
Dealer Succession Planning – 2009 Provides a Prime Opportunity

Ninety percent of the 21 million US businesses are family owned. Yet only thirty percent of family run companies today succeed into the second generation, and only 15 percent survive into the third. The reason for this significant failure is obvious; these businesses lack an orderly succession plan.

The current malaise of the US economy and bankruptcy of manufacturers is of top concern for many dealers. However, these issues create an excellent opportunity to execute your dealer succession plans and to reduce your taxable estate. There are two main reasons why this is an optimal time to execute your succession plan:

1.) Valuations are low – No one appreciates the idea that the value of their dealership and the related real estate have declined over the last few years. However, this provides dealers more flexibility in executing their succession plan. The reduction in value makes it much more tax efficient to move these assets out of one's estate and into the hands of the next generation. Just a few years ago the same transfer may have cost the dealer a significant amount of taxes. We should remember the old adage, "when life gives you lemons, make lemonade."

2.) Tax rates are low – Long term capital gains tax rates are currently capped at 15 percent. This rate is quite low from a historical perspective. This rate is set to expire at the end of 2010, at which time the maximum rate will increase to 20 percent. The President has stated that he does not intend to extend the reduced rate, so higher rates will be here in the near future.

To take advantage of this opportunity, some of the following strategies can be considered:

Gifting stock to the next generation - A simple way of executing your succession plan is to make gifts using the one million dollar lifetime exemption. Married couples can use a total of two million dollars in gift exemptions. The transaction would be executed as follows: a dealership obtains a valuation from a qualified appraiser for the operating company and the real estate. Discounts for lack of marketability and minority interests can be used to reduce the already low valuations. Transfers are made based on these low valuations and the dealer's estate is reduced and succession goals are achieved. A common mistake by dealers is to provide a gift of the dealership and its real estate to non-active family members. This can create conflicts between family members. To avoid this situation, you should consider gifting non-dealership assets to family members that are not active in the business.

Stock sale – Another way to execute your succession is to sell the business to your successor(s). The dealer provides all, some or none of the financing for the transaction. Again, with valuations and long term capital gains rates low, the tax implications may be minimal.

We have created the following guide, *[Auto Dealership Succession – A Ten Step Checklist](#)*, to assist dealers with their succession plans. Please email Paul McGovern for a free copy of this checklist and type "Succession" in the subject line.

Dealers are obviously distracted by economic and manufacturer issues, but please do not miss out on this opportunity to align you store(s) for the future and to reduce your taxable estate. You must remain confident that after you survive this period, you will face reduced competition and experience exceptional profits in the future. Most of our clients have drastically cut personnel and other expenses to reflect the current economic conditions. These expenses will not grow proportionately as we pull out of the recession and sales increase. Sales growth with low expenses will result in large gross profits.

For additional information on succession issues, please email Paul McGovern at pmcgovern@downeycocpa.com.

Please sign-up for our free dealer e-newsletter at www.downeycocpa.com. Signing-up is free and it only takes a minute.