ASK THE **ADVISERS**

The views and opinions expressed in "Ask the Advisers" are solely those of Keith Singer.

Singer Wealth

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Small Business Succession Planning

Many small business owners have spent their lives operating and growing their businesses. At some point, many owners sell their business. We have had many clients sell their businesses to private equity investment funds at attractive multiples. However, many business owners may want one or more of their children to take over the company.This can pose several challenges.

First, the adult successors may not be able to run the company as well as their parents did. Second, most people want to divide their assets evenly among their children. What can be done to even out the inheritances among the children who do not want to run the family business, especially when the valuation of the business is so large that it constitutes most of the value of the estate? A properly drafted buy-sell agreement between a business owner and their successors can solve several problems.

The agreement can set a value on the business that can be used to help divide up the assets and avoid disputes about how much the business is worth. The children who will eventually run the business can buy the business from the estate (or trust if one was created) for a specific price with specific terms. However, the buyer may lack the necessary liquidity to purchase the business; there are a few potential solutions.

The buy-sell agreement can allow for an installment sale. This way the buyer can make continuing payments out of the cash flow the business is generating. Though, the other children may be unhappy because in that scenario they do not get much money upfront and they are taking the risk that the business could fail without getting any rewards for its potential growth. Often a buy-sell agreement is funded with a life insurance policy to provide liquidity at the time of purchase. Otherwise, the purchaser could potentially obtain an SBA loan to purchase the business from the estate.