

**Abstract:** A business owner's most valuable asset is likely to be his or her company. Thus, addressing it in an estate plan is critical in case, for example, the owner dies unexpectedly or becomes disabled. This article explains that an estate plan can help provide a smooth transition of the business to the owner's children or other family members.

## **Business succession and estate planning should be inseparable**

As a business owner, your company is likely to be your most valuable asset. To ensure it survives after you're gone, your estate plan must address the tax impact of transferring your ownership interests to the next generation. It can also provide a smooth transition of the business to your family members after you retire.

### **Ensure key documents are in place**

A comprehensive estate plan should be supported by several key documents, starting with a basic will. A will specifies how your assets will be distributed to designated beneficiaries and meets other objectives. Without a will or having assets otherwise titled, your business and other assets will be distributed under the prevailing state law, regardless of your wishes.

A financial power of attorney (POA) appoints someone to manage your affairs in case you become incapacitated, and allows this "attorney-in-fact" to conduct business transactions. The POA should be complemented by the guidance of health care directives.

### **Make use of tax breaks**

If you own significant business assets, consider maximizing the currently available federal estate tax breaks. This includes using the unlimited marital deduction and the federal gift and estate tax exemption, which in 2024 shields up to \$13.61 million. Some states also impose their own state estate or inheritance taxes.

You may be able to minimize federal and state taxes by using multiple trusts or setting up a family limited partnership (FLP). With a tax-favored FLP, the assets are removed from your taxable estate, and limited partner interests can be gifted to loved ones, often at a discounted value.

### **Consider who will take the reins**

If you're like many business owners, you may dream of the day you can transfer ownership to your children, who will continue to run the operation when you retire. A succession plan can provide a smooth transition of power and be used in the event of the unexpected death of an owner.

Typically, a succession plan will outline the structure going forward and prepare for the eventual sale of the business. Make sure the plan is in writing. Identify training

opportunities and special compensation arrangements for your successors. Include in the plan financial details reflecting assets, liabilities and current value, and update the plan periodically. Also, coordinate your succession plan with your estate planning documents.

### **Bypass potential family conflicts**

As your retirement approaches, you may face family challenges. Unfortunately, elevating one sibling to run the business and leaving another out — or giving someone a secondary role — may create hard feelings.

One estate planning strategy is to attempt to “even things out.” For example, let’s say that you own a business valued at \$5 million and you have \$5 million in other assets. You might give one child who works with you \$5 million in business assets and give the other child assets worth \$5 million.

### **Relax and enjoy a smooth transition**

There’s no universal plan for family business succession. What’s right depends on your circumstances and goals. Your estate planning and business advisors can help.