

# A Business Succession Primer

Without appropriate planning for succession, a closely held business owner's death can seriously hurt a business. For this reason, don't let succession planning begin at your death. Begin the process now, with solid planning. The following questionnaire and checklist can help you focus your planning and, in turn, ease the succession process. After you've answered the following questions, you'll have a better idea what kind of issues you and your estate planning advisor will need to discuss.

## *Succession Questions*

Respond to each of the following questions. For questions you can't answer, explain why you can't answer. To develop an effective plan, you should eventually be able to answer all questions.

1. Who started the business and when?

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2. What type of entity is the business?

- Sole proprietorship
- Partnership
- Limited liability company
- Corporation
  - S corporation
  - C corporation

3. What is the industry of the business?

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4. Are there businesses similar to yours ...

- a. In the same market or vicinity?

- Yes
- No

- b. In other markets or vicinities?

- Yes
- No

c. What's the main competitor's name?

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5. Who is involved in the day-to-day activities of the business? (Give names and relationships.)

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6. Are any family members active in the business?

Yes

No

If yes, who?

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7. Would any family members like to become active in the business?

Yes

No

If yes, who?

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8. What percentage of your estate is composed of the business? \_\_\_%

9. Does your estate plan deal with the disposition of the business?

Yes

No

If yes, how?

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**10.** If the business is not to be sold, will there be cash to pay estate taxes?

\_\_\_ Yes

\_\_\_ No

If yes, how much? \$\_\_\_\_\_

What is your cash source?

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**11.** Is a buy-sell or other agreement in place that deals with the sale or transfer of the business on death of an owner?

\_\_\_ Yes

\_\_\_ No

If yes ...

**a.** How is price determined? (stated price, formula, etc.)

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**b.** What type of buy-sell will be used?

\_\_\_ Corporate redemption

\_\_\_ Cross-purchase

**c.** How will the cost be paid? (lump sum, over time, installments, note, etc.)

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**d.** How will the deal be funded? (cash in business, life insurance, etc.)

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**e.** Other explanation

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**12.** If the business is to pass to a chosen beneficiary, are all assets connected to the company, such as real estate, fixtures, furniture, computers, passing to the beneficiary who will eventually own the business?

Yes

No

Explain

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**13.** Is the business dependent on lender relationships?

Yes

No

If yes, what will the financial impact to the company be on your death?

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**14.** Have you considered making current gifts of portions of the business rather than waiting until death?

Yes

No

Explain

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**15.** Have you considered the sale of the business to a third party?

Yes

No

Explain

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## *Succession Documents*

The following is a brief checklist of documents that may play a role in your business succession planning. Check off each item you know relates to you and your business. If you are unsure about the nature of or need for any documents, seek help from a qualified succession advisor.

- Wills
  - Beneficiary designations for life insurance
  - Beneficiary designations for retirement benefits
  - Trusts
    - Revocable
    - Irrevocable insurance trusts
    - Qualified subchapter S trusts
    - Electing small business trusts
  - Spousal elections for qualified plans
  - Buy-sell agreements
  - Shareholder agreements
- Partnership agreements
  - LLC operating agreements
  - Deferred compensation agreements
  - Salary continuation agreements
  - Split-dollar life insurance agreements
  - Beneficiary designations under land trusts