



# DON'T TAX YOURSELF

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## Succession Planning is Key to Business Continuity

BY REBECCA MACGREGOR • JUNE 1, 2020

The COVID-19 pandemic has created a wave of economic uncertainty. Many business owners are thinking about succession planning, but they often do not implement a strategy or take necessary steps until faced with an event that requires action. What happens if the owner, manager, or key officer cannot work due to disability, illness or death?

Most business owners are so focused on the success of their day to day business that they do not implement a long term succession plan until a trigger event occurs, such as the disability, illness or death of an owner. Ideally, business owners should have an exit strategy in place on the day they open for business. However, most business owners don't have an exit strategy and even if they do, they should revise that plan as the business grows or as circumstances change, so even if a plan is in place, it should be reviewed it to ensure that it still reflects the owners' wishes for succession. Business owners need to think about who will be the key person to take over the business, or if the tasks should divided among multiple key persons, what will the ownership structure look like, and how key personnel should be compensated.

Successful succession planning for a business includes creating an operating agreement or by-laws which contain the agreed-upon terms of how to manage the business, sets forth the positions and responsibilities of the team, and makes a plan for disability, retirement, and death of the owners, managers and officers. Once these governing documents are in place, critical next steps include how to fund the succession plan, a goal that can be accomplished through disability and life insurance policies. For example, life insurance can be used to either fund a redemption of stock, where the company buys back the deceased owner's shares, or to fund a buy-out agreement, which is when surviving owners buy out the deceased owner's shares. The last step is to incorporate the succession business plan, along with the insurance policies, into the owners' estate plans by utilizing trusts to implement estate tax savings strategies for the business and the families of the deceased or disabled owner.

This is the perfect time for business owners to take steps to implement a strategy for succession planning. Your customers, employees, and family will thank you for it.