

WHAT IS business succession planning?

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Business succession planning is the process of arranging your business affairs now to minimise the impact on your business should the unexpected happen

How does a business succession plan work?

A business succession plan takes into consideration the likely risks to the continuity of the business and its profits should an owner or other key people leave through illness, accident or death. It outlines strategies to ensure those risks are mitigated.

The plan starts with the legal interest each owner has in the business, and their rights.

It also includes provisions and mechanisms to give continuing owners the right to buy the interests of a deceased or disabled owner, and the departing owner or their estate, the certainty of a pre-determined price for their share of the business.

The business estate plan should provide all owners (and spouses) with legal certainty should a tragic event occur.

Why is a business succession plan important?

When you define your vision of a secure financial future for your business if you, another owner or other key person were unexpectedly lost to the business, there are many people's financial futures to consider.

This includes the departing person, ongoing partners, staff and all of their families.

We have developed a comprehensive process to protect all those who may be affected by a tragic loss to the business. Facilitated by an accountant and solicitor, this takes into account many aspects including ownership, revenue and debts.

What is business succession planning?

Business ownership

We help you and your partners formally agree on how your business will be valued and each partner's share. As a result, there should be less risk of:

- a departing owner, their spouse or estate, taking legal action over a valuation or pay-out figure
- a departing owner's spouse or child deciding (against the wishes of the continuing owners) – to become an active hands-on partner of the business (rather than taking the pay-out)
- the departing owner's spouse or family taking their legal right to claim a share of the business profits without having to work in the business
- departing owner's spouse or estate selling their share of the business to a third party that may be unsatisfactory or unknown to the continuing owners, and
- control of the business or its assets being frozen due to legal difficulties created by the departing owner, or their spouse or estate.

We will also work with you to explore funding options which will allow you to fairly compensate the departing owner or their estate.

These options include the use of business capital or revenue, a new partner buying into your business, borrowing money and/or a specialised insurance payout. Where this insurance is used, we will advise you on the most appropriate ownership structure to ensure it allows for the business succession plan to be implemented efficiently.

Business revenue

The sudden loss of a key person can have an adverse effect on the sales and profits of the business. The business could be faced with recruitment costs, loss of clients, loss of revenue and profits. The business's goodwill and credit rating could also be negatively impacted.

We will help you establish who are your business's key people and estimate the financial cost to your business if each of them suffered a tragic event.

Business debts

If you or one of the other owners were to pass away, any loans or leases your business has may be immediately callable by the lender.

A business estate plan helps ensure debt can be repaid by the continuing owners through either the use of business capital, a new partner buying into the business, re-finance, or an insurance policy.

We can help you assess each option and assist with obtaining a new loan or purchasing the appropriate insurance.

You can fund your business's succession plan by transferring the financial risk to an insurance company

When it comes to business succession planning, the two big questions you need to ask are:

- 'Would your business be able to pay for a departing owner's share of the business if the died or suffered a serious illness or injury?'

And:

- 'Would your business be able to cover the loss of revenue and goodwill and re-pay the debts of the business if an owner or other key person died or suffered a serious injury?'

If your answer is no to one or both of these questions, you should consider transferring financial risk to life insurance companies.

There are a range of insurances which can help you fund your business estate plan to give you enormous peace of mind.

What is business succession planning?

Insurance can help your business maintain its financial equilibrium if life doesn't go to plan

Business insurances worth considering include:

- **buy/sell insurance** – pays a lump sum if you or one of your partners dies or suffers a serious illness or injury
- **key person insurance** – pays your business a sum of money to offset the estimated financial loss to the business should an owner or other key person die or suffer a serious illness or injury.

In addition to these business insurances, you should also consider personal insurances to protect your family and their needs. These insurances include life, income protection, trauma, and total and permanent disablement insurance.

Our Insurance Portfolio Construction Process
8 steps to future financial security

To help ensure your business estate plan is properly funded, we employ our disciplined eight-step insurance portfolio construction process.

1. We start by assessing your current situation – if the unexpected happened today, what would be the financial cost to your business?

   In other words, how much money would be required for your business to buy a departing owner's share of the business, and cover the loss of revenue and goodwill, and repay the debts of the business?

2. We then develop strategies to help you transfer that risk to insurance companies and identify which types of insurances you require.

3. We also help you identify tax deductions on the annual premiums, where applicable.

4. Next, we research the major, reputable insurance companies to find the insurance policies that provide you with the right level of protection, including the definitions and exclusions which best suit you and your business.

5. Of those insurances that meet your needs, we obtain quotes to ensure we recommend cost-effective products.

6. The next step is for you to determine if that cost is affordable. You may choose to reduce the cost by reducing the amount insured, in other words, having your business retaining some of the financial risk itself.

7. Once you have made a decision, we finalise your risk transference plan and arrange the purchase of the recommended insurances on your business's behalf.

   That may require you and other key staff to undergo physical examinations from a doctor which, in most cases, is covered by the insurance company, as well as completing the required paperwork and declarations (we will assist you with this).

8. Once your insurance portfolio is in place, we will regularly review it, your business, and your situation, to ensure your portfolio continues to be relevant and cost effective.

   Should your situation change along the way, or if the legislative framework in which we work changes, we will work with you to modify your risk insurance plan accordingly.

What is Business Expense Insurance?

Plan for: loss of you, a partner, or other key person to the business due to death or severe illness or injury

Key Issues	Key Task	Key Considerations
Business Ownership	Determine who will be the ongoing owner(s). Agree on compensation for departing owner or their estate for giving up their rights to the business. Develop strategy to ensure agreed transfer of ownership is effected quickly, tax effectively and with minimal risk of legal challenges.	• How will the business be valued? • Do you want a third party (known or unknown) to become part-owner? • What is the capital gains tax position for all parties? - How will compensation be funded? - Business capital or revenue - Third party buying into business - Debt - Sell business or personal assets and - Insurance.
Business Revenue	Determine cost to business of losing a key person. Develop strategies to cover that cost, as well as replacing the departing key person.	• Time needed to find suitable replacement • Loss of revenue • Loss of profit • Loss of goodwill • Loss of clients • How will the business fund these losses?
Business Debts	Develop strategy to repay debts if called by bank	Repay debt by using: • Business capital • Third party buying into business • Re-finance with another lender • Insurance

Regularly review business estate plan to ensure it continues to be appropriate

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