



# BUSINESS SUCCESSION PLANNING



**OR: “CAN I REALLY FIRE MY MOTHER?”**

**JUNE 7, 2012**



- **Geiger Law Office Trusts and Estates Symposium**

# CONTACT INFORMATION



- **Richard Muscio CPA**
- **858.967.6335**
- [rjm@fabcpas.com](mailto:rjm@fabcpas.com)
- [www.iymoney.com](http://www.iymoney.com)

# WHAT IS IT?



- **Business Succession Planning is a continuing process whose goal is to identify and incorporate into the Ownership and Management of a business, the successor(s) to the Founder(s) of same.**

## AND IN WHAT CONTEXT(S)?



- **“Buy/Sell” applications between existing owners: contingency and/or succession**
- **“Family Succession” applications**
- **Liquidity (“sell”) applications**
- **Question: Family-first business or Business-first family?**

# BUY/SELL



- **VALUATION** is the key (but frequently ignored)
- **FUNDING** comes next
- “Cross purchase” or “entity purchase” life insurance planning typically used
- How can professional advisors add value?

# FAMILY SUCCESSION



- **VALUATION** is the key (but frequently ignored)
- **GRATs, SCINs, PAs and DPAs, FLPs etc.**
- **OWNERSHIP and MANAGEMENT** are not the same things
- **Get over the idea that everyone has to have an equal share**
- **Effects of GRIEF on family succession planning**
- **Effects of COGNITIVE ISSUES on family s/planning**
- **How can professional advisors add value?**

# LIQUIDITY (SELL) EVENTS



- **VALUATION** is the key (but frequently ignored)
- Process **MUST** start at least 3 years in advance
- What are key non-financial goals?
- What comes next (“Family Governance”)?
- And back to: GRATs, SCINs, PAs and DPAs, FLPs, add CRTs
- How can professional advisors add value?



# THE 5 SINS



- **No VALUATION**
- **Process starts late**
- **Over-focus on tax reduction techniques**
- **Under-focus on family dynamics, Family Governance, and what comes next**
- **Un-coordinated advisors (and/or the wrong advisory team)**

# THE 5 BAD RESULTS



- **Inertia results in no succession**
- **Through inheritance ownership sprays quickly and conflict increases/wealth decreases**
- **OWNERSHIP and MANAGEMENT not separated**
- **FAMILY GOVERNANCE does not evolve (from horizontal to vertical model)**
- **LEGACY is never achieved**

# CASE STUDY FACTS



- **Mid-1990's Family NW \$ 500m**
- **2 1<sup>st</sup>-gen brothers desire to do significant estate planning as well as succession planning to 2 2<sup>nd</sup>-gen's (son, son-in-law)**
- **4 other siblings not in family business**
- **1<sup>st</sup>-gen real estate business very conservative (build, hold, no debt)**
- **2<sup>nd</sup>-gen desires to apply rapid velocity value-add real estate model**

# CASH STUDY CHALLENGES



- **Estate taxes significant**
- **Only 2 of 6 siblings interested in family biz**
- **2<sup>nd</sup>-gen does not favor 1<sup>st</sup>-gen business model**
- **1<sup>st</sup>-gen wants to be insulated from risk of 2<sup>nd</sup>-gen proposed business model**
- **Most advisors surrounding family are compliance oriented**

# CASE STUDY RESULTS



- **Wealth transfer centered on 1<sup>st</sup>-gen assets to 4 siblings not in family biz+ grandchildren of all 6 siblings (significant asset protection too)**
- **Succession plan centered on setting up 2 2<sup>nd</sup>-gen in new real estate business model**
- **Reporting became much more transparent**
- **Family Council and Family Governance program came into being**

# RESULTS CONTINUED



- Significant philanthropic center-piece created
- 1<sup>st</sup>-gen assets still going strong (“coupon clipping” portfolio)
- 2<sup>nd</sup>-gen business has grown to size larger than 1<sup>st</sup>-gen portfolio
- Multi-Family Office now in operation (have added 3<sup>rd</sup> family)
- Still a lot of shouting, oh well...

# THANK YOU



RICHARD MUSCIO IS

**THE FAMILY OFFICE GUY**