Business Succession & Transition Plans

Plan for the future by focusing on the present

Protect your business stability and reduce the taxes associated with ownership transition.

With the surging number of business owners nearing retirement age, planning for the succession of the business is becoming an unavoidable reality. For many entrepreneurs, their business represents the majority of their personal worth; however, the investment in their business is highly illiquid, non-diversified and volatile. A planned succession can protect the stability of the business as well as significantly reduce the overall tax burden associated with the transfer of ownership.

How would you answer the following questions relating to Business Succession and Transition Plans?

- Do you know what your business is worth?
- Are you running your business to maximize its value?
- What is your exit strategy and timeframe?
- Does your business have a management team that can succeed without you?

For 79 years, Froehling Anderson has worked diligently to develop tailored plans specific to our clients' needs. The Case Studies below are two specific examples of business succession and transition plans that Froehling Anderson has developed for our clients.

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Case Study #1

Situation:

An owner of a business independently valued at $2,500,000 wants to retire and transition the business to a management team that includes his son and two other non-related employees. A sale of the business stock to the management team results in the lowest tax burden to the owner as he is able to take advantage of current capital gain income tax rates. However, the payments to the owner are not currently deductible for the management team. Of the $2,500,000, the owner pays $600,000 and nets $1,900,000. The management team must generate $4,166,667 in before tax income to cash-flow the $2,500,000 in after tax payments to the owner. When the owner's taxes of $600,000 are added to the management teams tax burden of $1,666,667, the result is $2,2667,667 of taxes on a $2,500,000 transaction.

Outcome:
With planning and a structured transaction, the same net payment to the owner of $1,900,000 can be achieved with a significantly lower tax burden on the business and management team payments. The combined tax burden of the owner and management team is reduced from $2,267,667 to $975,000 a savings of $1,292,667.

Case Study #2

Situation:
Two brothers are owners of a successful growing wholesale distributorship and want to transition ownership of the company to their children as part of their estate plans. Each of the brothers has two children. The brothers are like-minded and did not want to receive the highest value for the company.

Outcome:
A gifting program was setup for the brothers to gift stock to their children over time. Gifts were made over a period of 6 years after which the remainder of the company was sold to the children.

Because the children were receiving minority ownership interests in the company during the gifting period and at the time of the final purchases, both minority and marketability discounts were available for all of the transactions. Minority discounts can range from 15-25% and marketability discounts can range from 20-50%.

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A fair market valuation analysis of the company was required at each gift and the sale to support the discount taken. The value of the company at the time of the sale was $10.1 million and the total the children paid was $5.1 million, a result of the previous gifts and the discounts that were taken.

Conclusion:
While the circumstances of each business succession strategy are unique, one common thread exists; proper planning can maximize value generated for all parties involved. Through Froehling Anderson's experience, we have demonstrated that a plan initiated years before an owner is considering retirement or a business sale, offers the owner the flexibility, significant value and greater personal satisfaction while leading the business.

Call Froehling Anderson today to learn more.