Taking your family business to the next level: Don’t ignore taxes, legacy and lore

Dwight Moldenhauer

Dwight Moldenhauer Inc.

Managing the complexities of succession planning for the family business goes well beyond tax management. How did you build your wealth? Did you build a business where none existed before or did you inherit the business? Taxes can prevent a family business from continuing to the next generation. However, legacy is usually the most valued objective but often goes unexpressed during a transition. Let’s consider taxes and transitioning while giving attention to the desired legacy and protecting the story of a family for generations to come.

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TAXES

As of April 1, 2014, the individual estate tax exemption in New York State doubled, from $1 million to a little over $2 million. It is then scheduled to increase annually until the year 2019 when the exemption will be the same as the federal exemption in effect at that time. That is the good news. Not surprisingly, New York, unlike the federal and other states’ estate tax laws, phased out the exemption entirely for estate’s valued at over 105% of the exemption amount. In other words, if your estate is $2,062,500 (this year’s exemption) there would be no New York estate tax. On the other hand, if the estate is 4% more – or $2,165,625…there would be $112,050 owed for New York estate taxes. In effect, you have the exemption if you are below 105% of the exemption amount, and if you are over that…the entire estate is taxed. The 16% maximum tax rate is certainly an important consideration to plan for.

As we see, no one can be complacent when it comes to tax planning. In all likelihood, the need for asset ownership management is going to become increasingly critical.

At the same time, to just focus on tax management alone would be a mistake if the goal for the family business is to continue to provide income and opportunities for multiple generations.

Tax management is only one dimension. For parents, we often recognize that our children mature in many different stages and at many different ages - managing these dynamics alone can seem challenging.

Many business owners recognize that their own children may do fine working in the family business but shouldn’t be allowed to run it for either the foreseeable future or perhaps ever.

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Timing and Action Plans

We assembled a multi-discipline study group, which included a CPA, family succession planning attorney and a funding specialist and identified the timing as well as typical action plans of the three stages of succession planning that can maximize a successful transition.

Timing of exit strategies:

Stage one	10 years
Stage two	5 years
Stage three	2 years

Stage One – This is when it is important to identify the key issues and vision of what the senior owner plans for their exit and what that looks like. The financial issues both personally and as they relate to the business.

Leadership issues; who is fit to run the business operation? Are these people part of the current management team?

Ownership issues; who can and should have the opportunity for ownership of the business?

When a plan begins to take shape, the logistics of business valuation, who the candidates are and how are they are going to pay for the business should start to become clear.

Stage Two – Specific steps to execute the owner’s succession and exit should be understood if not in place. Family members – the next generation may still play a key role, but recognizing their limitations is critical. Some of the most successful companies have brought in outside advisory boards recognizing that everyone has their strengths and having weaknesses is not bad so long as they aren’t ignored.

Valuation needs to become clear as well as who is capable of running the organization and how will they pay the owner for the purchase of the business.

Stage Three - When the sale or ownership transfer is within two years, commitment is critical for a successful execution.

If the business is being transferred to either family members or key employees, their leadership roles need to be firmly established.

Changing roles need to be communicated to all the company stakeholders, customers, bankers and suppliers so everyone is supportive and sees the change as positive growth for the company

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LEGACY

Legacy planning goes well beyond tax management. How did you build your wealth? Did you build a business where none existed before or did you inherit the business? Perhaps you bought the business and grew it to the success it is today.

What could be richer as a family legacy than the story of how the business began? How the first generation started with very little and with the struggles and triumphs along the way and with the drive and inspiration to provide a better life for their family made a lasting legacy for the next generation and perhaps beyond.

THE FAMILY BUSINESS LORE

The story of a family business goes well beyond both taxes and legacy. These can be the generational values that will mean the most and carry important information across time and space to current and future family members.

The telling and retelling of family stories embeds them as family lore. Perhaps all too often family members keep quiet about what the business means to them. They don’t openly share how they build their wealth. What are their dreams for the business and the legacy that the owner spent a lifetime building? These stories should be celebrated and kept alive as important as any business asset.

How many business owners ask their children how an inheritance will impact their life and ambitions?

Children may have the tendency to answer the question with what they think the parent wants to hear. However continuously engaging the various generations can only enhance the value and richness of the family’s values, legacy and lore.

Dwight Moldenhauer, CLU®, ChFC®, is a chief strategist with Dwight Moldenhauer Inc., Buffalo, N.Y.