

SUCCESSION PLANNING = PEACE OF MIND

Statistics indicate baby boomers account for more than 50% of the construction industry. That means half of owners, along with their skills and knowledge, are headed towards retirement. Even more alarming is only half of those owners have a succession plan. If your company faces a disruption or change in ownership it reduces its chance of survival to only a small percentage. Even owners who don't have an immediate retirement on the horizon need to have a plan.

Some of the major components of a successful plan are 1) determining the owner's successor, 2) the owner's exit and 3) estate planning. We'll cover the first step in this article.

WHO WILL BE YOUR SUCCESSOR?

It's critical for every business owner to lay out how their business will operate after they leave, whether through expected events such as retirement or unexpected events such as untimely death. A comprehensive succession plan ensures your business survives a change in ownership.

There are many ways to transfer your business, but three common routes include:

1. Transferring to family
2. Transferring to insiders
3. Selling to a third party

Historically, the most popular route for construction owners has been to transfer ownership to the next generation. Often, children have been prepared to take over the family business from early on. This may seem like the most logical solution, but there are still other factors to consider: is the chosen family member willing and capable to take over the business? Are there multiple children or family members interested in ownership? Are there family issues that would complicate the transfer? A succession plan that answers these questions in advance will help ensure a smooth transition and reduce family conflict.

Another route to pass on ownership is to transfer to insiders such as a key employee or interested co-owner. This route is similar to transferring to a family member because the employee is already familiar with the company.

Selling your company to a third party is a route with distinct advantages and disadvantages. Generally, a third-party sale will produce the most outright cash for you. However, in most cases, the owner must be willing to separate completely from the company once the sale occurs. Putting your company and employees under unfamiliar ownership can have its risks.

THE BOTTOM LINE

Half of all construction owners are nearing retirement. And only half of those owners have a succession plan in place.

WHAT TRANSFER OPTION IS BEST FOR YOU?

Once you know when you want to leave, how much money you will need for retirement and identify a successor, the next phase of your plan is to determine how you will transfer ownership. Will you sell your business or gift it?

An outright sale will allow you to transfer ownership immediately and provide you a secure retirement fund. But what if your successor doesn't have the financial means to purchase your business? A gradual sale is a more flexible option that allows your successor to finance the purchase through a long-term payment plan. This option allows the owner to gradually walk away permitting more time to shift control to the new owner. However, this plan has risks because payments are tied to the survival of the business in the hands of the new owner.

A gift of ownership interest to family members should take into consideration whether the individuals are actively involved in the business. Gifting can lead to the discussion of fairness or equality when families have multiple children. Business-active and inactive family members may carry different burdens and expectations that can erode family harmony.

YOU DON'T HAVE TO PLAN YOUR FUTURE ALONE

Each route has advantages and disadvantages. In addition to the route you choose, you need to consider the tax implications associated with your transfer and the legal aspects of transferring your business. A solid plan requires a thorough understanding of all the components. Having a team with the knowledge to help achieve your goals is crucial. For more information, to revise your current plan or to develop a new plan, contact us. HORNE can help.

CONNECT WITH US TO GET STARTED.

Contact Joel Bobo at 601.326.1332 or at joel.bobo@hornellp.com for insights and assistance with questions.



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