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SMALLBIZ

The delicate matter of business succession planning

If fairness is the goal, the firm might fail

By AMBROSE CLANCY

Most people will steer clear of the psychodrama of a family figuring out how to divide up assets, but not Steven Goodman. It's his livelihood to get into the middle of it.

Goodman, chief executive of Melville's SHG Financial Group, is a financial professional who specializes in business succession.

Without a sophisticated plan in place, upon the death of a business owner, a family can run the gamut of hard feelings to acrimonious meetings in court, Goodman said.

Goodman's first piece of advice to business owners? Start a succession plan immediately.

According to the Small Business Administration, 90 percent of all American businesses are family owned. At any given time, four out of 10 businesses are facing a transfer of ownership issue.

With no plan in place problems about succession are dumped into the laps of surviving family members when the owner dies.

Most families faced with the overwhelming problem of who gets what and who runs the family business simply sell it. The SBA calculates that only a third of family businesses make the transition from first generation to second and that half don't survive the transfer from second generation to third.

With business succession family bonds become complicated, Goodman said. "You always tell your children you love them equally and will treat them the same," he said. "If you give one red lollipop to one, you give the same to the other."

But children grow up, and a business and its assets aren't lollipops.

The dilemma comes when a business owner begins to think about succession and fairness. Goodman recalled a man who had brought a son into his business who was with him for 15 years. His other son had no interest in the business.

"He told me, 'If I leave one kid the business there's not enough for the other kid. I can see how they might not get along after I'm gone.'"

Goodman came in to find a way where both sons benefited. Life insurance was one way of doing this, with the son in the business taking over from his father and the other son chosen as the beneficiary of the insurance policy.

It grows more complicated when a spouse, usually the wife, who has never been involved in the business, receives it on the death of her husband.

“If there are children in the business, they end up in a situation of being adults consulting with their mother about business decisions,” Goodman said.

Splitting the assets of the business with half going to the spouse while giving control of decisions to the child already running the family firm is one way to go.

Timothy Denis, chief executive of Port Jefferson Station-based The North Shore Planning Group, agreed with Goodman that there’s no time like the present to start planning a business succession.

“Don’t wait for conditions that will dictate a fire sale,” Denis said. If an owner wants to bring in a family member to take over, the process should be done gradually. “They might not be ready and don’t have the same pride and love of the business as the founder,” he added.

By bringing them in gradually, introducing them to all the financial aspects of the business, plus the people, including vendors, the newcomer can get a sense of the spirit which made the business a success.

For the child not involved in the business, Denis agreed again with Goodman, that using insurance can smooth the transition. “Death benefits could go into a trust when someone passes away,” he said.

Another problem looming on the horizon is the federal estate tax which has been eliminated this year but is due back in 2011. In some situations taxes could run as high as 55 percent.

One strategy to shelter assets is to transfer part of the business to a trust that would then pay an annuity for a number of years.

Goodman advises that business owners not be left flat-footed in the face of the estate tax.

He drew a dire scenario of a person worth $20 million and a business worth $5 million. “If he dies, Uncle Sam is going to want $10 million,” Goodman said.

It’s complicated, Goodman added, and takes patience and time to come up with the right plan so a business owner who wants to retire and leave the business to family members won’t be left with no sense of direction on how to proceed.

First things first, the planners said. Communication must be open among all family members. Then a long-range business strategy should be agreed on which will include a succession plan, with new blood coming into the business given time and training to succeed.

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