PASSING THE BUSINESS TO FAMILY OR EMPLOYEES

Succession planning, management buyouts and employee ownership: keeping the business in trusted hands.

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AT A GLANCE

- Passing a business to **family**, **managers** or **employees** can protect your legacy, your team and your community.
- These transitions usually take **years of planning**: training successors, setting a fair price and arranging how it's paid.
- Options include gifts, sales to family, **management buyouts** and **employee stock ownership plans (ESOPs)**.

WATCH OUT

Succession involves tax, estate and legal planning. Work with an attorney, a CPA and, for ESOPs, specialized advisors.

Why it matters

Many family businesses don't survive the handoff to the next generation, often because planning started too late or the successor wasn't ready. Employees and managers can be great buyers, but usually need time and financing help.

Your options

Option	How it works	Considerations
Transfer to family	Gift or sell ownership to a child or relative	Readiness, fairness to other family members, gift and estate taxes
Management buyout	Your managers buy the business	They usually need a bank loan plus seller financing
ESOP	A trust buys shares for employees over time	Possible tax advantages; setup and running costs; best for larger, profitable businesses
Employee cooperative	Employees buy and run the business together	Requires training and support; growing number of conversion programs
Keep ownership, hand off management	A family member or manager runs it; you stay an owner	You keep income and some risk

Step by step

1. **Talk early and honestly.** Ask family members whether they want the business. Don't assume.
2. **Choose and develop the successor** 3 to 5 years ahead, with real responsibility.
3. **Get a professional valuation.** See **X-03 How Businesses Are Valued When They're Sold**.
4. **Decide how it's paid**: gift, sale over time, bank loan, seller financing, or a mix.
5. **Write it down**: a succession plan, a buy-sell agreement and updated estate documents.
6. **Transition gradually**: hand off decisions, then customers and relationships, then ownership.
7. **Plan your role**: advisor, board member or fully retired.

> EXAMPLE
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> **Joseph** wanted his shop to stay with his longtime manager, Luis, but Luis couldn't afford it outright. They agreed on a professional valuation of $900,000. Luis got a bank loan for $600,000, and Joseph financed $300,000 over 5 years. Joseph stayed on part-time for a year to introduce Luis to fleet customers. Joseph earned a fair price, and his team kept their jobs.

Fairness in families

If one child takes over the business and others don't, families often balance it with life insurance, other assets, or a fair sale price. Clear communication and written plans prevent conflict.

Common mistakes

- **Assuming children want the business.**
- **Naming a successor without training them.**
- **No written plan**, or plans that aren't shared.
- **Ignoring estate and gift taxes.**

Your checklist

- ☐ Talk to family and key managers about the future
- ☐ Identify and start developing a successor
- ☐ Get a professional valuation
- ☐ Meet with an attorney and CPA about succession and estate planning
- ☐ Write a timeline for the handoff

Key words, explained

Word	What it means
Succession plan	A plan for who will lead and own the business next.
Management buyout	Managers buy the business.
ESOP	Employee stock ownership plan: a trust that holds shares for employees.
Buy-sell agreement	Rules for what happens to ownership if an owner leaves, dies or becomes disabled.

Where to go next

- **X-02 Your Exit Options: Sell, Merge, Pass Down or Keep**
- **X-10 Taxes When You Sell**
- **B-11 Operating Agreements and Bylaws Explained**

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