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Avoiding the Five Common Mistakes That Family Businesses Make

In today's volatile, ever-changing business environment, many family-owned businesses are focused only on their next quarter—when they need to also focus on their next generation. Even prior to the pandemic, studies showed that **less than 20% of family businesses** had a robust, documented and communicated family business succession plan.[1] It is even more essential today to have the right plans in place to best enable your long-term business goals. To ensure the long-term success of your family business, here are five common mistakes you need to recognize and some valuable insights to help you avoid them.

[1] PwC, **2019 U.S. Family Business Survey**, accessed 3/28/21.

1 Little or No Plan for Succession and Transfer of Ownership

Transfers of interest undertaken in crises lead to hasty decisions and costly mistakes. In order to minimize the tax costs of a business transfer, consider taking the following actions:

- **Plan** gifting to maximize the benefit of your lifetime gifting exclusion.
- **Gift** earlier to avoid subsequent valuation growth and get recipients invested in the business.
- **Transfer** through trusts to shield assets from the estate and gift tax.
- **Begin** estate planning, including the bequest of assets to your heirs and settlement of estate taxes.
- **Have** a plan to reacquire the interest of exiting partners and/or family members if they leave the business.

2 Relying on Questionable Information or Advice from Sources Not Familiar with Your Business

Federal and state tax codes are extremely complex and change frequently. Making decisions based on articles or advice from those not familiar with your business can have serious, damaging consequences. A misunderstanding of the details could raise audit flags with the IRS or simply prevent you from claiming all the valuable credits and deductions you deserve. Engaging a tax professional to ensure that your taxes are filed accurately, with the least tax burden, reduces the risk of penalties and interest due to errors.

Big firm expertise. Small firm relationships.

3 Weak Business Structuring and Separation

Most family business owners know they are supposed to keep business and personal expenses separated. But in today's hectic life, it doesn't always happen. Besides losing business deductions, you could potentially lose the legal protections of your business entity. Maintaining strong separation of business from personal activity will help you to better meet your business goals and avoid costly surprises. The right structure can provide additional tax savings, reduce your liability and minimize required filings.

4 Not Maintaining Trusted Financial Statements

Maintaining the trust of all owners is paramount for a family business. Independently reviewed or audited financial statements bolster the confidence of every stakeholder. When a valuation is needed, either upon transferring ownership or deciding to sell your business, a history of trusted financial statements will reduce uncertainty and prevent delays. And since you can't predict when the best opportunity to sell your business may arise, a smart exit strategy includes the ongoing maintenance of healthy financial statements.

If any of these challenges concern you, let's talk!

Contact us for a no-obligation consultation.

Email **info@rrllp.com** or call 617-210-1200.

5 Lacking the Financial Analysis to Truly Understand What Drives Your Business Success

Too many family businesses put off bookkeeping and accounting tasks until the end of the month, quarter or year. If you don't manage your business's finances timely, you won't truly understand its profitability drivers and costs in time to make informed business decisions. Timely and accurate financial analysis will allow for better budgeting and smarter investment decisions and will help to prevent you from missing out on insights that could unlock the next level of growth.

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