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FAMILY BUSINESS FORUM

Selling Your Business To Your Children

By Donald Levitt

If you are like many family business owners, you may be planning to sell or give your business to your children. This can turn out to be one of the biggest and most complex transactions of your business career – so you want it to go smoothly.

The Expert
Jeffrey Shoffer is president of Strategic Resources Planning, Inc., a financial services firm in Toledo, Ohio which specializes in helping clients to exit their business.

Shoffer starts his work with a business owner by asking questions such as: How much wealth do you want or need after you exit? How much wealth do you want your children to have? What is the business worth? What is the potential for growth? What is the cash flow and debt? How long do you want to work? Are your children capable of running the business? "Once you have the information, then you can strategize a solution," says Shoffer.

Shoffer cites as example a business owner who wants to sell to his children and use cash flow from the business to pay for the purchase during his retirement. This approach has an inherent risk in that the owner's financial security in retirement is dependent upon the children's success in running the business.

"A second risk to this approach," says Shoffer, "is double taxation. Let's say the business has cash flow of $250,000 per year, and this is what the owner expects to receive for a specified number of years in retirement. The business first pays 40% taxes on this amount, and then the owner pays 20% capital gains on the remainder, leaving the owner with $120,000 in his pocket from the $250,000 of cash flow. That's double taxation." Ways to reduce these risks, says Shoffer, include minimizing the valuation of the business, using a deferred compensation plan while the owner is still working, or using a deferred compensation plan for the owner's children which can allow the owner to "cash out" at retirement.

Shoffer uses as another example owners who do not need any more money for retirement, and who want to give a business worth $9 million to their children. Two concerns for owners in this situation are (1) giving *too much* wealth to their children – and possibly reducing their motivation to work, and (2) minimizing estate and gift taxes on the transfer of wealth. “By using tools such as the family limited partnership, trusts for each child which tie distribution to specific restrictions, life insurance policies, the Grantor Retained Annuity Trust (GRAT), and the Charitable Remainder Trust (CRT), these concerns can be successfully addressed,” says Shoffer.

The Family Business
Steve Cotner is president of Corporate Intelligence Consultants in Perrysburg, Ohio. His firm provides investigative services for corporate clients across the country regarding employee-related security and pre-employment screening.

“My father and I started succession planning shortly after he learned that he had leukemia. I didn’t want to think about the transition, but he insisted. I became president and he was there to support me as I learned. I was given stock in lieu of income and then, as his health deteriorated, we agreed for me to buy him out using cash flow for five years after his retirement. I owned all of the stock before he passed away. I was honored to be able to support my parents – though they didn’t need my support,” says Cotner.

The Tip
The three most important factors in selling or giving your business to your children are: plan ahead, plan ahead, and plan ahead. There are many risks – and you want your last big transaction to be successful.

Donald Levitt, president of Levitt Consulting, helps family businesses to succeed as both a business and a family. More information about this month’s topic, and other family business issues, can be found at LevittConsulting.com.