How do you actively prepare for the succession of your business?
Managing a family business inherently involves emotional issues that don’t typically affect other businesses. And when the time comes to talk about succession of ownership, emotions can run particularly high. It’s a subject that can’t be avoided – so how do you prepare for the inevitable conversation?

A family business can flounder when the senior generation is no longer active and control passes on to the next generation. As difficult as it may be to consider, you need to take into account what will happen next – equal inheritance doesn’t always mean equality in management. Your succession plan needs to address – and prepare for – the unforeseeable.

And it’s not only management succession you have to think about. Other issues you include assets that may be in an estate or trust, including both business and non-business assets. There are a lot of issues that, if not confronted in advance, can contribute to conflicts among family members. Competing interests among beneficiaries, incomplete or missing account records, illiquid investments or business interests and complex tax structures are just a few of the concerns that should be considered.

Many of these concerns require special expertise, especially when handing over your business or selling it to a third party. You want to make sure that you’re prepared for the future and have considered important elements included in your succession plan.
Here are some important considerations to keep in mind when you’re preparing your succession plan.

**Valuation and tax**

Tax can be one of the most complex elements in structuring and administering a trust or estate, so receiving counsel in this area is crucial. When preparing a succession plan, you’ll want to consider the following:

- Valuation of your business is necessary for several reasons, including equitable treatment of beneficiaries, structuring an estate freeze and preparing a terminal tax return.
- Post-mortem planning may be required to avoid double tax and to minimize the overall tax burden.
- Existing beneficiaries in foreign jurisdictions may affect distribution decisions.
- There are potential complexities around income tax filing requirements, as well as assessments and audits by the Canada Revenue Agency (CRA).

**Real estate**

Real estate is one of the assets in a trust or estate that is most likely to become the basis for a dispute. Consider the following when including real estate in your succession plan:

- Most forms of real estate are liquid and take time to monetize at fair market value.
- Some capital investment may be necessary to ready an asset for market.
- Different levels of beneficiaries often debate about making additional investments versus selling quickly on an “as is” basis at a discount to the market.
- The value of the business may be eroded as a result of costly court disputes due to offering opinions on the realization strategy.
Managing disputes

While it’s difficult to consider, one of the most unforeseeable situations that must be considered is potential disputes, or allegations of wrongdoing. While you cannot foresee everything, there are some potential scenarios that can be considered when planning for succession:

- Some beneficiaries may feel unfairly treated and may dispute decisions made by trustees. They may act to alienate parts of the business or otherwise behave in a way that is disruptive.
- Complex accounting structures may require “unwinding” to a point in time to best facilitate distribution of earnings, assets or ownership.

Have an exit strategy

An essential component of any succession plan is to develop a full or partial exit strategy. In the absence of a divestiture plan, a long-term illness or death may leave the business without a viable successor. To succeed through the next generation, a contingency plan is crucial.

Your successor overseeing the family business, as well as other family members, must be involved with the business and understand the operations early on. With this understanding, backed by a solid succession plan, the transition of the business to the next generation can be made smooth and efficient for all concerned.
Preparing the next generation

Family businesses that are in the third, fourth or later generations have figured out how to successfully engage and train the next generation. A great way to set up your successor for success is to surround them with a strong support system of family members and others who offer different perspectives of the business. Being a great leader means understanding all facets of the business and welcoming opportunities to get educated on aspects of the business they may not know much about.

Another helpful way to prepare your next-generation leader is to allow them to experience working for another company. That can give them new experiences, help them develop and enhance their skillset and increase their credibility in the eyes of those inside and outside the family business. Along with outside experience, training and education programs are critical elements of preparing successors for both ownership and leadership succession. Giving them the ability to learn from knowledgeable resources and providing the opportunity to share experiences with peers can prove invaluable.
We can help
To learn more about how to develop a succession plan that meets your business and family needs, contact us at privatecompanyinfo@ca.ey.com.

Are you looking for ways to prepare your next generation for leadership? Visit ey-nextgen.com to learn more about EY’s NextGen Academy.

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