

Passing on the



Family Business

Should You Sell?

By Hugh Rice and Perry Safran

If you don't want to liquidate and you can't afford to give the company away, your only other choice is to sell. Selling is the option most businesses choose.

You can choose between two types of sales: sale to an outside third party or sale to family members or key employees. It's best that the people who own your company be the same people who are actively involved in management.

Unfortunately, no single method of stock transfer is best for every situation, and every situation will result in different taxation.

Most businesses sell to their children or key employees. These owners are interested in accomplishing their own financial objectives, family objectives and corporate objectives, with a concern for tax consequences. In trying to meet these demands, experts have applied a lot of creativity to

laws governing taxes and stock ownership. There are now many approaches that can be used to sell stock:

- **ESOP:** a retirement plan that owns company stock.
- **Direct sale:** a straightforward sale of shares for cash or on an installment basis.
- **Stock bonus:** shares of stock paid as compensation in lieu of cash.
- **Stock options:** a straightforward sale at a future date, but at today's value.
- **Stock redemption:** sale of stock back to the corporation.

- **Recapitalization:** multiple classes of stock to reallocate risk and reward among shareholders.
- **Parent-subsidiary:** putting the "business" into a subsidiary that can be sold to employees at a reduced price.
- **Brother-sister:** starting a new company and transferring the "business" at a reduced value.
- **Permanent joint venture:** a partnership of the brother-sister companies that allows allocation of profits and losses.
- **Subchapter S status:** use of Subchapter S distribution to allow employees to buy stock with their return on capital.

Unfortunately, no single method of stock transfer is best for every situation, and every situation will result in different taxation. So do your homework first, define the result you want and find a competent expert to help you. And remember, it's never too early to begin planning for your future and your retirement.

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