

Succession planning for the closely held business owner

By **Joseph R. Bodan CPA**
Partner and Director of Tax Services, ODMD

You've worked hard over the years growing your business and it's paid off. As a result of your efforts and often the efforts of other family members and trusted employees, your business has grown and prospered. It is important to ensure that your future wishes with respect to ownership and control will survive while minimizing any taxes. Many different estate and succession planning techniques are currently available and the one that's right for you will depend upon the nature of your business, its form of ownership, and the parties whom you choose to ultimately own and manage the business. The experienced professionals at O'Connor Davies Munns & Dobbins (ODMD)

can design and implement a plan to help ensure that your vision survives well into the future.

One of the first issues that any closely held business should address is what happens if an owner dies or wants to leave the business and cash out. Is there any contractual or written policy to cover such situations? A carefully written buy-sell agreement can provide for the orderly succession of ownership by establishing an agreed-upon formula to value the business. It can also provide for the funding of any buy-out, typically by use of cross owner life insurance, or stipulating an installment payout, which could be paid from the operations of the business. Buy-sell agreements can also protect the remaining owners by mandating a right of first refusal to purchase any interest that a current owner is looking to gift or sell

and to legally bind any new owners to the terms of the existing buy-sell agreement.

A closely held business owner should also consider the estate tax ramifications of their ownership, which often is their largest asset. A careful and systematic plan to transfer ownership to a younger generation of family members can be achieved at minimal or no gift-tax cost by utilizing the annual and lifetime gift-tax exclusions and valuation discounts for minority interests and lack of marketability. The future appreciation for any ownership interest transferred will escape the donor's estate all together.

Another technique used to transfer ownership in your business while still maintaining control of the day-to-day operating decisions is to transfer your business or businesses into a family

limited partnership (FLP). Membership interests of the FLP can be valued using the discount techniques described above and the operating agreement of the FLP would designate you as the "managing member" thus allowing you to maintain control.

Succession planning is an important but often overlooked task for many busy business owners. ODMD has the experience and resources to help business owners develop and implement an appropriate plan to complement your current circumstances and future goals.

To learn how ODMD can assist you, please contact Joseph R. Bodan CPA, partner and director of tax services at ODMD. Joe can be reached at (914) 421-5600 or jbodan@odmd.com.



O'Connor Davies Munns & Dobbins, llp

a Unit of Bennett Kiehn Storch DeSantis Division

The Largest Westchester-Based Accounting and Consulting Firm

Providing a Complete Range of Services:

Accounting, Auditing, Tax, Management Advisory, Wealth Management, Financial Services, Information & Technology, and International Services to the following Specialty Practice Areas:

Commercial Businesses and their Owners

Not-for-Profit Organizations including Religious Institutions, Colleges, Universities, and School Districts

Governmental Entities • Healthcare Institutions including Hospitals and Nursing Homes

Employee Benefit Plans • Professional Service Firms • Private Foundations

High Net-Worth Individuals and Family Groups • Manufacturing and Distribution

Real Estate and Construction • US Subsidiaries of Multi-National Corporations

www.odmd.com

White Plains, NY
(914) 421-5600

Harrison, NY
(914) 381-8900

New York, NY
(212) 286-2600

Paramus, N.J.
(201) 712-9800

Stamford, CT
(203) 323-2400