

ORANGE COUNTY BUSINESS JOURNAL

KEYS TO WEALTH MANAGEMENT

November 30, 2009

Succession Planning for Closely-Held Businesses

by Jeff Hipshman, CPA, partner, HMWC CPAs & Business Advisors

A succession plan is a tool to help a business to be prepared for the transition of management and ownership, clarifying authority and decision-making and thereby maintaining accountability and ensuring stability. Succession planning is important to the long-term life of any privately-held company, but it's especially vital to small and medium-size businesses. Unfortunately, many closely-held companies fail to create a succession plan, an action that may increase the likelihood of the demise of the business when the owner(s) retire or die. Here are a few considerations, amongst many, in preparing a succession plan.

Personal Interests and Goals

Even if you're more than a decade away from retirement, having a succession plan in place can prove invaluable should you unexpectedly have to exit the company due to an illness, injury or other catastrophic event.

Consider how involved you wish to be with the company as you age. Do you want to work full-time until you retire or ease into retirement by continuing to work in a part-time capacity? At what age do you want to retire? Where do you want to live after retirement, locally or far away?

Choosing a successor

One of the toughest decisions to make when creating a succession plan is whether you'll give ownership to your children or sell the business. If your children will take over, you need to decide whether you'll transfer your ownership interests during your life or at death and plan for any gift or estate tax liability, which could be sizable.

If you choose to sell, you can sell to an outsider or to employees. If you choose the latter, you may want to consider setting up an employee stock ownership plan.

Once you've decided who will own your business, your plan should detail how the ownership transfer will take place. For instance, how will the successor purchase company assets or stock? In some cases, insurance policies provide funding for the purchase.



Jeff Hipshman

Leadership Issues

Be sure that your successor possesses the appropriate education, skills, professional experience and management abilities necessary to preserve and grow your business. Key characteristics to look for in a potential successor include motivational and conflict resolution skills and the ability to communicate ideas and a vision for the company that's in line with yours. Keep in mind that, as your business evolves, your successor may need a different set of skills than you possess.



Avoid Procrastination

You may be tempted to avoid preparing a succession plan but doing so could set your business up for a hard fall. A succession plan lets you plan for the long-term organizational and financial needs of your company — as well as your own personal needs and goals — to help ensure its success for the long haul.

Jeffrey Hipshman, CPA, is a partner with HMWC CPAs & Business Advisors (www.hmwccpas.com) in Tustin. He specializes in family wealth planning for the high net worth individual, as well as business and tax planning for the closely held business and its owners. He can be contacted at (714) 505-9000.

HMWC CPAs & BUSINESS ADVISORS

17501 EAST 17TH STREET, SUITE 100, TUSTIN, CA 92780-7924

PHONE (714) 505-9000 FAX 714-505-9200 WWW.HMWCCPA.COM