Death, Taxes, and Succession Planning

It used to be that death and taxes were the only two inevitable events in life. But for owners of accounting practices there is a third – succession. There is no greater threat to the future of accounting firms than the failure to plan for succession. Many small and medium sized firms have no succession plan.

Most owners of these firms do not want to face this issue for a variety of reasons.

- The daily pressures of the practice are so demanding that when someone talks about the future, it's a difficult conversation to have.
- If a younger owner brings up the issue, it is often taken as a sign of disloyalty.
- If you are the founding owner, there is probably a feeling that nobody can possibly do the job better than you.
- The founding owner in small firms usually is the rainmaker.
- Sole proprietors have no choice but to wear many hats in the firm.

Succession planning should not be looked as something that happens on a particular date in time. It is a life long process. It has two primary goals. First, its aim is to ensure the continuity of the practice from one generation to the next. Second, it should provide for a secure retirement for the owner. The best succession plan is the one that offers the retiring owner the most possibilities.

Getting started

- ***What are your choices?*** The first step in beginning your succession plan is to determine what you want to do with the firm. There aren't too many choices here. You can do nothing and permanently shut the lights one day. You can transition to the existing group of owners or managers. You can bring in someone to buy you out. You can merge your practice with another public accounting firm. Finally, you might be able to sell your practice to one of the few remaining consolidators. Decide which one is the best choice for your firm.

- If you are a sole practitioner you should at a minimum have a practice continuation plan agreement with one of the local firms. This will protect your spouse in case of a sudden illness or death.

- ***Separate your personal identity.*** The second step in the process is to begin to separate your personal identify from that of the practice. You might think that the firm would be nothing without you – well if that were true then your firm wouldn't have any value. If you are the key rainmaker or the primary relationship owner, you need to start thinking of how you can pass on your skills, business, and client relationships to others in the firm. You will have to learn to start taking a secondary role in the firm. All of these transitions should be done over a period of time – two to five years.
- ***Develop your plan.*** You might want to use an advisory board or an outside consultant to help you develop a three-prong plan. The first prong should be the strategic plan for the firm. You will also want to identify the qualities needed in the new leader, such as working with a more diverse work force, able to develop new services, etc. Next develop a personal retirement plan with a professional financial planner. What income will you need and when in order to step down. Once you have your personal life in order it will be easier to distance yourself from the firm. Finally, make sure you have an estate plan to safeguard your assets from creditors and taxes.

- ***What's the firm worth?*** Find out what similar type firms have been sold for in your area. If you are a multi-owner firm, does your partnership/shareholder agreement provide a formula? Is this formula based on reality? And do you think your fellow owners will actually pay you? Make sure you obtain an independent valuation of your business from a professional valuation expert who has worked with CPA firms before. Don't believe the multiples you hear on the street. And if your advisor doesn't perform a financial analysis for the practice, don't work with him.

- ***Develop other interests.*** After 30, 40 or more years in a practice, stepping down can be the ultimate challenge. It moves us into a new chapter of our lives. It addresses our own mortality and at the same time it's a deeply emotional event. You start thinking about your dreams; those you have accomplished and those that are still out there, your lifelong ambitions, your relationships with your co-workers and family. And last but not least, your own mortality. Who really wants to think about these things? If you try to ignore your emotions and feelings, you may think you are spared from making a difficult decision, but you are only fooling yourself. It is no fun living with ambiguity in your life.

Your succession plan

If you have answers to the above sections, you are ready to start putting your action plan together. The first question that I am often asked is "When should I begin?" You should start thinking about it between the ages of 50 and 55. This provides you with a window of 10 years if you are planning to step down at 60 or 65.

Stepping down does not mean stepping out of the practice. You can still be an active practitioner and contributor to the firm. You will know when you are ready to let go of the reins when you can give an affirmative answer to each of the following questions.

- Will I be financial secure after I step down?
- Have I identified a successor or another firm to take over?
- Am I committed to an effective succession plan?
- Have I announced a firm date for when the transition will take place?

Don't wait until it's too late!

There are significant benefits for you and your firm if you plan for a successful succession. You will enhance the value of the practice. You can retain your most talented people and potential successors. You will never be caught in a "fire sale." And finally, a successful succession plan let you move on and enjoy the next chapter of your life.

August Aquila can be reached at aaquila@aquilaadvisors.com or 952.930.1295