

IT'S YOUR LIFE

The Who, When, and How to Business Succession Planning

A business succession plan is important to help ensure a smooth transition when you are no longer able to run your business. Many business owners think about what they would like to have happen to their business, but fail to actually put a succession plan in place.

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, especially the when and the how of your transition plan. There are two ways ownership of a business could be transferred: by sale, or by gift or inheritance.

- **Sale** — A sale of the business can help provide the departing owner, or their family, with financial resources to meet ongoing income needs during retirement or after the death or disability of the owner. Document the future sale of a business is documented using a written buy-sell agreement that outlines, among other things, when the sale will take place: at the owner's death, disability, divorce, or retirement, the purchase price, and the terms of the sale. The sale is often funded with life insurance on the life of the owner.
- **Gift or 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 gift or inheritance tax 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 Insurance® [marketing representative](#) may be able to refer you to an independent attorney who specializes in estate and business succession planning to help.

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