



"A CPA firm that understands dealership management, accounting, and tax issues"

SUCCESSION PLANNING CONSIDERATIONS FOR AUTO DEALERS

After years of hard work and personal sacrifice, the successful auto dealer is faced with the need to explore the options available for business succession. It is estimated that only 34% of family businesses successfully transition to the second generation and only 14% to a third generation. A succession plan is important even for the younger dealer in case of any unforeseen circumstances (death/disability). The dealer/owner needs to address four basic questions:

- **WHO WILL RUN THE BUSINESS AND HOW WILL IT BE RUN?**

If it is the owner's intention to have the family members run the dealership, he or she must make sure that the future generation has the experience and leadership skills. If possible, they should have experience in all areas of the dealership (sales & purchasing, parts & service, mechanical, accounting) to gain first hand knowledge. They should be mentored and receive feedback from the managers of the various departments.

If no family member desires or is capable of assuming the mantle of ownership, the dealer/owner needs to identify other possible successors, possibly key managers (use of an ESOP) or other area dealers. It is also important to establish a successor owner with the manufacturer, with the goal of reaching a minimum ownership of 15 - 20%.

- **WHO WILL OWN THE BUSINESS AND HOW WILL IT BE OWNED?**

The dealer/owner must have a clear plan of action, especially if the business is to be transferred to family members and there are multiple family members involved, including those not directly involved in the dealership. Often times, in the interest of "fairness," outside family members are given an interest in the dealership, which ultimately may create conflict with those previously working in the dealership.

- **WHAT AND HOW TO SOLVE LIQUIDITY ISSUES?**

Successful succession planning must address two major liquidity issues, retirement income for the owner and payment of any estate taxes due. These issues can usually be resolved with proper planning through the use of employment agreements, gifting and life insurance.

- **WHAT TAX MINIMIZATION STRATEGIES ARE AVAILABLE?**

The owner/dealer, along with his financial and legal advisors, have a variety of estate tax planning techniques to minimize the tax impact of the business succession ranging from outright gifting, transfer into trusts and installment sales. Each has its own benefits and costs and should be considered carefully before any action is taken.

CONCLUSION

With only one third of businesses successfully passing to future generations, the dealer/owner must properly plan and address the preceding issues in order to ensure a smooth and cost effective transition of the dealership.

Downey & Company, LLP, has been servicing the auto industry for twenty-five years. We provide services to eighty dealerships located throughout the Northeast.

For more information on succession planning, please contact **Paul McGovern** at pmcgovern@downeycocpa.com or call **800.849.6022**.

Visit our web site at www.downeycocpa.com