

Business Succession Information Guide



Why is business succession planning important?

Business succession planning is part of good governance and management. Changes in business, such as, unplanned exits (caused by illness, death or dispute) can be financially damaging to your business and emotionally draining for all involved.

Designing, preparing and implementing effective business succession strategies allows for easy transmission of wealth to the future generations and will help reduce financial hardship to your business in the long term.

What do I need to do?

Effective business succession planning involves having an understanding of:

- your structure or proposed structure;
 - your personal liability profile and putting in place layers of protection;
 - who is going to manage or make decisions on behalf of the business and how is that going to be done;
 - what, if any, are the key roles of people involved in the business;
 - the goals for the business;
 - what, if any, special skills are required for the continued success of the business;
 - how disagreements or disputes are going to be managed and resolved;
 - how you enter or exit the business and how that entry or exit is funded (external funding, vendor finance etc);
 - how non-monetary contributions are valued;
 - how external risks are managed or reduced; and
 - who is an appropriate candidate or successor for the business?
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- Getting your structure right or updating your current structure.
 - Putting a business succession plan in place including documenting plans and updating management practices.
 - Reviewing your business succession strategy regularly to ensure it is appropriate for your business.

What should I think about when implementing a business succession plan?

Matters to look at when thinking about business succession:

- When setting up the structure:
 - What is the nature of the business that you are involved in?
 - What is the tax profile of the owners and the business?
 - Who are the “owners” or intended “owners” of the interests in the business?
 - What tax saving strategies can be implemented?
 - What is the ongoing cost of managing the structure?
 - Are there any industry limitations or restrictions on ownership which may affect the structure?
 - What is the liability or risks to the business and how can those risks be reduced or mitigated?
- Documenting the structure and relationships:
 - The structure will affect the documents required e.g. partnership, company, trust or sole practitioner.
 - Determine who should be a party to the document (including identifying key individuals etc.).
 - Document contributions of related entities that are integral to the success of the business.
 - Consider of funding issues for the business, whether in the short term or as a part of the succession planning strategy of the business (e.g. earn outs, debt financing, staged buy-outs).
 - Update documents to reflect changes in ownership.
- Take steps to protect your business, ideas, innovations and ultimately your market share.
- Ongoing issues including ensuring that:
 - Appropriate insurances in place for:
 - the business (including public liability etc.); and
 - key personnel.
 - Personal succession matters are up to date and adequately address or deal with your business interests.
 - The documents for the business are relevant and appropriate to accounts for changes in your business.
 - restructures for succession purposes are often required.