

IT'S YOUR LIFE

Document your Business Transition Plan

Have you taken steps to ensure a smooth transition of your business after you are no longer involved? Many business owners think about what they would like to happen to their business, but fail to actually put a succession plan in place. According to a 2019 PricewaterhouseCoopers Survey, only 18 percent of family businesses have a documented transition plan in place¹.

So how do you create a succession plan? One of the first questions that needs to be considered is *who* is going to take over your business. For some business owners, it might be a son, a daughter, or more than one child who has been working in the business and is ready and willing to step in at any time. Others may have a key employee with years of service who has expressed an interest in taking over someday. In any case, finding the right person is a very important decision. It can mean the difference between financial security and financial hardship for you, your family, and even your employees if your successor is not able to keep the business operating successfully.

Once you have identified who you would like to take over your business, the next step is to figure out the details — the *when* and the *how* of your transition plan. There are basically two ways ownership of a business can be transferred — by sale or by gift/inheritance.

- **Sale** — A sale of the business provides the departing owner (or his/her family) with financial resources to meet ongoing income needs during retirement or after the death or disability of the owner. The future sale of a business is documented using a written buy-sell agreement that outlines when the sale will take place (at the owner's death, disability or retirement), the purchase price, and the terms of the sale. The sale is often funded with insurance on the life of the owner.
- **Gift/Inheritance** — Transferring the business through a lifetime gift or by inheritance will most likely be reserved for close family members and generally only where the business owner (or family) does not need proceeds from the transfer to meet retirement or income needs. These transfers may be subject to federal and/or state gift or estate taxes to the extent the value exceeds the owner's available exclusions or lifetime exemption. If you are contemplating a gift (or a series of gifts) of your business interests, consult with your legal advisors to review the tax consequences of doing so and draft the appropriate estate planning documents.

The best option for your business — whether it's a sale, a gift, or a combination of the two — will depend on a variety of considerations and your individual circumstances. When you're ready to put your plan in place, or review an existing plan, your Federated marketing representative can refer you to an independent attorney who specializes in estate and business succession planning to help.

¹2019 U.S. Family Business Survey, PricewaterhouseCoopers.

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