Business Owner Succession and Exit Planning

One of the most overlooked areas facing a business owner is the Succession and Exit Plan. The right succession and exit strategy is dependent on several factors which are unique to each business owner and their family needs. The lack of a formal plan could force an owner to exit their business for reasons beyond their control often times results in an outcome that is not as favorable for the business owner or their family.

Transfer methods typically fall under one of three categories and each of these methods can be accomplished in varying ways with the most suitable method being determined by what is most important to the business owner in order to achieve specific goals. The below summarizes these three transfer methods and key features that can be used as a guideline in determining which methods should be considered by the business owner.

Key Features	**Succession/Exit Strategy**
Maintain Cash Flow	Recapitalization, Trust (IDGT, GRAT), Family Limited Partnership
Maintain Voting Control	Gift (non-voting stock), Recapitalization, Trust (Crummey, IDGT, GRAT), Family Limited Partnership
Asset Protection	Trust (Crummey), Trust (IDGT), Family Limited Partnership
Shift Future Growth to Donee	Gift (outright and non-voting shares), Recapitalization, Trust (Crummey, IDGT, GRAT, Lifetime Credit Shelter), Family Limited Partnership
Value Discounting Available	Gift (outright and non-voting stock), Recapitalization, Trust (Crummey, IDGT, GRAT, Lifetime Credit Shelter), Family Limited Partnership

Transfer Methods

Gifts – Gifts of company stock are made when the donor transfers shares with no consideration or payment in return. When an outright gift is made, the donee receives voting control over the shares received unless non-voting shares are created. Gifts of non-voting stock allow the donor to transfer ownership to another party without giving up voting control.

Sale – A sale of company stock can be outright or in the form of a self-cancelling note. With an outright sale, the buyer either pays cash for the shares or uses future earnings to pay for the shares over time, or a combination of both. With a self-cancelling note, the remaining balance is forgiven if the seller passes away before the note is paid in full. Self-cancelling notes are typically best suited for ownership transfers within a family since this method may reduce the seller’s estate tax and allow the “buyer” to pay a lower price.

Recapitalization – A recaplitalization is the change in a company’s capital structure, such as an exchange of bonds for stock or preferred stock for common stock. A dividend recapitalization occurs when a company incurs a new debt in order to pay a special dividend to shareholders. A recapitalization can result in the business owner retaining voting control and receiving cash flow from the business while shifting the growth of the company to the donee.

About Balasa Dinverno Foltz LLC

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Our Business Owner Team is dedicated to helping you identify issues that impact your business and personal finances. Our Business Owner Assessment™ tool looks at your entire financial picture through a business lens, making sure your wealth management plan reflects all aspects of your personal and professional life, and that you have the right experts onboard to help you get the most from your business — and your life.

Our team includes former estate planning attorneys, Certified Public Accountants, MBAs, Certified Financial Planner™ professionals, Chartered Financial Analysts®, and Certified Divorce Financial Analysts.

We serve business owners, financially responsible women, individuals and families, and institutions.

BDF constructs and manages globally-diversified portfolios tailored to each client's unique needs, financial plan, time horizon, and risk tolerance.

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[1] as of September 19, 2014