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Dermody, Burke & Brown, CPAs, LLC

Business Owner's *Perspectives*

Trends and Strategies for Owners of Closely Held and Family Businesses
Winter 2024

Succession Planning

How to Create a Family Business Succession Plan

Did you know that most privately owned businesses in the U.S. are family owned? What's more, most of these business owners say they've considered passing the company on to their children and grandchildren in order to keep ownership in the family.

Unfortunately, the statistics regarding family business succession are discouraging. According to the Family Business Alliance, just 30 percent of family businesses transition to the second generation and just 12 percent transition to the third generation. Only 3 percent of family businesses transfer to the fourth generation and beyond.

The best way to help ensure a successful generational transfer is to create a family business succession plan that identifies new leaders and details how you will prepare them for their roles. The plan will also lay out a succession timeline and detail steps for the transfer of ownership to heirs.

Handing Over the Reins

If you're like many family business owners, you've worked hard for decades to build a successful company. But you may have been so focused on growing the business that you haven't planned for the day when you'll hand over the reins to someone else in your family.

A succession plan will guide you through this process by helping you determine how and when you will exit the business and who will assume leadership after you leave. For example, do you plan to retire by a certain date and use money from the business' sale to fund your retirement? Or do you want to use these proceeds to start a new company?

Creating a succession plan will force you to think about the company's future leadership. This can be especially challenging for family businesses due to relationship dynamics that exist in most families. For example, an older child might assume he will lead the company, but if his younger sibling is more qualified for leadership, she might be tapped instead. This could result in family conflicts down the road.

Remember that leadership roles and responsibilities in the future will be different than they are today. So, think about what kinds of skills, experience, and talents leaders will need to be successful in the years ahead.

Another challenge is letting emotions affect decision making. Family members can get sentimental when it comes to the business that bears their name, which can lead to succession decisions that might not be in the best interest of the business or all stakeholders, including non-family employees.

You must determine not only which family member is most qualified to lead the company, but whether this

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Business Planning

Five Business Resolutions for the New Year

Many people make personal resolutions this time of year, such as to lose weight, exercise more, or take up a new hobby. This is also a good time to make resolutions for your business.

Here are five business resolutions to consider as you plan for the year ahead.

1. Revisit Your Business and Marketing Plans

Your business and marketing plans should be living, breathing documents. If you haven't reviewed these plans lately, set aside time early in the year to do so. Then, update your plans to reflect changes in your business and industry that have occurred over the past year.

For example, how did your actual sales and revenue compare to projections? What are the latest industry trends that could affect your business? Could new competitors threaten your market share? Which marketing strategies worked well over the past year and which didn't? Nix the ones that didn't generate results, and consider investing more in the ones that did.

2. Grow Your Professional Network

It's easy to neglect networking when you're busy running a business, but networking is a key to professional success. Be deliberate about meeting fellow business owners and other professionals who can help you expand your business and grow personally and professionally. For example, join industry and trade associations, as well as local groups such as the Rotary Club or Toastmasters International, to meet other likeminded professionals.

3. Set Realistic Goals

Start by determining how well you did in achieving your 2023 business goals. Based on this, you can set new goals for 2024 that build on the success you had last year or focus on areas that need improvement. Identify key performance indicators (KPIs) that are critical to your company's success, such as sales, revenue, profits, and retention (both customers and employees).

Once you have set goals, you can make projections for the new year. Be sure your projections are based on accurate and realistic assumptions—don't just project last year's numbers into this year without considering changes in the broad economy and your industry. Refer to your projections throughout the year to see how actual performance compares to your forecasts.

4. Start Delegating Strategically

Many business owners live by the adage, "If you want something done right, you've got to do it yourself." But this can be counter-productive if you end up micromanaging projects and spending time on things that could easily be handled by someone else.

By delegating non-critical tasks, you'll free up your time and energy to concentrate on more strategic initiatives that positively impact your bottom line. Identify tasks that a trusted employee could accomplish just as easily as you, as well as tasks that you don't enjoy or find difficult, and hand these off to someone else. This will be a win-win for both you and your employees.

5. Commit to Achieving Work-Life Balance

This is a big challenge for many family business owners who have a hard time drawing the line between their business and personal lives. When taken to the extreme, an imbalance between your work and personal lives can result in stress, burnout, poor health (both mental and physical), relationship problems, and an overall low quality of life.

The right balance between their work and personal lives is different for everyone, so carefully consider what's best for you. Then devise a plan for how you'll achieve this balance—and stick to it. The same goes for your employees: Encourage them to find the right work-life balance for themselves and their families and give them the flexibility to achieve it.

Start Planning Now

Set aside time with your managers now to talk about the best resolutions for your business in 2024. This time next year, you'll be glad you did.

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person wants to assume leadership. If a family member is actively involved in the business and demonstrates leadership qualities, the answer might be obvious. If it's not, you may need to meet with family members to discuss whether it's possible to keep the business in the family after you step away.

Succession Planning Tips

Here are six tips to help you as you begin the family business succession planning process:

1. Get started early. It's never too early to start succession planning, though three to five years before your planned exit is the minimum. The sooner you get started, the more time you'll have to identify and train new leaders, transition relationships with clients and vendors to them, and begin a smooth and seamless business exit for yourself.

2. Think about the roles of non-family employees. Your exit from the business may cause uneasiness among employees who aren't family members, especially if you have close, long-term relationships with them. You might have to consider the fact that a non-family member may be more qualified for leadership than a family member.

If you decide to tap a non-family member for leadership, talk openly and honestly with everyone about this ahead of time to lessen the potential for hurt feelings and damaged relationships.

3. Start training your successor. It's your responsibility to make sure your successor is ready to lead the company when you step aside. This includes every aspect of running the business, from operations and finance to sales, human resources, and information technology. Involve your successor in the strategic planning process and get his or her input on important decisions about the company's direction.

Also make sure your successor receives any necessary training or education during the transition period, such as advanced degrees (e.g., an MBA) or technical certifications.

4. Keep the communication lines open. Communication is especially important in family businesses because of the sensitive nature of family relationships. Misunderstandings about who will assume which roles in the business can lead to hurt feelings and irreparable relationship damage. To avoid this, communicate with all family members throughout the succession planning process, and don't keep secrets.

5. Work with experts. Assemble a team of professional advisors to help you create a succession plan, including your CPA, attorney, banker, and financial advisor. Think of them as your succession planning advisory board who can offer an outsider's perspective and advice based on their experience helping other family businesses succession plan.

6. Don't forget tax and estate planning. This is easy to overlook, but doing so can be costly. Transitioning a family business to heirs can result in unexpected and expensive tax and estate planning consequences, including partial liquidation of the business to cover tax obligations. Early planning can help avoid these and other problems.

Review Your Plan Periodically

Remember that family business succession planning is an ongoing process, not a one-time event. Set aside time periodically to review your succession plan, such as once a year. Situations change over time, so you may need to tweak the plan to reflect changing conditions in the business or your industry.

We can help you create a family business succession plan. Call us to schedule an appointment.

We use our expertise to help our clients grow and prosper.

Dermody, Burke & Brown, CPAs, LLC

Our mission is to empower our clients and our people to “live well” by providing valued advice and innovative solutions in an atmosphere that is professional, enjoyable and community minded.

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Here Are the Latest IRS Inflation Adjustments

Each year, the IRS adjusts a wide range of tax provisions to reflect the impact of inflation. Here’s what you need to know about the latest IRS inflation adjustments:

• The annual contribution limit for 401(k) plans increases to $23,000 in 2024, or $30,500 for those age 50 and over. The combined employee and employer contribution limit for 401(k) plans, profit-sharing plans, and SEP-IRAs increases to $69,000 in 2024. This includes elective deferrals, employer matching contributions, and employer non-elective contributions.

• The annual contribution limit for traditional and Roth IRAs increases to $7,000 in 2024, or $8,000 for those age 50 and over.

• The income phaseout range for eligibility to contribute to a Roth IRA increases to between $146,000 and $161,000 for individuals in 2024, or between $230,00 and $240,000 for married couples filing jointly.

• The annual contribution limit for SIMPLE IRAs increases to $16,000 in 2024, while the limit for SEP-IRAs increases to $69,000.

• The Social Security Wage Base increases to $168,600 in 2024.

• The estate tax exemption increases to $13.61 million in 2024, or $27.22 million for married couples filing jointly.

• The annual contribution limit for Health Savings Accounts (HSAs) increases to $4,150 for individuals and $8,300 for families in 2024. An additional $1,000 catch-up contribution is allowed for those age 55 and over.

• The Alternative Minimum Tax (AMT) exemption increases to $85,700 for individuals in 2024, or $133,300 for married couples filing jointly. The AMT begins phasing out once income reaches $609,350 for individuals in 2024, or $1,218,700 for married couples filing jointly.

Note that these adjustments are for tax year 2024, which means they will be used on tax returns filed in 2025.

Give us a call if you have questions about the IRS inflation adjustments.