

What if...

I have my children in my business

You currently have a child or children that are active in your business. Transferring the business to your children is your exit plan.

If this is true, you face certain challenges that can actually become obstacles.

- Can the business continue to grow without you?
- Can the children think like employers and not like employees?
- Where will the money come from to buy you out? Most likely, they do not have any!
- Can you minimize taxation?
- What will you do with yourself after you exit?
- Will you have to come in and buy your own business back at half of the value by default?
- Will your family always be able to sit down and have Thanksgiving dinner together?

The vast majority of all business transfers are what we refer to as inside transitions. These transitions are only successful about half of the time. Money often is the problem. Rarely do children have sufficient funds to buy the business outright. The buyout will usually take place over a seven to ten year period. As the parent / seller, you will receive a promissory note for your ownership. You will only get paid if the business continues to do well. Your children will in essence be buying you out of future cash flow.

There are several techniques you can explore with your CPA which reduce the tax consequences to both you and your children. Any time the children can use pretax dollars (i.e. rent payments to you), it is a good thing.

You can begin now to sell your children stock on a discounted basis. They can pay you for this stock out of their future dividends. This will reduce what they eventually will owe you. Once the stock is paid for, they can approach a financial institution and acquire financing by pledging this stock.

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Parents often tell us that they just plan on giving the business to their children. This can trigger some very expensive gift taxes. You only have a limited amount of gifting you can do each year or at one time. Again, you need to consult with your accountant.

There are many esoteric issues that are involved. Do the children perceive the culture of the business the same way that you do? Do they have the same work ethic that you do? What do you need to do about your children that are not active in the business? Do the children that are getting the business understand the stewardship that they are taking over, or is there a feeling of entitlement?

The most important objective is family harmony. You must never lose sight of the fact that you are family first and a business second!

Helping business owners protect, preserve and pursue more value from their business, more tax efficiently!®

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