

Succession Planning Timeline

To get the most from your succession plan, begin the process years in advance. Below are some tips about when to begin the process, and what should be completed at that phase of the plan.

- **Ten Years Out:**
 - Save taxes. If in the past, you've converted your business from a C Corporation to an S Corporation, you should wait at least ten years before selling because the built-in gain tax no longer exists.
 - Family succession. If you plan to transfer the business to a family member, at this point you may want to consider additional sources of retirement income. Also, the family members may need this time to build additional leadership and management skills.

- **Five Years Out**
 - Tax leverage. If you are planning to use a [nonqualified, deferred compensation plan](#) for income purposes, it needs to be in existence for a specified period while you are still an employee.
 - Tax deduction. If using a [defined benefit pension plan](#) is part of your succession strategy, the elder owner needs to be aware of how this could impact tax deductions. This plan needs to be funded for at least five years.
 - Cash flow. In some cases, people use company earnings to finance their retirement. This is known as a "lifestyle exit". This can sometimes impact company growth as the new team focuses on continued financial support for the past owners.
 - Planning. Begin to review your exit options with your lawyer and certified public accountant. Do you plan to sell to a third party, employee(s), family members or possibly gifting shares to family members?
 - Financial. Start creating formal annual budgets and have yearend reviewed financial statements by a qualified certified public accountant.

- **Three Years Out**
 - Value shares. The sooner you begin to value the shares of the company and file it on a gift tax return, especially in a family-business situation, the sooner the family may proceed with the estate planning process.
 - Improvements. Updating computer systems and making cosmetic upgrades to facilities could yield a higher asking price for the company. Consider making these improvements before putting the company up for sale.
 - Improved earnings. Even though you may have suppressed reportable earnings to save on taxes in the past, it's best to start reporting on this income to impact the sale price.

- **One Year Out**
 - Get a broker or investment banker. It takes time to structure the sale and to get a due-diligence review. Your counsel and attorneys need time to create and review sales agreements and deal with regulatory issues.
 - Lending. If part of your succession plan includes financing, it takes time to find the bank or lending institution, as well as to get the loans underwritten.
 - Selling to employees. If this is your strategy, otherwise known as [Employee Stock Ownership Plan \(ESOP\)](#), this process could take longer than a year. The business has to be appraised, the ESOP created and filed, and the sale documents must be developed and executed.

[Contact Lang Allan & Company CPA](#) if you need help with your succession planning process. We have experience working with many companies and business owners to develop a successful transition.