



# ***Business Succession: Taking Advantage of the Down Economy***



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Ms. Ebersole's practice focus includes personal and small business consulting, tax planning and preparation, and business valuation. The business valuation services she provides include appraisals, calculations and consulting.

Ms. Ebersole was admitted as a shareholder in 2001. She heads the firm's growing Business Valuation Department.

Are you and your family business taking advantage of the down economy? You may be surprised at that question but during this financial crisis, there are opportunities for senior family owners to transfer business interests, including interests in family investment partnerships, at a lower value than in the recent past. If your family business is like many businesses in this troubled financial time, the value is lower than it has been in quite a long time.

There are many issues that must be addressed to have a successful business succession. Six tips for planning and executing your business succession plan are shown in the side bar of this article to help you think through some of the issues. One solution to business succession is to transfer interests to the next generation.

Transfers to the next generation can be made by gift or by sale. Taking advantage of the down economy and the corresponding lower value can help alleviate some of the problems that arise in both of these transfer methods. These problems include selling prices that are too high for the younger generation and income and estate/gift taxes for the senior generation.

If the transfer will be made by a sale to the next generation, the lower value may make it possible for that generation, who may not previously have had the financial resources to afford a higher price, to buy the business interest. In addition for the senior generation seller, the income tax situation can be solved, or at least helped, as the gain on the sale of the business will be lower and therefore taxes may be lower if the value is lower than it has been in the past. The future appreciation of the transferred business interest, when it gets back to the value it had prior to this down market, will be subject to tax in the younger generations' tax picture.

If the transfer will be made by gift, the lower value will help solve or reduce the estate or gift tax issue by allowing more of the business to be transferred in a tax efficient plan. Again the future appreciation will be in the next generation's estate and out of the estate of the senior family members. At the current estate tax rates, every \$1,000 of future appreciation that is out of the senior member's estate saves \$450.

Remember, whether it is a sale or a gift, the transfer must be made at fair market value. If it is later determined by the IRS that the transfer price is not fair market value and is in fact higher, then the difference will be deemed to be a gift by the seller. This may have gift or estate tax implications. A valuation of the business interest used to document and determine the transfer price should be completed professional with credentials in business valuation.

As stated in the six tips for business succession planning, work with a group of professionals including your CPA and your estate attorney. These professionals will help you with creative ways to take advantage of the down economy to accomplish your goals in passing your business successfully to the next generation.

### ***6 Tips for Business Succession Planning***

1. Start or update the business succession plan now.
2. Put together a team of professionals including a CPA accredited in business valuation and an estate planning attorney to assist you.
3. Involve your family in the business succession plan, or at least consider your family dynamics.
4. Look at your family members' strengths and weaknesses. Remember, not everyone in the family has to have to have an equal share in the business.
5. Train your successor(s) and work with them.
6. Update your business succession plan as market conditions and tax law change.

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