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Succession Plans Keep Legacy Alive

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More than 95 percent of New Mexico businesses are defined as small by the U.S. Small Business Administration, and many were founded by entrepreneurs who intend to pass the assets they build to their children. Yet less than half take the steps necessary to ensure their heirs will inherit a viable enterprise.

Whether a business owner plans ahead for retirement or is forced to leave her company by illness or death, a succession plan is the single greatest tool for ensuring that her family and employees are protected. A succession plan can be the glue that keeps a business from breaking apart and destroying the assets an owner has worked hard to build.

There are many reasons owners neglect this important planning. Some don't want to think about their own mortality, or they plan to work for many years to come. Others are afraid of creating family divisions by choosing one child over another as their successor. But without a succession plan in place, families can be quickly torn apart.

Transition is best done as a slow and methodical process rather than a disruptive and frightening event. Planning for the eventual absence of a key manager – usually the owner – can maintain the value of the company, retain key employees, use tax laws to the family's best advantage and continue the founder's legacy. In closely held companies, a plan can defuse the emotion inherent in an unexpected death or incapacitation.

Besides allowing time for grooming of the intended successor, a planned transition encourages involvement by the entire management team, often resulting in overall buy-in that promotes problem solving. Some companies set up a transition-planning team whose goal is to ensure the greatest chance of business success and longevity. Prior planning also allows for reevaluation if the intended successor shows signs of not being up to the task. The plan can also consider external influencers such as changes in the marketplace, new technologies, pending laws and competition.

Tax Considerations

One area of profound importance to future generations is taxation. A certified public accountant can help with decisions about transferring assets and help heirs maneuver through the minefield of capital gains and ordinary income questions. Some firms may be advised to change the

business's legal form, creating different stock levels that address control and voting rights. Other accounting vehicles, such as grantor retained annuity trusts (GRATS) and grantor retained income trusts (GRITS), can be employed to lower tax liabilities.

If no family heir-apparent exists, an owner may decide to sell the business to another firm or to employees through an employee stock ownership plan, thus preserving jobs.

With tax laws in flux, the importance of a succession plan only grows greater.

Succession planning is just one topic addressed at workshops led by Accounting and Consulting Group LLP. Long-range planning will be discussed at executive-level workshops held in Albuquerque and Roswell in early February. Get details at www.bizcalendar.org or call 505-883-2727. For information about Accounting & Consulting Group LLP, visit www.acgnm.com.

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