TEXAS CAPITAL BANK® TEXAS CAPITAL BANK® *Private Wealth Advisors*

Succession Planning Strategy Guide

TRANSITION TO FAMILY

Transferring business ownership to family can be an excellent way to create a meaningful legacy. However, it's not without difficulties. In addition to estate planning and tax implications, one of the most significant challenges of this strategy is overcoming emotions — conflicts that can arise among management, family members and other related parties when plans are made or set in motion. Whether transferring the business during the owner's life or after death, there are a number of considerations you should reflect on before documenting a plan.

TRANSITION TO FAMILY

The Pros & Cons of This Strategy

The first step to planning for any type of business exit strategy is to envision the future and all of the possible outcomes. Based on your own thoughtful evaluation, ask yourself how the many stakeholders inside and outside the business are likely to react before, during and after the transition. **Which strategy will best deliver your desired outcome?**

PRO Transitioning to a family member may enable continuity for the business, its operations and the customer experience — especially if the chosen family member is already working in a leadership position. It may also facilitate a sense of comfort for all involved, knowing the business will be in the hands of a successor who has an intimate understanding of it.

CON There may be more than one potential successor — multiple family members who want to lead or be a part of the business, and some who do not. Worse, there may be family members who want to be made key decision-makers but are not capable of leading the business. Managing these relationships and emotions can be difficult.

ASK YOURSELF: Will dynamics within the family cause conflict that could harm the family, business or future legacy?

PRO The personal relationships behind a family transition often translate to more favorable financing terms for buyers. If the transaction is part of a broader estate plan, there may also be tax advantages linked to the transfer of wealth to family.

CON A business transfer to family can have significant tax consequences. If transferred during the owner's lifetime, there may also be financial complications that could impact the owner's retirement.

ASK YOURSELF: Will you have the right guidance and sufficient time to ensure the transition provides optimal value for the family?

READY TO GET STARTED?

Our succession planning experts are ready to help. Contact us today.

Tips for This Strategy

GROW A SUCCESSOR.

Whether one potential successor or many, grooming should start early. Family may not be directly involved in the business, so ensuring they receive the right education, industry insights and exposure to the business can be important years ahead of succession. The goal is to ensure the successor understands the ins and the outs of the business and truly wants to take ownership. It also allows employees, customers and vendors time to develop a relationship with the successor.

PLAN FAR AHEAD.

Because most family buyouts are often driven by estate planning considerations, the succession planning should be documented well in advance to help maximize the value transferred to the next generation and minimize taxes for the family. In order to provide additional tax and asset protection, trusts are often established for the benefit of the family member who will be acquiring the business from the owner. Regardless of the terms, if the transfer is to be part of a family estate plan, a third-party appraisal is essential.

INCLUDE AN EXIT VALVE.

Sometimes, an owner may want to split the ownership of the business among multiple family members so that everyone benefits financially but give one particular family member the power to run the business. As time goes on there will be countless opportunities for conflict to arise between those with decision-making powers and those that only benefit financially from the business. To ward off such events, it's wise to include an exit valve for the family, a mechanism by which an unhappy family member can liquidate their ownership interest in the business while allowing the remaining owners to continue the business into the future.

COMMUNICATE FREQUENTLY.

Most family-owned businesses do not survive past three generations, usually because of conflict that arises as ownership is spread out among more and more family members or through disinterest in continuing the enterprise. To ensure a smooth transition to the next generation and increase the likelihood of the business' future success, regular meetings should occur among the family, with each meeting led by an advisor experienced with managing family estates and businesses.