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Trust expert: Transfer wealth to successors in small portions

Changing tax rules worth looking into

BY JESSICA LONG

"Ninety percent of the 21 million U.S. businesses are family-owned, and one-third of the Fortune 500 are either family-owned or family-controlled. Yet only 30 percent of family-run companies today succeed into the second generation. An even smaller 15 percent survive into the third. The reason, according to many experts, is obvious: the lack of an orderly succession plan."

Pulled straight from the U.S. Small Business Administration's Web site, it appears that San Diego's family-run business owners, along with their national counterparts, face an uphill battle when it comes to planning for their company's future. But there are a number of things that can be done to prevent a company from folding as a new generation takes hold of the reins, according to regional trust expert Brian McDermott, a local representative of Chicago-based Northern Trust.

Brian McDermott

"The one thing that I do not see enough of is gifting," said McDermott, who has been settling estates for 16 years now, the last nine of which have been with Northern Trust.

Gifting laws make it possible for small-business owners to transfer their wealth to individuals in small portions for several years without facing the tax penalties that accompany larger lump sum transfers. But giving away their riches before their death can be a challenge for some, McDermott said.

"That's the hardest one because by nature, small-business owners don't like to give up control," McDermott said.

Create an exit plan

The time to start implementing an exit strategy is between the ages of 55 and 65, according to the SBA site, which also recommends that small-business owners slowly ease someone else into control of their company rather than immediately put an associate or relative in charge in their stead.

In cases where business owners wait until their death to pass on the bulk of their wealth to loved ones and associates, many times a company has to be sold to pay estate taxes. According to McDermott, if a business owner fails to plan ahead and distribute his or her wealth slowly through gifting or some other means, there are certain federal tax codes to fall back on, including arranging to pay off the tax in 10 annual payments, as opposed to the traditional nine-month time frame.

"People get paralyzed I think because of the changing tax laws, but they're worth looking into," McDermott said.

Josh Willard, vice president of San Diego-based **Coghlan Financial Group LLC**, deals mostly with individual retirement plans rather than business strategies and rarely sees any crossover between the two.

"It's usually a nonissue for the most part because business assets are usually kept under the business's name," Willard said.

But he does recognize two key factors in small-business succession planning.

"When it boils down to estate planning for a small-business owner, it kind of culminates into two areas. Number one, the business succession plan is going to be an important area of focus," Willard said, adding that No. 2, the size of the company will dictate which steps to take and when.