KeyBank

Putting your dealership in order with a succession plan

You've worked hard building and growing your dealership over the years. And you want to see it thrive after you've passed it on to the next generation of leadership. How do you make sure this happens smoothly and that all of your intentions are fulfilled? A well-developed succession plan can significantly enhance the opportunity for a successful transition of leadership, protect the value of the franchise, and ease many of the challenges that may surface.

Succession planning deals with the transfer of management and control of your business to a new manager. Since family members are often involved, many dealers integrate a succession plan with their estate plan. You could do one and not the other, but it works much better when prepared in concert.

A succession plan isn't something you create and implement over a weekend: It's a long-term effort. Even if your successor has been part of your business, it may take several years to convey the knowledge and expertise you've gained over a lifetime. If a well-thought-out plan is not in place with enough time to make the transfer, your exit may not only may be delayed but the future of the business jeopardized.

> Many retail dealers fail to prioritize succession planning. They may assume — incorrectly — that succession planning can be shelved until retirement is in view. Alternatively, they may simply put it off, anticipating that it will be complicated and time-consuming.
>
> **Crowe Horwath, "For a Smooth Transition, Plan Early"**

Key takeaways

A well-thought-out succession plan plays a vital role in protecting the value of the dealership and maximizing your wealth in a transfer of ownership.

Succession plans are frequently integrated with estate plans to ensure family interests are taken into account.

A team of experienced, seasoned legal, tax, and estate professionals can get you past all the obstacles and help your dealership prosper after a transition.

Manufacturers

Getting the manufacturer on board isn't an issue with most businesses. However, auto manufacturers know that good outcomes are far more likely with a planned transition than if a succession plan is hastily put together. The franchise agreement with manufacturers requires that an acceptable successor is in place and that the transition is done in a seamless, efficient way. Each manufacturer has its own set of agreements and conditions, so it makes sense to consult early on with those who are in charge of the approval process. It's important that a prospective successor be comfortable with the terms of the franchise agreement, including any requirements such as facility upgrades.

Bank relationship

Your bank also needs to be fully up to speed on your succession plan. One of the critical lending criteria of financial institutions is the relationship with the principal borrower, the current dealer. A change in ownership or management is cause for concern and additional analysis, and it could make a major difference from a credit perspective. With a succession plan, dealers can mitigate this risk and help ensure continued access to financing.

If your succession involves family members, make sure that the new management team is introduced to your banker – the earlier the better. That way, the relationship will already be in place when ownership is transferred, which will help strengthen the bank's comfort level with the next generation.

Family members and estate planning

Family members are a critical part of succession and estate planning. All family members should have a clear understanding of who is going to manage and control the business. You may also have children who aren't going to be involved in the dealership, and you need to map out how their interests are going to be addressed. There are many ways to do this, including allocating non-dealer assets to children who are not in the business or even transferring assets like dealership real estate through family limited partnerships.

You need a full understanding of how control of the business and expected cash flow will enable the deceased shareholder's estate to pay taxes and provide a surviving spouse with sufficient income to live comfortably. And don't forget key employees who aren't family members in your succession plan. Figure out how they'll be involved in the business and talk with them about their roles. You also need to determine how you'll replace them if they leave.

Planning ahead to transfer ownership of your dealership upon your death is one of the most meaningful things you can do to ensure the continued success of your business. Make sure you do the simple things. A letter of instruction to your family should address key items, such as where important papers and policies are, how you think the business should be run, and who should be involved in important roles and functions. These steps can really help your family during a difficult time.

> As a business owner, it's quite likely that a significant portion of your wealth--and your family's source of income after your death--is tied up in the family business. The success of your estate plan is dependent upon the business being transitioned to the next generation or sold to someone outside the family for a fair price. Either result takes years of planning and preparation, sometimes as much as 10 years.
>
> **"Estate Planning for an Owner-Dependent Business", Entrepreneur.com**

Incapacity

Another important element in planning is determining how affairs will be handled should you become incapacitated. This needs to be clearly defined in documents that include durable general powers of attorney, health care directives, and a living will. Importantly, you must select a person to be empowered to make important decisions for you in a timely manner. Also, if leaving a legacy or an estate is important to you, there are steps you can take to ensure that assets will not be depleted during your lifetime. These may include long-term care insurance, life insurance, irrevocable trusts, and/or immediate gifts.

Tax considerations

The transfer of ownership of your business requires especially careful planning for tax purposes. Federal estate and gift tax exclusions rise with inflation: For 2017, the estate and gift tax exemption is $5.49 million per individual, up from $5.45 million in 2016. A married couple will be able to shield $10.98 million from federal estate and gift taxes. In addition to inflation-adjusted updates, changes to estate and gift taxes are always being discussed in Washington. Effective planning means you have to stay on top of what Congress is up to and know when a unique window opens up.

Risk management and asset protection

Your estate planning should also incorporate strategies that limit an individual's exposure to lawsuits, divorce, and creditors. This may involve a review of liability and umbrella insurance policies, as well as examining titling and ownership of assets. Strategies may include the use of tenancy by the entireties, trusts, or other limited liability entities. In addition, you can integrate techniques into the estate plan to protect beneficiaries. Decedents often leave assets outright to a responsible beneficiary, which may expose those assets to potential third-party claims against that beneficiary. Asset protection planning need not limit your intended beneficiaries from the use of your assets: It can be done in ways that retain the positive aspects of ownership without any of the negatives.

Other transition areas

In addition, several other issues need to be addressed as part of a comprehensive succession planning process, including:

- Due diligence on prospective owners and their capacity to operate the business
- Determination of the fair market value of your business and real estate
- The timeline for transition
- Document maintenance and a schedule for periodic review
- A plan for communicating with all parties involved in the transition, including current employees

It takes effort to develop a succession plan and estate plan, and it can seem especially challenging when family members are involved. But creating a comprehensive plan for transition doesn't have to be overwhelming. A team of experienced, seasoned legal, tax, and estate professionals can get you past all the obstacles and help your dealership prosper in the future. Talk with your KeyBank Dealer Finance Relationship Manager today to get started.

Are you prepared? Take this succession planning test* and find out.

	Yes	No
Are you going to live forever?		
Do you have a written succession plan?		
Have you added your stated successor to the factory agreement?		
Have you shared the written plan and your intentions with your family and business successor?		
Do you believe Congress will never increase estate taxes?		
Have you planned and structured your estate to guarantee enough liquidity to pay the estate tax and provide income for a surviving spouse?		

If you answered "No" to any of these questions, you have some work to do on your succession plan.

For more information, contact your KeyBank Dealer Finance Relationship Manager.

*Provided by David Jarrett, Executive, Crowe Horwath Retail Dealer Group

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