



## Business Strategies for “What if” Situations

By Nathan Sachs

# What if I Have Children in My Business?

**Y**ou currently have a child or children that are active in your business. Transferring the business to the children is your exit plan. If this is true, you face certain challenges that can actually become obstacles.

Can the business continue to grow without you? Can the children think like employers and not like employees? Where will the money come from to buy you out? Most likely, they do not have any. Can you minimize taxation? What will you do with yourself after you exit? Will you have to come in and buy your own business back at half of the value by default? Will your family always be able to sit down and have Thanksgiving dinner together?

In Arizona, 95 percent of all transfers are what we refer to as inside transitions. These transitions are only successful 50 percent of the time. Money often is the problem. Rarely do children have any of their own money. The buyout will take place usually over a seven to 10 year period. As the parent/seller, you will receive a promissory note for your ownership. You will only get paid if the business continues to do well. Your children will in essence be buying you out of future cash flow. There are several techniques you can explore with your CPA not only to reduce your taxes, but also reduce the taxes for the children. Any time the children can use pretax dollars (i.e., rent payments to you), it is a good thing.

You can begin now to sell your children stock on a discounted basis. They can pay you for this stock out of their future dividends. This will reduce what they eventually will owe you. Once this stock is paid for, they can approach a financial institution and acquire financing by pledging this stock.

Parents often tell me that they just plan on giving the business to their children. This can trigger some very expensive gift taxes. You only have a limited amount of gifting you can do each year or at one time. Again, you need to consult with your accountant.

There are many esoteric issues that are involved. Do the children perceive the culture of the business the same way that you do? Do they have the same work ethic that you do? What do you need to do about your children that are not active in the business? Do the children that are getting the business understand the stewardship that they are taking over, or is there a feeling of entitlement?

The most important objective is family harmony. You must never lose sight of the fact that you are family first and a business second. ■

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