

Business succession preparedness checklist

Questions to ask yourself if you own a family business

Business succession is the practice of increasing the chances that your family business can survive your exit by retirement, death or disability. This checklist is designed to help you assess your level of preparedness.

An unexpected exit

1. If I die unexpectedly this year, can my business survive me?
 - To what degree is my business dependent upon my unique skills and relationships?
 - Is my spouse or the rising generation experienced enough to be business owners?
2. If I die or become disabled, who will run my business?
 - Do I have decision-makers in place, such as a board of directors or family council?
 - Do I have trusted outside advisors on whom my family can rely?
 - Are my management successors adequately trained? Am I working to build their credibility inside and outside the business? Am I being realistic about their abilities?
 - Do I have appropriate operational systems in place?
3. Do I have a plan in place to protect the value of my business during the transition in the event of my death/disability?
 - How will I address the possible loss of key employees during transition?
 - How will my customers, employees, vendors and creditors ensure a smooth transition?
4. If my business has to be sold, how can I be sure my family will get a fair price?
 - Do I know what my business is worth?
 - If my business is largely dependent upon my unique skills and relationships, should I consider selling the business during my lifetime?
5. If my business has multiple owners, do we have the right structures in place to assure a smooth transition?
 - Do we have a buy-sell agreement in place, with a mechanism for determining a fair price?
 - If needed, is life insurance in place to fund obligations under the buy-sell agreements?
6. Do I have a tax-efficient estate plan that properly defines my wishes for bequests to family, charity and others?
 - When was the last time I reviewed my estate plan in its entirety?
 - Have I discussed and implemented estate-tax minimization strategies with my tax advisors?
 - If part of the business is going to charity, have I considered how this will affect my business?
 - Have I named appropriate executors and trustees to manage my estate after my death, and have I communicated my desires to them?

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Planned exit

1. Will my income needs be met in retirement?

- Have I calculated my income needs in retirement? Will I continue to receive income from the business in retirement? Does my business have the capital to continue to support me?
- Have I considered the structure of my exit, including tax considerations (for example, sale, gift, redemption)?
- Is most of my net worth tied up in my business? Do I have a plan to diversify my retirement assets?

2. Have I identified management successors, and are they being adequately trained to take over management?

- Have I considered what it would cost to replace my services? Do I need to put executive benefits programs in place to help keep my core team on board?
- Am I favoring family members to the detriment of the business? Does each family member have a clearly defined role that matches their skill set?

3. Have I developed a comprehensive transition plan?

- Is my plan in writing, with a timeline and interim goals?
- Have I communicated my values and my succession plan to my family?
- Do I meet regularly with my family to assess our progress against goals and the transition of the family business?

4. Is my plan equitable among my family members?

- Does my plan accommodate the needs of family members with different levels of skills and interest in the business?

Tax considerations

1. Have I considered the effect of taxes on my succession plan?

- Do I understand the income and capital gains tax consequences of my succession strategy?
- Does my estate plan address liquidity needs for paying estate taxes? Do I want to subject my business to an estate tax “payment plan” with the IRS (under IRC 6166), which will impact the business’s liquidity?
- Does my plan make efficient use of the marital deduction, lifetime gifting opportunities, estate “freeze” techniques and charitable deductions?
- If I have an S-corporation, are the proper provisions in place (such as the use of ESBTs and QSSTs) to ensure that the “S” election will be preserved?


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