

# **FAMILY BUSINESS SUCCESSION**

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Notes:

## **FAMILY BUSINESS SUCCESSION**

- Of the estimated 18 million plus business enterprises in the United States, more than 80% are family dominated.
- Family-owned and family-managed businesses comprise more than 50% of the nation's employment and 50% of its GNP.
- It has been estimated that during the next five years, 43% of the nation's family owned businesses will change leadership.
- 79% of senior generation members want their families to retain the family business and 70% of the next generation share their hopes.
- Statistics indicate only 30% of these businesses survive into the second generation of family ownership.
- Just 15% of these businesses survive into the third generation.
- 60% of a typical succession breakdown is attributable to problems in relationships among family members.
- 25% of a typical breakdown is attributable to heirs not being adequately prepared.
- Surprisingly, only 10% of a typical breakdown is attributable to planning and control issues.
- Because succession breakdowns are so common, families must determine what the real level of commitment by the younger generation to the future of the business is.
- The merits of a sale should also be evaluated.
  - Reasons for a Sale:
    - To obtain optimum value.
    - When there is lack of commitment.
    - When there is no competent successor.
    - When the risks of failure are too high.
  - The benefits of "walking through" a sale should be considered.

## **SUCCESSION - ESTATE PLANNING FOR OWNERS OF A FAMILY BUSINESS**

- An inter-generational process preferred.
- Typically, a longer project.
- Typical primary goals: maximize long-term value of business; minimize taxes on transfers to younger generations.
- Issues of active and inactive family members are critical.
- Should attempt equitable (rather than equal) treatment of children.
- Distinguishes ownership control and managerial control; retention of the latter can jeopardize business.
- Must address unique facts; process requires situational planning.
- Must address active business issues (often outside the competence areas of estate planning advisors)
- Management competence is a requisite qualification for successor candidates.
- Long-term coordinated actions by successors are required.

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