

Top wealth transfer questions for business owners today



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Unlike other assets, your family business is more than a financial holding. It likely represents a significant portion of your overall wealth, and reflects your priorities and beliefs. You and your family members may have strong feelings and opinions about the business, which is why communication and alignment are key.

If you are planning to transfer wealth to the next generation, it's critical to account for the unique characteristics and complexities of your family business. Use these five questions to get started on your business transfer plans.

While experts suggest that the best time to begin planning for selling or transferring a business is five to 10 years before you plan to step down, it's never too early – nor too late – to get started.

1 What does success look like?

- What are your financial goals for yourself and how much liquidity do you need from the business to fund them?
- Would you like to leverage the value of the business to enable your children or other family members to pursue their aspirations, even if those don't include running it?

Your vision for the future will guide foundational decisions, such as whether to transfer the business to heirs, sell it outright to a third-party or something in between. For example, although gifting is a tax-efficient way to transfer your business interests, it may not be an option if you need the value of your equity to generate an income stream.

2 How much is the business worth?

- What is a fair market price for a sale?
- How much money should you gift or bequeath to one child if you decide to transfer full ownership to another?

Seek out an objective assessment from a qualified valuation professional at a reputable appraisal organization.

3 Will your children take over the business?

- How many children do you have?
- What is their interest in assuming a role in the business?
- How prepared are they to be successful?

Even if you dream of your children taking your place at the helm, they may not share that vision or be equipped to make it a reality. If you have more than one child, it's likely they have different levels of interest and skills/experience with business management. Don't rely on your own assessment or assumptions; instead, ask them and take into account how they feel.

4 Which transfer method best fits your and your family's needs?

- How much financial control of the business do you want to retain?
- Do you want to transition your business to your children during your lifetime?
- Have you considered the tax implications of various transfer methods?

Transferring shares of the business while you are alive may allow you to mentor children as they gradually assume control, and spreading out those gifts over multiple years can help minimize gift taxes.

Transferring a business via an estate plan gives children a step-up in cost basis when they inherit the asset. Some transfer structures, such as trusts and limited partnerships, offer certain tax advantages while allowing you to maintain control.

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5 Do you own appreciated property associated with the business?

- If you plan to sell the business, will you also sell the property?

If you plan to sell commercial real estate, a 1031 exchange allows you to defer capital gains taxes by reinvesting sale proceeds into a different property. In addition, you may be able to turn the property into divisible estate assets with a stepped-up cost basis for heirs.

It's important to remember that any plan to transfer your business should incorporate your and your family's broader financial goals and principles. A principles-based approach to wealth transfer planning can help ensure your plan reflects your vision for the future for your business and your family.

For more information about developing a customized plan for your family, please consult with your financial professional. For financial professionals, please contact Nuveen at 800-221-9271.

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