or older.

What does this say about the condition of private American businesses? What does this say about the position of business families? Without succession planning, it is a near certainty a great portion of the business value will be lost if the "leader" passes away without a business succession plan. Thousands or millions of dollars which could

have been reinvested, saved, or enjoyed otherwise are lost in an instant. Furthermore, failure to implement a business succession plan can result in unnecessary estate taxes.

### The Solution

It is critical to understand that business succession planning will take time to implement. It is not a day long or hour long process consisting of writing a will or settled with a handshake. A number of steps must be completed in order to receive the maximum value for a business and make the transition as smooth as possible. Also, there are many factors to consider when creating a business succession plan. The age and health of the owner, the industry, the economy, children's interests and ages are just a few factors that must be considered.

The procedures include knowing what business succession is, examining who the potential heirs or buyers are, valuing the company, creating the ideal scenario in which to transfer the business, creating the appropriate legal documents, developing a strategy to deal with estate taxes and establishing a retirement program.

### Conclusion

Convincing the business owner that the biggest threat to a business is that person's own mortality is tough. To many, the day to day challenges are enough to pull their boat asunder. Having a business succession or exit plan is critical to retirement, the succession of the business, and the continued financial well being of the owner. In the next segment, we will discuss potential heirs and follow through in the consecutive months on other important issues.

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### **Dr. Basi's Travel Schedule:**

July 18-19 – New York City, NY  
August 17-19 – San Diego, CA

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