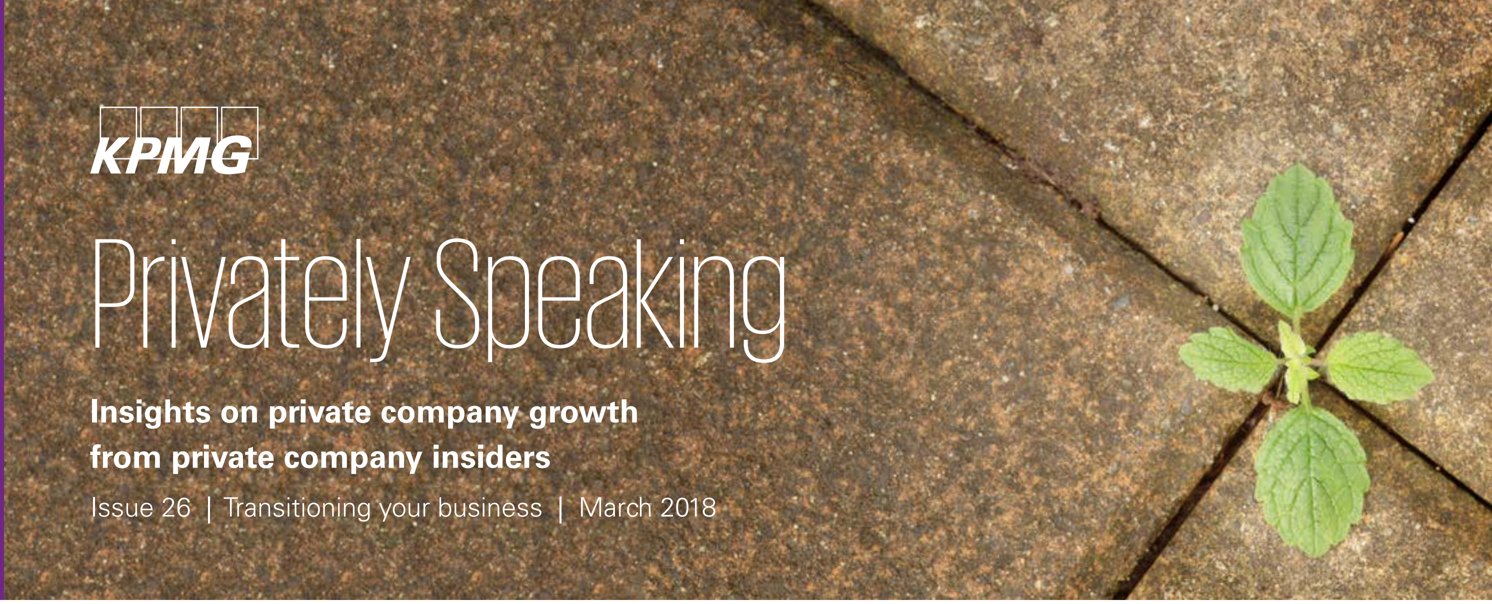

KPMG

Privately Speaking

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Success in succession

Nobody likes to talk about succession planning. But the new tax reform bill has made the topic impossible to ignore. Are you rethinking your family business or private company succession plan? If you are not, you should be.

The tax reform catalyst

The new tax reform package did not just include valuable tax cuts; for family business owners and stakeholders, it also carried a potent catalyst for succession planning.

The new law essentially doubles the basic exclusion amount for estate, gift, and generation-skipping transfer tax from $5 million to $10 million (indexed for inflation) per person. For 2018, the exemption, after indexing, is $11.18 million. So a couple could, in the right situation, transfer up to $22.36 million in assets to a child or family member during life or upon death without triggering transfer tax. For owners of family-run businesses, that is a major source of potential savings.

The problem is that the provision is scheduled to "sunset" on December 31, 2025. And that means that family business owners have less than eight years to take advantage of this benefit.

Avoidance is not a strategy

Succession planning often feels threatening to families. This is hardly surprising when one considers that a network of harmonious family relationships and family members' careers, status, family reputation, and money are all at stake.

Such families often accept compromises "for now" so that business and family life can continue "at a tolerable level of anxiety"—a practical description of a situation where everyone knows that key decisions about the future are being put off.

Unfortunately, this can expose the family to the risk of unplanned events, such as the death or illness of a key family member or a business crisis. And it can mean that key tax benefits could be lost if the decision is delayed for too long.

> "By doubling the basic exemption, the government has firmly put succession planning on the family business agenda. If you are even considering exiting the business within the next decade, you need to consider how this provision will influence your decision and your timing."
>
> **–Bill Jackson**, Partner and National PMG Tax Leader

Senior leadership at a sensitive time

It is particularly important that change is led from the top by the senior family members. Only the senior generation can address the affordability of retirement and contemplate life outside the family business. And only when the senior family members are ready to let go can the next generation begin considering if any of them are able and willing to take on new ownership and management responsibilities.

Get the right insights

The good news is that there is a growing body of knowledge and best practices related to how closely held family businesses can cope effectively with succession planning and change.

An effective and helpful family business advisers should have plenty of information about how other families have navigated succession. They should also be able to facilitate discussions on sensitive matters between generations of the same family and, sometimes, other stakeholders like nonfamily directors and trustees.

This is not just about providing technical information or a tax solution, although these are always part of the economic equation. Rather, it is about providing practical help with the process of making crucial decisions about creating and transferring wealth, power, roles, and titles while being fair, loving, and considerate, given the critical personal relationships that are intertwined with the business.

This requires deep knowledge about how to balance competing priorities.

Create your unique succession plan

Contact your local KPMG office to find out how we can help you develop, improve, and execute your family business succession plan.

10 tips for a smoother succession

1. Plan for succession success. The best way to maintain and create value through a succession is by taking a proactive approach. If you fail to plan, then you are only planning for failure.
2. Define realistic goals. Draw a clear picture of what you and your fellow owners expect from the business going forward, including performance goals and retirement payments.
3. Document the succession plan. Write everything down and include clear time lines for how long succession will take for different roles and how the process will be achieved.
4. Clearly define the governance. Decide in advance how certain disputes will be handled, what roles each member will have in the decision-making process, and what support they can expect.
5. Detail the financial implications. Draw up an agreement for the sale of the business that is fair to all parties and reflects the true worth of the business.
6. Make it a board-level agenda item. Start the succession-planning process as soon as a new CEO is named and keep it on the agenda at least on an annual basis.
7. Consider all the roles. The board and investors need to know that the organization has plans in place for the succession of other key roles such as the CFO or head of R&D.
8. Talk to other owners. Learn from other owners of family businesses to find out how they have planned or executed their succession strategy.
9. Find the right person. Decide what strengths and experience are required in the next leader and conduct an objective assessment of the potential successors; do not simply default to the “next in line.”
10. Assess the tax implications. Understand how the new tax reform package might impact the timing and structure of your succession plan.

Want to learn more?

For more insights into how the new tax bill may affect you and your privately held company, visit **KPMG's U.S. Tax Reform page**.

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