STRATEGIES FOR THE FAMILY-OWNED BUSINESS

Few people have more estate planning issues to deal with than the family-business owner. The family business may be the most valuable asset in the owner's estate. Yet, two out of three family-owned businesses don't survive the first generation because of poor planning. If you are a business owner, you should address the following concerns as you consider your estate:

1. *Who will take over the business when you die?* Owners often fail to develop a management succession plan. It is vital to the survival of the business that successor management, in the family or otherwise, be ready to take over the reins.

2. *Who should inherit your business?* Splitting a family business asset equally among your children may not be a good idea. For those active in the business, inheriting the stock may be critical to their future motivation. To those not involved in the business, the stock may not seem as valuable. Perhaps your entire family feels entitled to equal shares in the business. **Resolve this issue now to avoid discord and possible disaster later**.

3. *How will the IRS value your company when you die?* Because family-owned businesses are not publicly traded, knowing the exact value of the business is difficult without a professional valuation. The value placed on the business for estate tax purposes is often determined only after a long battle with the IRS. Plan ahead and ensure your estate has enough liquidity to pay any possible estate taxes AND support your heirs.

4. *How can I ensure a smooth transition for my family when I pass on?* One common way business owners ensure a smooth transition is with a buy-sell agreement. This is a powerful tool to help you control the destiny of your family business. A "Buy-Sell" agreement is a contract between shareholders and their Corporation, Partnership, LLC or between a shareholder and the other shareholders of a business.
The agreement controls what happens to the company stock after a triggering event, such as the death of a shareholder. For example, the agreement might provide that, at the death of a shareholder, the stock is bought back by the corporation or that the other shareholders buy the decedent's stock.
A well-drafted buy-sell agreement can solve several estate planning problems for the owner of a closely held or business and can help ensure the survival of the business.

A buy-sell agreement offers three key benefits:

1. It provides a ready market for the shares in the event the owner's estate wants to sell the stock after the owner's death.
2. It sets a price for the shares and in the right circumstances. It also fixes the value for estate tax purposes.
3. It provides for stable business continuity by avoiding unnecessary disagreements caused by unwanted new shareholders.