Turning Over the Keys to the Family Business

Owning a business is one part of the American Dream, and seeing it successfully transferred to the next generation ensures that dream continues. Yet with competing interests among family members in addition to financial considerations, transferring a business to the next generation is often a daunting task. Having frank conversations with family members early on and employing the right experts can make the transfer easier. Before stepping away from the business, the founder should think broadly about what they envision for the next generation while also considering their financial needs for retirement. If receiving some sort of continuing financial benefit from the business is part of the plan, ensuring that the successors are equipped to manage the business well is of the utmost importance.

There are different ways to get business interests into the hands of the next generation. Giving the interests outright or in a trust with the goal of transferring the business and reducing your estate taxes is a popular strategy.

Even before there are heirs to the business in mind, establishing a continuity plan with life and disability insurance as a first step ensures the business continues. Planning must provide for ongoing business even if the founder is no longer able to work prior to the heirs being ready to take over. On the other hand, when there are seemingly several potential heirs to the business, the owner must think of the best way to split up the ownership stakes – whether equally or in favor of heirs that are active in the business. It is possible, though unlikely, that each potential beneficiary equally wishes to run things. What is more likely is that there are one or two members who wish for active ownership and other family members who would merely like to be passive owners in the business.

In this instance, it is important to make the distinction between the transfer of control and the transfer of value. The eventual owner may be entitled to a larger ownership percentage in addition to control because they will be the one ensuring the business' continuity and the continued wealth for future generations. Other family members may get a smaller -- or, non-voting -- share of the business while holding on to substantial value.

Failing to plan in advance can lead to unintended financial consequences and tension among grieving family members. For more information or to discuss a specific situation, contact your Anchin Relationship Partner, Tamir Dardashtian or Michael Rudegeair, members of Anchin Private Client, at 212.840.3456 or info@anchin.com.

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