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Outline successful transfer of company with succession plan

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Family-owned businesses are the backbone of the American economy. The Fox Valley area is home to many family-owned businesses, including DME Access Inc., owned and operated by Dave and Lynn Hallman, of Montgomery.

Industry experts indicate only 30 percent of family-owned businesses make it to the second generation, 10 percent to the third generation and 3 percent to the fourth. How can family-owned companies successfully pass ownership from one generation to another? Having a succession plan that financially outlines how the transfer will occur is essential.

Determining the value of the business is the start of the process. The valuation of tangible assets including real estate, machinery, equipment, in addition to intangible assets of goodwill, client base and business reputation impact the figure. Past financial performance and future consideration will all weigh in on measuring the worth of the company. The business owner's accountant and financial advisers will play an integral part in helping set the value of the business and transferring the business to the owner's heirs.

Two ways that a business owner might arrange for the financial transfer of their business includes gifting and trusts.

Gifting allows the transfer of ownership to the next generation over time and can reduce estate or gift taxes paid while the owner retains control. IRS gifting rules allows an owner to give $13,000 to an heir annually. Husband and wife business owners can give a combined $26,000. The IRS gifting rules for 2011 and 2012 state that during the lifetime of the owner or at death an additional $5 million of the value of the business may be transferred without paying any taxes. The exemption will be reduced to $1 million in 2013 unless Congress changes the law. Again, jointly up to $10 million may be transferred along with the annual gift of $26,000 tax-free. This lifetime transfer is significantly higher than previous years when it was $1 million per individual, $2 million per couple.

Trusts most commonly used by business owners in the transfer of their businesses are testamentary and living trusts. In a testamentary trust, business owners determine the provisions in their will and the trust takes effect upon his death. A living trust is created during the owner's lifetime and can continue after their death. To determine the best form for your business, consult with your attorney and bank's trust department.

There are many more techniques involving irrevocable trusts, revocable trusts and life insurance as methods of passing on a business. Please consult your attorney and financial advisers for further information on these options.

Succession planning and the transfer of a business is an important part of ensuring the continuance of a business. Execution of the plan will help make certain the business will have a bright future.

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