



Brian H. Reamer,
CFP, CSA, CFS

Business succession: Do you have a plan?

Brian H. Reamer, CFP, CSA, CFS, CRS

Do you own your practice? Have you considered the impact your death, disability, or retirement could have on your business? Have you formulated a plan to transfer your business interest in order to achieve maximum value?

Sadly, you are not alone if your business succession plan is simply a thought and not a reality. Studies show that less than 30 percent of private business owners have a business succession plan. Many find the process too daunting. Some worry about being fair to all potential successors. Still others find it difficult to discuss financial matters that may be a result of death, disability, or retirement and avoid these discussions altogether. No matter what the reason, the “no plan” approach is not going to resolve any of your concerns and may only leave more turmoil when the inevitable occurs.

Where to Begin?

To help you get started, let's look at some basic planning considerations that can simplify the process.

It's never too early to start. Business owners often wait to estab-

lish a plan, holding out until the last minute or leaving the process to chance after their departure. This goes against the recommendation of most business advisors, who suggest building your exit strategy into your original business plan. You can always update your plan, making necessary changes along the way. But without a plan, you may be leaving the practice and your family's future in someone else's hands.

Your succession plan may also impact the type of business formation (limited liability corporation, S corporation, C corporation) you select for your practice. In the end, the more planning you do up front the more options you will have later, thus increasing your odds of a favorable outcome.

Keep accurate and useful records.

Making sound business decisions requires reliable information. For this reason, have your annual financial reports audited by a certified public accountant and maintain your records in a manner that allows you to readily show a review of your revenue and profits by product or service.

In addition, your financial system should allow you to collect information about your customer base. This will help you identify the practice's strengths and weaknesses. In the event of a merger, a potential buyer and/or bank lender will require this information to prove the soundness of your practice.

Define your significance to the practice. How many of the practice's patients are you seeing? How much of the practice's revenues do you generate? These questions must be answered before you can determine the best way to transition the practice to another physician or your existing partners. If you are the practice's primary source of income, you may need to consider offering employees a contract of continued employment during the transition period.

Determine your practice's market value.

A practice valuation, performed by a qualified professional, will tell you what your practice is worth. If your buyer requires bank financing, you will need this qualified appraisal, as well as comparable information on similar practices. Ideally, your valuation will also provide the basis for your asking price and help you assess the reasonableness of any offer you receive.

Select a successor. The key to any good succession plan is to identify the best successor as soon as possible and take steps to ensure that he/she understands the responsibilities that come with this role. Before selecting your successor, examine the strengths and weaknesses of all possible candidates as objectively as possible. If you have a family member interested in taking over your practice, you should involve him/her in the planning.

Brian Reamer, CFP, CSA, CFS, CRS is a fee-only financial consultant with SVA Planners Inc., Registered Investment Advisor. For more information, call Wisconsin Medical Society Insurance and Financial Services, Inc. toll free at 866.442.3810.

Secure your staff's future. What will happen to your employees after your departure? Taking steps to protect their future allows you to show your gratitude for their loyalty. In addition, the transition process will be far less stressful for your patients if they continue to see familiar faces. If you simply dissolve the practice, you may want to consider some financial means for showing your gratitude to your long-term employees.

Devise a plan for transferring ownership. How will ownership be transferred, and what is the appropriate time of transfer? What method of transfer should you use? Some examples include a gifting program, sale of stock to an employee stock ownership plan, sale or redemption at death under a buy-sell agreement, creation of a stock redemption agreement, a family limited partnership, or a charitable remainder trust. Talk to your accountant or financial advisor to identify the best method for your unique situation.

Review the tax consequences of your succession plan. If you transfer the practice to a family member, is your estate liquid enough to pay expected taxes without requiring the liquidation of the practice? If you are simply selling your share of the practice to your existing partners, have you evaluated the federal and state income tax liability?

Many business owners fail to consider the federal and state estate tax implications they'll face at the time of succession. For example, the federal transfer tax system consists of three separate and distinct taxes: the estate tax, the gift tax, and the generation-skipping transfer tax. In 2001, these rules were updated with the release of the Economic Growth and Tax Relief Reconciliation Act (EGTRRA), which temporarily increases exemption amounts for the estate and generation-skipping transfer taxes until 2010. If no tax law changes are made prior to December 31, 2010, the tax provisions in effect prior to

EGTRRA will become law, lowering the exemption amounts.

Adding to the complexity of estate planning, many states have estate tax laws decoupled from the federal exemption amounts. With the estate rules changing several times in the next few years, you will—more than likely—need to periodically update your estate tax plan to ensure that it still meets your objectives.

Assemble a team of qualified professionals. Establishing an appropriate business succession plan is no simple task. To ensure that your plan meets your needs, surround yourself with a team of qualified professionals, including lawyers, accountants, financial advisors, insurance agents, bankers, appraisers, and a variety of other consultants. For the best results, work with professionals who have extensive experience in business succession planning and estate planning.

Wisconsin Medical Journal

The mission of the *Wisconsin Medical Journal* is to provide a vehicle for professional communication and continuing education of Wisconsin physicians.

The *Wisconsin Medical Journal* (ISSN 1098-1861) is the official publication of the Wisconsin Medical Society and is devoted to the interests of the medical profession and health care in Wisconsin. The managing editor is responsible for overseeing the production, business operation and contents of *Wisconsin Medical Journal*. The editorial board, chaired by the medical editor, solicits and peer reviews all scientific articles; it does not screen public health, socioeconomic or organizational articles. Although letters to the editor are reviewed by the medical editor, all signed expressions of opinion belong to the author(s) for which neither the *Wisconsin Medical Journal* nor the Society take responsibility. The *Wisconsin Medical Journal* is indexed in Index Medicus, Hospital Literature Index and Cambridge Scientific Abstracts.

For reprints of this article, contact the *Wisconsin Medical Journal* at 866.442.3800 or e-mail wmj@wismed.org.

© 2004 Wisconsin Medical Society