Best planning practices for family business owners

By Patricia Annino, JD, LL.M.

Running a closely held or family business comes with its own unique challenges. One of the most important — and often overlooked — aspects for owners is how to plan effectively for the future, both short-term and long-term. Think of it like looking through two lenses at the same time: a microscope for the immediate details and a telescope for the bigger picture. Add in open communication and collaboration with your key advisors, and you've got a solid foundation for success. If you've put off cohesive planning or your current plan is a disconnected pile of documents in a drawer, this guide will walk you through why a collaborative, integrated approach is essential and how to get started creating one to protect your business.

Why Most Business Owners are Unprepared

Does this sound familiar?

- You've updated your estate plan sporadically over the years, but it's not connected to your business's needs.
- Different professionals handle pieces of your plan, but they don't work together.
- You've focused on tax laws more than succession planning or value preservation.

All too often, planning is done in silos. One document here, another there, and zero conversations between your business attorney, estate lawyer, financial advisor, and accountant. This piecemeal approach leaves your business and family exposed to risks.

But here's the hard truth: It's inevitable that, one day, you won't be in control of your business. Whether it's due to retirement, disability, or death, your business and family deserve a plan that addresses the full complexity of the transition.

The Risks of Piecemeal Planning

Without a clear, integrated strategy, you could be putting everything you've worked so hard to build at risk.

Consider these scenarios:

- **Unprepared successors:** If you or your partner are suddenly unable to lead, will your successors know the steps to take or have the training to do so?
- **Family conflict:** Are provisions in place to avoid disputes among heirs,

especially in blended or nontraditional families?

- **Tax pitfalls:** Many plans overlook liquidity issues, leaving heirs scrambling to pay estate taxes, which can compromise the value of the business.
- **Unrealistic expectations**: Without communication, stakeholders like family, employees, or partners might have clashing visions for ownership or operations.

An integrated, forward-thinking approach can eliminate these risks, safeguarding your assets, business, and family.

The Essential Plan

No one advisor can handle the complexity of modern family businesses on their own. To ensure smooth transitions and minimal risk, your plan should combine structure, clarity, and collaboration. Here's a closer look.

The Microscope View — Immediate Needs

- **Evaluate business entities:**

  Is your current structure (S-Corp, LLC, family limited partnership) optimal for liability protection, cash flow, and succession?

- **Life insurance as safeguards:**

  Use life insurance strategically to create liquidity that can cover estate taxes or buyouts while protecting the value of the business.

- **Ownership documentation:**

  Ensure operating agreements, shareholder agreements, and leases are updated and binding for new owners.

- **Clarity on succession plans:**

  Clearly outline who will manage and own the business, ensuring all stakeholders are on the same page.

The Telescope View—The Future Vision

- **Prepare the next generation:**

  Educate successors about business operations, ownership, and management well in advance of any transition.

- **Wealth preservation:**

  Consider gifting or other wealth transfer strategies to minimize tax burdens and preserve value.

- **Exit strategies:**

  Whether a sale or succession is planned, create a timeline with benchmarks to ensure clarity.

- **Business valuation:**

  Regularly update the valuation of your business, as it impacts gifting, estate planning, and any potential buyouts.

The Glue—Collaboration

Collaboration is what holds this all together. Your legal team, financial planner, insurance provider, and tax advisor should meet regularly to review and align their strategies with your goals. This ensures consistency and avoids any surprises during transitions. Open dialogue with your family and key employees is equally crucial — having everyone on the same page mitigates confusion during critical moments.

12 Questions to Ask Yourself

To kickstart or refine your planning, ask these key questions:

1. Are your business entity structures (LLC, S-Corp, etc.) optimal for liability protection, tax efficiency, and succession?
2. Are your corporate and estate documents up to date and in sync with one another?
3. Does your plan address both ownership and management succession in the event of retirement, incapacity, or death?
4. Have you leveraged life insurance to preserve liquidity and ensure a smooth transition?
5. Are there clear provisions for minor children, blended families, or nontraditional family dynamics?

6. Have you documented how your business will be valued for gifting, estate, buyout, or divorce purposes?
7. Do you have a strategy for gifting that considers tax implications and incentivizes future owners?
8. Are employment agreements for key employees current and secure — giving them confidence during transitions?
9. Have you created a clear transition timeline, introducing successors to key partners like banks and vendors?
10. Are fiduciary roles clear, with well-documented terms to avoid future misunderstandings?
11. Does your spouse or family know what steps to take in the event of your passing?
12. Have all your advisors worked together collaboratively to align your plan with your goals?

By addressing these questions with intention, you're taking essential steps to protect both your business and family.

Take the First Step Today

Planning can feel overwhelming, but avoiding it can be far riskier. All of us at certain times want to be Scarlett O'Hara: "Tomorrow is another day."

To ensure your family business thrives for generations, take action now: Dust off those documents, bring together your advisors, and look at your business and estate planning through both a microscope and a telescope. Don't wait for a crisis to force your hand.

And remember, life insurance is one of the most flexible tools in your planning arsenal — from covering estate taxes to funding buyouts, its role cannot be overstated. Talk with your advisors and start building an integrated plan that incorporates these best practices.

About the author.

Patricia M. Annino is a partner in Rimon PC's Trust and Estates Group where her practice focuses on all aspects of private client work including estate planning, will and trust planning, incapacity planning, prenuptial and postnuptial agreements, estate litigation, advising executors, trustees and beneficiaries, and administration of estates and trusts. A nationally recognized authority on estate planning and taxation, prolific author, and frequent public speaker, Ms. Annino has been quoted extensively in a wide variety of national publications including *The Wall Street Journal*, *Barron's*, *MarketWatch*, *Investors.com*, and *Women's Business Journal*.