O'NEIL CANNON
HOLLMAN DEJONG & LAING S.C.

TAX AND WEALTH ADVISOR ALERT: THE FIVE OBJECTIVES OF GOOD SUCCESSION PLANNING

In our last article we discussed why a well-constructed succession plan is necessary. In this article, we review the five essential objectives the plan needs to address. The five objectives are:

1. Maximize the value of the business;
2. Minimize taxes;
3. Provide for the continuity and survival of the business;
4. Treat your children fairly; and
5. Preserve family harmony.

As you can imagine, meeting all five of these goals is a balancing act. For instance, you may entertain several strategies for maximizing value and ensuring the business's survival, but not all of these will preserve family harmony. You'll have to weigh some decisions against others (possibly over and over again), before arriving at a strategy that meets all five objectives.

Objective 1: Maximize the Value of the Business.
Since this probably has been the goal of your business all along, succession planning simply shifts this strategy to the context of continued growth and value once you're no longer at the helm.

Objective 2: Minimize Taxes.
Without proper planning, income and estate taxes can take a huge bite out of your business. Your advisor can present options, structures, and strategies to reduce this burden significantly.

Objective 3: Provide for the Continuity and Survival of the Business.
You'll need to balance a number of dynamic factors here, including the current direction of the economy and key staff and family members involved with the business. Additionally, if you want to transfer the business to one or more of your children before you pass on, you need to consider your own financial security and standard of living, based on your company's profitability. You may also want to include a component that provides for your own continued compensation.

Objective 4: Treat Your Children Fairly.
Typically, business owners want all of their children to receive a fair share from their business or estate, regardless of the children's ownership stake or level of involvement in the company. It is important to distinguish fairness from equality. For some families, fair is not always equal and equal is not always fair.

Objective 5: Preserve Family Harmony.
Questions of succession and inheritance always carry the potential to evoke conflict between family members. Some may feel entitled to particular parts of your estate, while others may feel slighted by your decision to give control to someone else. This objective can sometimes be the most difficult to meet, but careful planning and open discussion make it possible.

Consider the Needs and Goals of All Affected Parties.
Bear in mind that everyone with "skin in the game" brings needs and goals to the table, and you'll need to take these into account in your plan. These affected parties include:

1. You (the owner) and your spouse;
2. Children who are active in the business;
3. Children who are not active in the business; and
4. Key management staff who are not family.

With this reality in mind, we encourage honest discussion with all affected parties throughout the process, from planning to the actual transfer. These conversations may be challenging at times, but open conversation is almost always preferable to keeping people in the dark and then surprising them.

Your People Come First.
Tax considerations and other financial factors are a necessary part of all business planning, but remember the best interests of your family and key people always outweigh tax considerations. Tax savings alone should never be the deciding factor for a specific plan.

Finally, as you strive to meet and balance these five objectives, remember that you may have more alternatives than you see at first, which is where your attorney's advice comes in handy. Don't get discouraged as you work through the issues. As long as you keep these objectives in mind, your options are limited only by the imagination, current laws, and your commitment to the plan being carried out.