

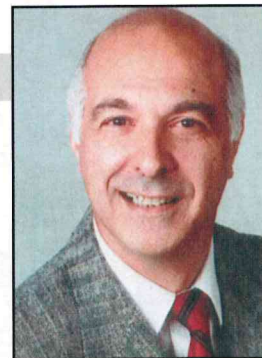
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With four specific services, The Center provides complete unbiased planning. The Center does not sell any products; its main purpose is to provide advice. Local experts are retained to implement the plans developed by the Center. The Center for Financial, Legal & Tax Planning is located at 108 E. DeYoung Street, Marion, Illinois 62959-4209. Phone 618-997-3436; Fax 618-997-8370.



Who is Heir to Your "Throne?"

Why succession planning is important to you and your business

Who will operate your business in the future? Many business owners do not know the answer to that question, and many owners don't want to think about it. On average, only 30% of companies survive to a second generation, only 12% of those survive to the third generation, and only 3% of those survive to a fourth generation. Having a succession plan can help to strengthen these numbers, and ensure that your business will be passed on to future generations.

Succession planning is the "will" for the company. It helps to identify who "will" own the company, who "will" manage the company, and how the company will be transferred. This article "will" help to identify why succession planning should be a priority to you, and what exactly can be found in a succession plan.

Why Succession Planning is Important

The basic purpose of succession planning is to achieve the maximum benefits from your labor, both during your lifetime, and at death. You achieve these benefits by proper planning, and proper transitions of your business assets.

First, ask yourself if you have provided for adequate income during your retirement and/or upon your death. If not, proper planning of the transition of your business may help to increase the benefits you receive upon retirement, or may help your loved ones upon your death. Many times it is the loved ones who are responsible for the debts, estate expenses, and taxes. Proper planning of your retirement and/or death needs can reduce if not eliminate these responsibilities on your heirs.

Secondly, you must select a successor. This is important for the success of your company in the future. You must select someone who is competent, knowledgeable, dependable, and who desires the role. You cannot select someone who does not have the will not the desire to run your company. Communication is essential for this purpose! The proper communication will allow you to identify those who fit the criteria to fill your position.

A successor cannot be expected to make decisions

for the first time upon your death. A transition period is essential to a successful plan. Time to train and mentor must be factored in to help the chosen one succeed both personally and professionally. This will also provide you with the comfort level you may need to effect the transition. Proper planning will help provide you with this needed time, by identifying the successor and allowing them to work up to their eventual leadership position with you as their mentor.

Advanced planning is important because it will allow you to identify the way in which the transfer will take place. You may decide to sell or gift the business to family members, or key employees. Alternatively, you may decide to seek a higher bid from a competitor. Regardless of who or how your business is transferred, succession planning will help to identify the advantages and disadvantages of each possible plan. This type of preparedness helps to eliminate taxes and liabilities for your estate heirs as well as your successors. In addition, proper planning can lead to a happy retirement with a lot of cash and less taxes.

The above mentioned items are just some of the reasons to have a succession plan in place for your business. Whether you are thinking about retirement or have just entered the market, it is never too late or too early to begin to develop and implement a succession plan.

The Plan

The first element of the plan is the selection of a successor. As mentioned above, this process can be tedious and time consuming. Yet another reason why you need to address a succession plan immediately. The choice of successor should be based on the best interests of the company, and may require resolving some family and personnel issues prior to selection. Involving family members and the key employees will help to facilitate the process and provide for a smoother transition. It is also important to include the needs and concerns of those employees and/or family members who will not be involved in the management to help

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solidify their support and loyalty to the company. No matter how it is done, this step needs to be addressed early to help identify the potential successor.

The next step is to prepare the legal documents that are necessary to implement the plan. The single most important document in a succession plan is a buy-sell agreement. A good buy-sell agreement will automatically provide for the succession of the company (including transfer of ownership and control), it will determine the value of the company, and identify what is needed to reduce the tax liability. A properly drafted buy-sell agreement will help to ensure an orderly passage of the company to the next generation and assist in establishing your retirement program.

The buy-sell agreement will dictate the taxes and liabilities that the company will be responsible for during the transitional period. Estate taxes are normally calculated on the fair market value of the company at the date of death. When a buy-sell agreement does not exist, the IRS will step in and fix the value according to its own formulas. This value may have no relation to what your estate received as the beneficial owner of the business. Therefore, it is important to have a buy-sell agreement in place to help establish the value of your company and reduce the threat of a less favorable valuation upon your death.

Other documents that we have prepared in succession plans include stock redemption agreements, incentive plans for employees, employment contracts for those who are considered "key" employees, life insurance policies, wills, and trusts. These are some examples of the many types of documents found in a succession plan.

As the plan is implemented and carried out, it may require subtle changes to accommodate the styles and goals of the new owners. In addition to documents,

positions may need to be created or eliminated. For example, if you believe that the value of your business will be increased by the appointment of a CEO, then the succession plan may include a resolution creating such a position.

Each one of the above mentioned documents take a considerable amount of time and input to ensure that your "will" as an owner will be followed. It is imperative that all documents in the plan be prepared by competent, experienced professionals, who will look out not only for your interests, but for the interests of the business and the interests of future generations as well. The more complete and competent the plan, the more assurance you can have in providing for your retirement and the passage of your business upon your death.

Conclusion

A succession plan is a difficult thing to think about. Yet, if done properly, it can provide the foundation for the future of your business. Knowing who will succeed you, how they will do so, and when the succession will take place, will help to preserve the value of the company. The decisions that must be made to complete a succession plan involve complex personal issues and difficult questions of law and tax. The only way to create the right plan is to work closely with a qualified specialist who is knowledgeable about you and your business, so that you are well informed of the choices that are available to you. Remember, a succession plan will ensure that your business will continue upon your retirement and when you are no longer around.

If you have any questions or are interested in starting a business succession plan, feel free to contact the professionals at The Center for Financial, Legal, and Tax Planning, Inc. at 618-997-3436. ◉