



Jamie French is a wealth advisor and a managing partner at Advent Partners, a financial planning firm with offices in Gettysburg and Camp Hill. PHOTO/PROVIDED BY ADVENT PARTNERS

Unlocking complexities of succession planning

By Ed Gruver

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Business succession planning can be complicated.

"If I were to look at it as a decision tree, the first decision is, 'Am I selling it or am I transferring it to someone in my family? If I'm selling it, who do I want to sell it to? Are there people I know in the business who would be good at it?'" said Jamie French, a wealth advisor and a managing partner at Advent Partners, a financial planning firm with offices in Gettysburg and Camp Hill.

"In essence, succession planning is thinking through all those questions, and having a plan for how that business will transfer to the next generation. It could be because you're planning to retire, you're done running the business and you want to cash out and sell it for the value that you've built."

A Certified Financial Planning (CFP)

professional in 2006, French provides financial strategies for families and business owners that align with their goals and values. As a CFP and a Certified Public Accountant (CPA), French is experienced in financial affairs, including tax planning, charitable planning, estate planning, and retirement planning. He is also a Certified Kingdom Advisor and knowledgeable about financial planning based in Biblical principles.

French also holds credentials as an Accredited Estate Planner, Chartered Advisor in Philanthropy, Certification in Long-Term Care, and Retirement Income Certified Professional. He is a member of the Financial Planning Association and the Estate Planning Council of Central Pennsylvania.

French said business succession planning can involve how one sells a business or transferring the business to the next generation of owners, be it family mem-

bers or employees.

"What if it's more involuntary? What if you're the business owner and you pass away? What if you have a disability or what if there's a divorce? What are the arrangements you have in place to make sure the value of the business is in place and that things go the way they're supposed to?" said French.

"The planning accounts for practical implications, how the business is going to run. It accounts for the financial side of it, the tax implications, it's all encompassing."

French said that regardless of the type of planning a business owner is seeking, they should seek the council of a financial planner and an attorney.

"If your business succession plan is, 'Someday I'm going to sell the business,' that's a simpler succession plan than what happens if you pass away before you're ready to do that," said French. "Or

if you're hurt or sick and the business is dependent on you.

"For many small business owners, the running of the business is highly dependent on that owner. In other businesses, they have a leadership team in place, the owner may get to the place where the running of the business really doesn't depend on them and it's easier for that transition to happen."

French said the goal of succession planning is to maintain the value of the business and have a plan for how it's going to transfer regardless of who it's transferring to.

"All business succession planning is, 'What is the plan for how that's going to transfer, how's the business going to run, who's going to be involved, and how are we going to handle the financing of it, if that's needed,'" said French.

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"An example of what could go wrong is let's say you're a 50-50 partner in a business. You pass away, and your spouse is listed in your estate as a beneficiary. Now your spouse is a 50% owner with your former business partner. Your spouse may not have any interest in the business. They may want to get their money out of the business and not be involved anymore. Your business partner could buy out your spouse if you pass away but how are they going to finance that?"

French said one strategy business owners can employ is a buy-sell agreement. In such an agreement, a business owner has identified all the potential situations – death, disability, retirement, divorce – and how is the business going to be transferred. A buy-sell agreement can also spell out how a business will be valued.

A close cousin to business succession is business continuation. In the latter, planning is focused on making certain the business can continue to operate profitably to protect the value of it.

"If you haven't planned, you might have spouses who don't want to be involved," said French. "The value of the business might not be what it was. There might not be liquidity to buy out the business. Planning's important to provide resources and it also protects employees by ensuring the business can continue to operate, and it protects your family members."

French identified key decisions business owners need to consider.

"Are they selling it, gifting it, or leaving it as part of their estate?" asked French. "Am I going to transfer over time or all at once? Am I going to bring in a partial owner and give them increasing equity over time? Is the owner going to have future involvement or are they selling it

and walking away? Are they selling all of it or part of it?"

There are several strategies a business owner can employ for this type of planning.

"For business continuation purposes, they might look at key person insurance," said French. "Let's say someone's not an owner but they're a rock star and the business wouldn't run without them. If they can't fulfill that role anymore, how do I replace them?"

"Other strategies are key employee retention strategies. How do I incentivize key employees to stick around so that the business continues to operate. There may be things like executive bonus plans, nonqualified deferred compensation plans, incentives for them to stick around."

French also addressed what a business owner can do about the tax implications of selling their business.

"If they want to spread out the tax im-

pact over time they might do some type of installment sale," he said. "They're not going to sell it all at once or recognize the gain all in one year but spread it out over multiple years. If they're transferring it to their family, they might consider a family limited partnership, which is a way to transfer ownership to family members over time."

"I encourage business owners to think about charitable giving strategies. There are ways to employ charitable giving strategies where you give part of the business away to a foundation."

How a business owner gets started on this type of planning begins with talking to a certified financial planner who can ask the right questions.

"I think we're all a little guilty about not thinking about the end game," said French. "What's your end game for this business? What's your plan? Depending on what you want that to be, the planning looks very different."