



## FIVE STEPS TO A SOLID SUCCESSION PLAN



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**S**uccession planning is an ongoing process that needs to be addressed by every business owner. Whether your construction company has been in the family for years or you built it from the ground up, it is critical that you develop a succession plan. Many closely-held businesses are not successful in transitioning its ownership to the next generation. To ensure your company survives in the future, you must plan now.

A succession plan will require consulting with family members and your current management team, developing an effective management structure, as well as working with a team of financial and legal advisors to design and implement the plan. The benefits include:

- The transfer of ownership of your business will be completed according to your wishes.
- Your intentions will be clear to all involved parties.
- You will have the opportunity to mentor and train your successor.
- Your tax liability should be minimized for you and your heirs.
- You and your family will be provided for after retirement or death.

Succession planning is just as important as drawing up a will. Here are five steps to developing a solid succession plan:

**1. Identify your goals and objectives.** This means deciding, at least generally, how you wish to spend the rest of your life, as well as what you want to happen to your business when you retire or die. When it comes to your construction company's welfare, put business considerations over family ones. Failure to do so may lead to unfortunate and contentious situations that could tear apart your closely-held business.

**2. Decide who is most capable of running your company.** If you have more than one potential successor, consider giving each candidate responsibility for the part of the business for which he or she is best suited. Look beyond your heirs for the most competent successor. And if you can not think of anyone qualified to assume control, you may be better off selling to a third party.

**3. Leave time to groom your successor.** Give him or her (or them) quality mentorship, thorough training and plenty of leadership experience. Do not expect a successor to learn job responsibilities overnight.

**4. Document your succession plan.** With the help of your accountant and attorney, write down every detail of how you'd like your company passed on. Your strategy should include choosing the right amount of insurance, maximizing valuation discounts and developing a buy-sell agreement. Share this document with all interested parties — especially family members.

Make sure that your tax and financial strategies include a business valuation, as well as guidelines on how to transfer the ownership. There are many valuation methods that can be used by an accountant. The goal is to reach a valuation that fairly compensates you for your interest in the company.

Ownership can be transferred a number of ways, depending your personal financial and tax situation, your business's current ownership structure (sole proprietorship, partnership, corporation, etc.), and the prospective successor (family, employees, or a third party). One or more of the following strategies can help to minimize your tax obligation:

- **Gift stock to family members.** If you plan early enough, ownership can be transferred now and you can avoid unnecessary transfer taxes.
- **Design a buy-sell agreement that fixes the estate tax value of your business.** If done properly, a buy-sell agreement will provide estate tax liquidity and give your successor the means to acquire your stock.
- **Qualify to take advantage of the estate tax installment option.** This will allow you to pay the portion of your estate tax attributable to inclusion of your interest in the business over a period of up to 14 years. In this case, low interest rates apply during the tax-deferral period; however there are special considerations that you should discuss with your accountant before implementing this strategy.
- **Create an employee stock ownership plan (ESOP) and sell your stock to the plan.** This will allow you to defer the capital gains tax if you reinvest the proceeds in qualified securities. In addition, ownership can be transferred to your employees over time allowing for an income tax deduction for the plans contributions.

**5. Review the plan regularly.** Do not file your succession document away and forget about it. Changed circumstances — such as rapid company growth or the departure of a potential successor — may call for an update.

Passing the baton of ownership and control may be one of the most difficult challenges you will face. But do not wait for the unexpected. Time is the gift of good planning, and a well-designed succession plan will allow your construction business to continue while maximizing its value to your heirs.

As one of the leading accounting and consulting firms for the construction industry, Cowan, Guteski & Co., P.A. understands the importance of planning to secure your finances. Contact Bill McNamara, CPA - Director of the Construction Services Group at 732-349-6880 extension 116 or [bmcnamara@cowanguteski.com](mailto:bmcnamara@cowanguteski.com) for more information on succession planning.

***About Cowan, Guteski & Company, P.A.***

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