



# SMALL BUSINESS SUCCESSION PLANNING TOOLKIT

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*We want to thank and acknowledge Peter Smith and Tara Vitale of the Apex Law Group and Scott Wallace and Nisha Nariya of Perkins Coie for sharing their knowledge and contribution in creating the content of the Succession Planning Toolkit.*

*DISCLAIMER: This Succession Planning toolkit is for educational purposes only. This is not meant to be comprehensive, and in no way shall the content contained herein be considered legal, tax, or any other form of professional advice or counsel. For succession planning, please contact the relevant professional for your needs licensed in your jurisdiction.*

*Updated December 2025*

**As a business owner, your business can mean the world to you, and that's why it's so important to create a succession plan. This Succession Planning Toolkit is designed to help you navigate the ins and outs of succession planning with ease.**

### **Is succession planning for me?**

In short, yes. One of the most important things a business owner can do for their family and community before retirement, disability, or death is create a succession plan. Not having a plan in place too often results in a family fighting over control after an owner's death, and in some cases, leaving a community without a cornerstone business.

Our Toolkit can help you navigate this and other related Succession Planning concepts. Read on to learn more.



## How to use this toolkit:

While creating a succession plan may seem daunting, answering just a few questions can make the task manageable. This Succession Planning Toolkit is designed to help you answer those few questions. The Succession Planning Toolkit has three components:



### A. CHECKLIST

This Succession Plan Checklist is a short document that has some key questions and explanations to walk you through what you need to consider as you figure out how you want to pass on your business and to whom.



### B. LEGAL CONCEPTS

The Succession Plan Legal Concepts summary has two parts –

- 1) Information about corporate or business entities and
- 2) Information about estate planning that gives more detail about legal concepts you will need to understand to create a succession plan.



### C. WORKSHEET

The Succession Plan Worksheet is designed to help you organize the information you will need to gather in order to create a succession plan. It will be one place that has the information to take with you when you meet with a lawyer or accountant.

A.

# SUCCESSION PLAN CHECKLIST

This Succession Plan Checklist is a short document that has some key questions and explanations to walk you through what you need to consider as you figure out how you want to pass your business and to whom. To assist you in your decision, there is a list of additional resources at the end of the Checklist.



## I. What kind of business entity is the business?

The first step is to identify your business's legal entity type. For example, is your business an LLC, a corporation, or a worker-owned co-op, or something different? You can learn more about legal entity types in Part B. Succession Plan Legal Concepts.

Determining the type of business entity is crucial in understanding the rights and responsibilities of the current owners, and the tools to get the correct person into the correct job for succession planning. If your business is a sole proprietorship or an unincorporated general partnership, then we strongly suggest choosing and incorporating a new entity because, among other good reasons, an incorporated business will make succession planning easier!

More businesses today are interested in exploring employee-ownership models, such as worker-owned co-operatives or co-ops. These models often include a detailed succession plan "built in" to the model, which centers ownership and management rights in the business' employees.



## II. Who are the current business owners?

This second step is identifying who currently owns the business, and what rights those people have. Often, this is an easy step, but sometimes a business is owned by several family members or partners, which means that the whole family (or each partner) should participate in business succession planning. Once those people are identified, the rights will depend on the type or entity and the agreements in place.

### III. Management and Ownership : Who should manage the business and who should own (get equity) in the business?

The next step is to identify the future management and owners of the business.

These are two separate considerations! **Management** is the right to control the business by making the day-to-day decisions. **Ownership** means the right to a portion of net profits, and typically includes some governance rights or big picture rights in the business, for example, whether to hire or fire management or to sell, merge, dissolve, or otherwise close the business.

Ownership can but usually does not automatically include management rights or the right to make day-to-day decisions for a business. Accordingly, a business owner planning for succession could provide equity to both their minor son and adult daughter, but then provide the management authority to the daughter.

Often ownership is easy, but picking management is hard. A business owner with four children and no spouse could leave the business equally to all four children, but will need to determine how to structure the management. Some questions to consider:

- Should all of the children manage equally, or should management be controlled by one child? What happens if no potential owner is suited for management?
- In this case, a business owner should strongly consider hiring a management company or, depending on the circumstances,

preparing the business for a sale where a new owner purchases the business and the proceeds are split within the family or estate.

#### Spouses of Family Members

If you have a spouse and you both live in a community property state (such as Washington State), you will need to consider your spouse's role. In such a state, the spouses together hold property acquired during marriage, which may include the business. Therefore, your spouse's input in the succession planning is crucial. Some questions to consider:

- Does your spouse want to remain in the business? Or are they happy to receive income from the business while others manage the company? You will want to include your spouse in your planning to ensure that they support your plan and are otherwise cared for.

Finally, you will want to review the governing documents for the entity to ensure there are no restrictions on transfer. In certain circumstances, you may want to place restrictions on transfers in the governing documents if you want to restrict transfers to or for the benefit of family members.

## V. Practical Considerations

### IV. Does the business succession plan work with your estate planning?

After the corporate decisions have been made and you have identified *who* and *what* you are transferring, you will need to determine *when* to make the transfers—during life or at death. This is where comprehensive estate planning comes into play. Transfers during life or at death have different tax and liquidity implications. In determining when to make the transfers, you will want to identify the size of your estate and the tax impacts of making a lifetime gift versus transferring the interest at death. This and other practical considerations can be found in Part B. Succession Plan Legal Concepts.

While the legal corporate structure and estate planning aspects are important, you should also plan for the practical implementation of a succession plan. Often owners “just know” the business; they do not keep documentation or records of important information for the daily operation of the business. If the owner does not pass on this information, then the transition can encounter a lot of slowdowns, or may not even work at all!

Preparing and compiling a list of important information, passwords, contracts, accounts, and business relationships will help make the transition as smooth as possible.

Additional practical considerations can be found in Part B. Succession Plan Legal Concepts.



## VI. Putting it all together with documents

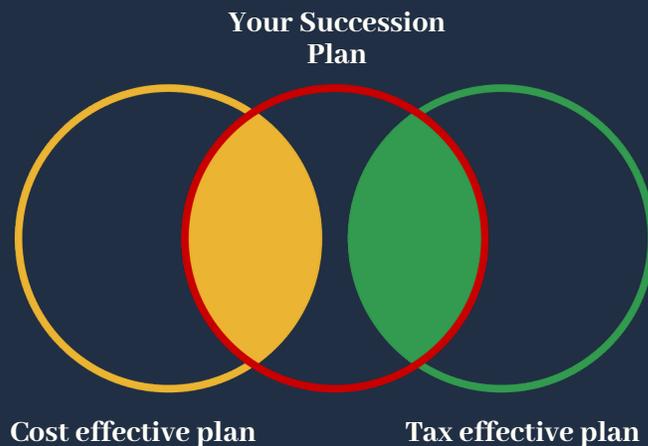
Now that you've thought through some of the key decision-making points, it is time to put it all together, in writing, so that once you leave your business, the right managers and owners step in.

You have (i) identified the current business owners, (ii) understand the business's corporate structure, (iii) considered your estate planning, and (iv) taken into account the practical aspects of succession planning. Now, you can now take the steps to put the plan in action.

A good plan will balance cost effectiveness and tax efficiencies.

A **cost-effective plan** will take into consideration your budget for implementation.

A **tax-effective plan** will take into consideration what is the best structure for lowering tax burdens. Seeking an attorney and other professionals for help with both the corporate and estate matters will help you find a plan that is both cost-effective and tax-efficient.



Finally, you will need documents, written agreements, and other instruments that reflect your decisions. In this toolkit, you'll find a worksheet for you to fill out with answers about your succession planning. This worksheet is a great tool to bring with you when you meet with your attorney or other professional advisors. It is important to bring any prior corporate filings or estate planning documents you have with you to your meeting as well.

## VII. Resources

The following is a list of external resources which you may consider consulting:



- WA Secretary of State:  
<https://www.sos.wa.gov/corps/>



- Communities Rise offers free legal help for small businesses:  
<https://communities-rise.org>



- Washington State Bar Association:  
<https://www.wsba.org/for-the-public/find-legal-help>



- Wills:  
<https://www.wsba.org/docs/default-source/news-events/publications/consumer-pamphlets/consumer-info-wills.pdf>



- Revocable Living Trusts:  
<https://www.wsba.org/docs/default-source/news-events/publications/consumer-pamphlets/consumer-info-revocable-living-trusts.pdf>



- Trusts (generally):  
<https://www.wsba.org/docs/default-source/news-events/publications/consumer-pamphlets/consumer-info-trusts.pdf>



- Estate Planning Council of Seattle:  
<https://www.epcseattle.org/>



- American College of Trust and Estate Counsel:  
<https://www.actec.org/find-a-lawyer/>



- Learn about Worker-Owned Cooperatives:  
<https://www.employeeownershipwa.org/coop>



**B.**

# **SUCCESSION PLAN LEGAL CONCEPTS**

This section has two parts:

- 1) Information about corporate or business legal entities, and
- 2) Information about estate planning that gives more detail about the legal concepts you will need to understand to create a succession plan.



## Corporate & Estate planning

There are two different areas of the law that impact succession planning: **Corporate** and **Estate Planning**.

This document provides a more in-depth summary of the Corporate Form and Estate Planning law considerations and definitions when thinking about creating a succession plan.

Section I. will provide the **Corporate Form** Summary, and Section II. will cover **Estate Planning** considerations and definitions.



## Section I. Corporate Form Summary

### 1. Sole Proprietor

A sole proprietorship is the simplest business form. You become a sole proprietor when you begin a business without creating a new legal entity for your business. As a result, you are doing business as your individual self, rather than as an LLC or as a corporation. Importantly, the law does not distinguish a sole proprietorship separately from the owner because the owner is the person who (1) is the owner of all the property and inventory; (2) is entitled to all of the business's profits; and (3) is responsible for the business's losses and debts. Sole proprietorships often register fictitious names known as, "doing business as" (DBA) names or trade names.

- a. **Ownership/Equity--** A single person owns a sole proprietorship.
- b. **Management--** The sole proprietorship is managed by the owner or usually a close family member or spouse. There are no formal or official titles, but the individuals managing the business may use traditional titles like President, Manager, or CEO to describe themselves.
- c. **Governing Documents--** Documents typical for a sole proprietor include: business licenses, titles for property or inventory, and any business accounts. Implementation of a succession plan for a sole proprietorship often includes a simple, written instrument explaining the succession plan, a will or trust, or could include incorporation or formation of another entity listed here.

## 2. Partnership

A partnership is two or more individuals who agree to work together to advance their mutual business interests for profit. Importantly, the law creates a partnership solely on the business relationship of the parties—no filings are required to find yourself in a partnership. An example would be a family venture with spouses or siblings that is otherwise unincorporated. This business arrangement can be established unknowingly through informal actions or with knowledge through a written partnership agreement. A written partnership agreement is best because it knowingly and formally establishes the partnership between the individuals.

- a. **Ownership/Equity--** The owners of a partnership are the individuals involved in the business relationship. The partners own the business equally unless otherwise agreed.
- b. **Management--** A partnership is managed by the individuals equally. Each individual can legally bind the other partners and the business through his or her actions. Each partner assumes the responsibilities and liabilities of the business.
- c. **Governing Documents--** An unincorporated partnership does not have any required documents but should have a written partnership agreement. This partnership agreement will establish the roles, responsibilities, and powers of each partner. The partnership agreement can be as simple or as complicated as the partners want, and often the partnership agreement includes agreements for succession planning.

### 3. LLC (Limited Liability Company)

Most small businesses are set up as LLCs because they are relatively simple and flexible while also offering liability protection for the owners. State law defines many default rules for governing LLCs, but the owners can adopt an Operating Agreement (also known as an LLC Agreement) that customizes those rules to better suit their needs. If an LLC has more than one owner, it is strongly recommended that an attorney draft an Operating Agreement for the LLC.

- a. **Ownership/Equity--** The owners of an LLC are called “Members.” Typically, a Member’s ownership interest is represented as a percentage, often called a “Membership Interest,” or the ownership can be referred to in terms of “Units.” Units act like traditional corporation shares and represent the percentage of ownership in the business. So, for example, Amanda and Betty could represent their ownership in an LLC as each having a 50% Membership Interest, or if they each own 100 units, and there are no other owners, then they each have a 50% ownership of the outstanding LLC Units.
- b. **Management--** LLC management is described as either: (1) Member-Managed or (2) Manager-Managed. Both forms are common. Remember, however, that the ownership continues to be in the hands of the Members.
- **Member-Managed:** Controlled by Members. Members are both the owners and the everyday decision makers for the business. An example of a Member-Managed LLC is a business where the Member is the sole owner and does not have or does not anticipate having another person helping manage the everyday decisions of the business.
  - **Manager-Managed:** Controlled by a “Manager.” Manager-Managed LLC’s ownership remains vested in the Members, but the power to control the business is delegated to a person or persons who are the Manager(s). The person deemed the Manager in legal control of a Manager-Managed LLC can, but need not, be a Member. Importantly, under this management structure, Members do not have day-to-day control.

## 4. Corporations

Corporations are a very formal entity type. Unlike LLCs, a corporation is overseen by a board of directors, issues stocks owned by shareholders, and defines its governance procedures in its Articles of Incorporation and its Bylaws. Some small business owners find corporate formalities to be unnecessarily complicated, while others find them to be familiar and predictable. Small businesses with complex investor relationships, such as startups seeking venture capital funding, are more likely to be set up as corporations.

- a. **Ownership/Equity--** The owners of a corporation are called “Shareholders” and each Shareholder’s ownership is represented by “Shares” or “Stock.” Shares or Stock are instruments that represent a Shareholder’s ownership in the corporation, but it is not necessary to have or issue these instruments. The more shares one owns, the more control and influence the shareholder can exert over the corporation, and shareholders get a cut of the company’s profits depending on how many shares they own.
- b. **Management--** A corporation is managed by the board of directors (the “Board”). The Board then delegates its authority regarding the day-to-day decisions to a group of management referred to as “officers.” The corporation’s management style lends itself well to businesses that require having specialized roles, where one person is required to dedicate her time to a specific area of the business (for example, the Chief Financial Officer, or “CFO” would focus on the financial aspects of the business). One individual can be a board member, an officer, and be a shareholder at the same time. Certain major decisions may require approval from shareholders, and a shareholder’s voting power depends on how many shares they hold and what type of shares they hold.
  - **Board of Directors:** The Board is elected by the Shareholders each year and each person is a “Board Member” or “Director.” The Board is entrusted with the welfare of the corporation—in fact, the individuals on the board owe legal fiduciary duties to the corporation—and with these duties oversees the “big picture” of the corporation. Examples of Board decisions are purchasing or selling major assets, issuing shares or stock to potential new shareholders, and appointing officers of the corporation.

- **Officers:** The officers are appointed by the Board and serve at the Board's pleasure. The officers act under the general direction of the Board and are responsible for the everyday activities. Traditional officer titles are President or CEO, Vice- President, Treasurer or CFO, or Secretary. Officer roles and responsibilities are usually more fully outlined in the corporation's bylaws, but importantly, officers have the authority to bind the corporation in contract. Examples of an officer acting at the Board's direction is when the Board decides to move to a larger location, the CEO or President will work towards achieving the Board's goal and sign any necessary documents.

c. **Governing Documents--** Documents required for a corporation include the Articles of Incorporation and Bylaws. Articles of Incorporation are filed with the Secretary of State to form the corporation. The Articles of Incorporation provide the foundation and initial framework for the corporation, such as the initial board members, the rights and responsibility for shareholders based on classes of stock, and how the initial Bylaws will be adopted. The Articles of Incorporation likely have crucial terms for succession planning, so it is a vitally important document! The Bylaws are the internal operating manual for the corporation. The Bylaws can be simple or complex and will govern how the corporation places individuals into their roles (how board members are elected, how officers are selected, and how long the individuals serve in those roles, for example). The Bylaws are adopted by the Board but not filed with any state agency. Bylaws explain transfer of management powers (Board and officer roles), and they often explain rights and responsibilities regarding transfer of ownership (share issuance or transfer)

## 5. Worker-Owned Cooperative Corporations

The word “cooperative,” “co-op,” or “coop” can often refer to many different types of organizations. The type that is most relevant for this discussion is a worker-owned cooperative corporation, sometimes referred to as a mutual corporation. Some businesses prefer the worker-owned cooperative model because it makes the business more resilient: people can come and go from the company (including the original founders) but the company remains in the hands of its workers rather than outside shareholders, investors, or the families of the founders.

- a. **Ownership/Equity--** Unlike normal corporations, a cooperative corporation typically does not issue shares to shareholders. Rather, the individuals who own the cooperative are known as Members, and only those who work for the company are permitted to become members. Many worker-owned cooperatives split profits evenly among all the members.
- b. **Management--** Like normal corporations, a worker-owned cooperative corporation is overseen by a Board of Directors (the “Board”), which then delegates its authority over day-to-day decisions to Officers and the employees. Unlike normal corporations, decisions that require Member approval are voted on democratically by the members (one person, one vote). This means that every employee has real legal power over the future of the company. This can help avoid situations where the outside shareholders who own a company disagree with the employees about what is best for the business.
- c. **Governing Documents --** A worker-owned cooperative corporation is required to file Articles of Incorporation with the Secretary of State in order to form the corporation. The Articles of Incorporation is a very important document that establishes the cooperative nature of the corporation. The Bylaws of the corporation will also have to be specifically drafted with the cooperative system in mind.

## Definitions

**Partnership Agreement:** The agreement among partners on the roles, responsibilities, and powers of each partner for a partnership.

**Articles of Incorporation:** The documents filed with the Secretary of State that form a corporation, and typically includes the rights and responsibilities for shareholders.

**Bylaws:** The documents that provide the rules, decision making process, and internal governance structure for a corporation. Bylaws explain management roles, responsibilities, and transfer, and sometimes include rights and responsibilities for shareholders.

**Shareholders:** The individuals who own part of a corporation. Ownership may, but need not, be represented by stock certificates.

**Board of Directors:** The individuals who make the strategic or “large picture” decisions for the corporation.

**Officers:** Officers are the individuals who make the day-to-day decisions for a corporation, often implementing the Board of Director’s decisions.

**Certificate of Formation:** The document filed with the Secretary of State to form an LLC. Could include provisions about ownership or management.

**LLC Agreement or Operating Agreement:** An LLC Agreement or Operating Agreement is the internal document that provides the governance structure for an LLC, including the Members’ ownership rights.

**Members:** Members are the owners of an LLC. Member ownership can be reflected as a percentage or by “Units.” In some cases, the Members are also the day-to-day decision makers.

**Managers:** Managers are the day-to-day decision makers for an LLC.

## Definitions (cont.)

**Registered Agent:** Is an individual or third-party company that is designated to receive service of process (lawsuits), notices from the Secretary of State, and any notices from government agencies. The registered agent also receives any notices sent to the company from private third parties trying to contact the company.

**WA Annual Report:** The Annual Report is a yearly filing with the Secretary of State to confirm or update the company's information. The information requested is the registered agent's information, the business and mailing address of the company, and the owners and management of the company.

**Business License:** The business license is provided by the state and your local municipality. Most businesses require both a state and local business license. The business license allows your company to operate its business.

**Shareholders' Agreement:** An agreement among shareholders governing their respective rights, which could include, among other things, an agreement on what directors to vote for now or in the future, and the rights and obligations for transferring share ownership at death, divorce, or some other event.

**Buy-Sell Agreement:** Similar to a Shareholders' Agreement but is a broader instrument used by owners of any entity type. Unlike the Shareholders' Agreement, typically only pertains to rights and obligations for transfer of ownership.

## SECTION II. ESTATE PLANNING SUMMARY

### I. Considerations for transfers

#### Who

The first step in succession planning is identifying the individuals to whom you plan to eventually transfer the business ownership interests. This could include children and spouses of children. This decision should also take into account different roles family members may play in the business and how to equalize for those roles and interests.

#### What

Once the individuals are identified, the next step is to determine what interest is to be transferred to the beneficiary. Consideration should be given to the amount that is transferred and the class of interest, for example, a voting or non-voting interest, that is transferred. Going through the corporate form analysis will allow you to better determine the "what."

#### When

Once you know what is going to be transferred, the next step is to determine if these transfers should be made during life or at death. There are benefits and drawbacks associated with each that should be considered. Below is a noncomprehensive list of some of the various ways to make transfers and the associated benefits and drawbacks.

### II. Lifetime Gift

An individual may transfer an interest during his or her lifetime to a recipient. Once the ownership interest is given away, the individual will no longer have any control over the interest transferred and will have no economic right to the units transferred. An appraisal will be needed to value the interest transferred, and to the extent a minority interest is transferred, a discount may be applied. To the extent a transfer to a single recipient exceeds \$19,000, a lifetime gift will reduce an individual's federal gift and estate tax exemption amount. A gift will also need to be reported on Form 709 by April 15th of the following year of the transfer.

The benefits to lifetime gifting are that it can lower the amount of assets to be taxed at the time of inheritance, and it allows for a younger generation to learn about the business. The drawbacks to lifetime gifting include loss of control and the loss of future income. There may be unwanted implications under capital gains taxes for the person receiving the lifetime gift. The gift recipient receives a carry-over basis, meaning the recipient takes the donor's basis in the property, so if the gift recipient were to then sell their ownership interest, they could be hit with a very large capital gains tax if the current value of the ownership interest is dramatically higher than the basis.

## Necessary Documents

To effectuate a lifetime gift, the following documents may be required: (i) an appraisal to value the gift as the date of the transfer, especially if a discount is applied; (ii) documentation of the gift via the corporate structure—for example, an assignment and consent resolution may be required to effectuate and document the gift; and (iii) Form 709 to file.

## III. Lifetime Sale

A sale of an interest can be made during life to the intended transferee. An appraisal will be needed to value the interest that is subject to sale. The sale can be structured so the transferee purchases his or her interest outright or through debt. An individual can finance the sale on behalf of the transferee. For the loan to be respected, interest will need to be charged at a rate published by the IRS. The benefit of a family loan is that it provides cash to the family member who is selling the business. Note though, an individual will have to pay taxes on the income from the sale and on any interest payments received.

## Necessary Documents

To effectuate a lifetime gift, the following documents may be required: (i) an appraisal to value the gift as the date of the transfer, especially if a discount is applied; (ii) a promissory note documenting the loan; (iii) a purchase and sale agreement; (iv) a deed of trust to secure the promissory note; and (v) documentation of the sale via the corporate structure (for example, an assignment and consent resolution may be required to effectuate and document the gift).

## IV. Other Considerations

With respect to transfers made during life, either by sale or gift, it is important to confirm that such transfers are in accordance with the terms of the business' governing documents (e.g., a corporation's Articles of Incorporation or Bylaws, an LLC's Operating Agreement, etc.). Oftentimes, governing documents can contain transfer restrictions with respect to who can hold an interest in the company. The governing documents may also contain a right of first refusal, which would require action by the company or other parties before the ownership interest can be sold. If you are in a position where you are creating a new entity or can amend an agreement, before any transfers are made, consideration should be given to whether any limitations and restrictions should be incorporated into the governing documents.

Finally, the different estate, gift, and income tax consequences should be considered and weighed with respect to the transferor and transferee to make sure that transfers are made in a manner that is tax-efficient and cost-effective given the effect the different types of transfers have on basis and income.

## V. Transfer at Death

If no action is taken during life, the transferred units will pass at death in accordance with the terms of estate planning documents, or if none, state law. At death, the person who dies is called a “decedent.” The entire value of the business interest held by the decedent will be included in the decedent’s estate for purposes of state and federal estate tax. Depending on the type of business and the assets of the decedent’s estate, there may not be enough money to pay the taxes due and cover the costs of the ongoing operation of the business.

Life insurance may be an option to provide money to pay any taxes due upon death or to maintain business operations. The person receiving the business is called a “beneficiary”. For tax purposes, a beneficiary that receives a business interest upon the death of a decedent, receives the interest with a basis equal to fair market value. That means the amount of capital gains tax due will be severely reduced if the business is sold shortly after receipt.

### Necessary Documents

At the very least, a Will and possibly a trust should be in place to pass on the business interest. It may be prudent to also have a life insurance policy in place to provide money to pay taxes and continue the business.

## Definitions & Basic Rules

**Estate Taxes:** There are two levels of government that may tax transfers of businesses to family members: 1) Washington State and 2) Federal government (IRS).

**Washington State:** Estate tax rates in Washington are progressive and range from 10% to 35%. The estate tax in Washington applies to estates with a net worth in excess of \$3,000,000. Note that the estate tax is only applicable at a decedents' death and does not apply to gifts made during life.

**Federal Government:** The federal government imposes an estate and gift tax at a rate of 40% on all transfers made via gift during life and at death. The federal government currently provides a federal gift and estate tax exemption in the amount of \$15,000,000 per person, indexed for inflation. There is also an annual exclusion amount, currently \$15,000, which allows a donor to gift up to \$15,000 per year to any number of beneficiaries without having to use the federal gift and estate tax exemption amount or being subject to federal gift and estate tax.

**Will:** A will is a legal document by which a person expresses his or her wishes as to how his or her property is to be distributed at death. A will needs to be executed with certain formalities in order for it to be considered valid, and it is filed with a court upon a person's death and will become public record.

**Pour Over Will:** A type of Will that provides that all assets are distributed to a Revocable (Living) Trust. This type of Will provides for privacy as all of the transfer and gift provisions are contained in the Revocable Trust, which is not filed with a court upon death.

**Revocable Living Trust:** A trust created during lifetime that can be revoked, amended, or modified during the grantor's lifetime. Such a trust becomes irrevocable at death. The Revocable Trust contains all of the transfer and gift provisions of an individual's estate plan.

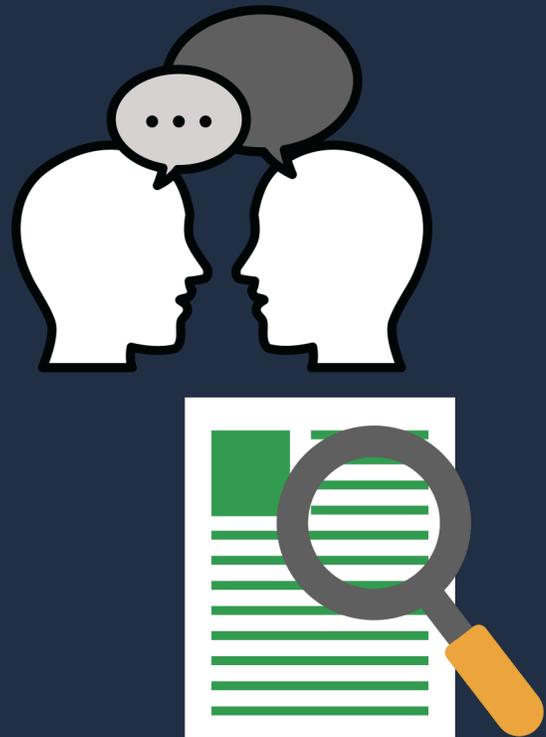
**Power of Attorney for Financial and Health Care Decisions:** These are legal documents that are effective during a person's lifetime and become ineffective upon a person's death. A Power of Attorney allows you to designate individuals who can handle financial decisions on your behalf and make health care decisions for you. These documents can be effective upon incapacity or execution, and the scope of powers granted can be broad or limited.

**Assignments and Consent Resolutions:** With respect to any transfers made (whether during life or at death), certain formalities will need to be met in accordance with the terms of the governing documents. Oftentimes, governing documents will require a manager or existing member consent to a transfer or the admittance of a new member into the business; a consent resolution formalizes and documents this approval. An assignment is a document that transfers an interest; in the case of some entities, a stock certificate may also be required.

C.

# SUCCESSION PLAN WORKSHEET

The Succession Planning Worksheet is designed to help you organize the information you will need to gather to create a succession plan. It will be one place that has the information to take with you when you meet with a lawyer or accountant.



# Succession Plan Worksheet

1) Identify the corporate entity type (Sole Proprietor, Partnership, LLC, Corporation):

2) List the first and last names of the owners, percentage of ownership, and evidence of ownership, and marital status of the owners below:

Name (First and Last of Owners)	Percentage of ownership	Documentation of ownership	Married (Y/N)
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

3) List of all family members involved in the business and their roles:

4) List the individuals you would like to have management power:

5) List the individuals you would want to own your business in the future:

**Succession Plan Worksheet**

6) Are all of the company's assets and liabilities in the name of the company (check one):  YES  NO  UNSURE

7) Do you have a lease or own real property:

8) Value of the business:

9) Tax Basis in business:  Est. of amount of built-in gain:

10) List any restrictions on transfers in the governing documents:

11) If there are no restrictions on transfers in the governing documents, should there be and what types of restrictions would you like to have on transfers (Ex: I don't want my son John to manage the restaurant) :

12) List the size of your estate or your net worth approximately:

13) Does your estate have any enough cash to pay estate tax without having to sell the entity:  YES  NO

14) Do you have life insurance:  YES  NO

15) Does purchasing life insurance make sense to provide liquidity:  YES  NO

16) Can you afford to forgo income in the business if a transfer is made during life:  YES  NO

## Succession Plan Worksheet

\*If you don't know the answers to any of the above questions, below are other questions to raise with your accountant, financial planner, or lawyer.

1) What are the estate, gift, and income tax consequences of transferring the interest during life or at death?

2) How is your company taxed/Tax status elections made? \_\_\_\_\_

In addition to the questions above, you may want to consider the following:

- Discussing your succession plan and intentions with your family and other owners.
- Determine how the company will handle the succession plan, e.g. whether employees should be informed.
- Begin training a successor or identifying a buyer.
- Compile a list of the company's accounts and passwords.
- Compile a list of vendors, supplies, and professionals that the company uses with their contact information.