Journal of Accountancy

Succession planning and CPAs' golden opportunity

CPAs can't drop the ball on clients' succession planning. Rather, they should take on the quarterback role.

By Scott Miller, CPA/ABV/PFS
4 hours ago

Photo by 35007/iStock

Many Baby Boomers who own small and midsize businesses are looking to make an exit, even if they don't have a plan for the rest of their lives.

CPAs can play an integral part in helping to increase the likelihood that business owners walk away from their companies happy. Accountants who play a strong role in their clients' path to retirement also have the chance to retain business with the entity if it is transferred to a family member or management team. They also can generate new revenue by taking on more of a project management role to prepare owners for their exits.

The key to exit planning is that it isn't actually about the exit. It's about the planning, the staging process that leads to a happy ending.

It's like selling a house. You can't go directly from putting the sign in the yard to exchanging your house keys for the buyer's check. Put it on the market without a fresh coat of paint and new hardwood floors, and the property might struggle to attract potential buyers.

In general, small to midsize businesses are not ready to be sold. Despite the number of sales that are sure to come as Baby Boomers retire, many owners seem ill-prepared. A survey by the Exit Planning Institute in late 2013 showed that 88% of business owners were unprepared to address succession planning, and most weren't even aware of the exit options.

CPAs can help get the business ready for sale through several strategies. The first way is for the accountant to expand the scope of his or her role with the client. It's a not-so-subtle change for some accountants to move beyond compliance duties and into more of a consulting role, but it's a necessary shift to be a valuable adviser to a business owner's exit plan.

CPAs must also realize that each business is different and each owner is different. What one owner wants in a post-work lifestyle might not be what the next owner wants. And the ideal multiple for one owner could be half what another one expects.

A CPA advising business clients must have regular conversations with owners—and not just when the owner turns 65. That's far too late, said Barry Goodman, CPA, the managing director of Birkdale Transition Partners in Chicago. Instead, the conversations about an owner's exit should happen at least five years in advance. This is important because owners should have some sense of what they want to do with their lives after they sell the business. There also should be a firm plan of what type of lifestyle the owner expects in retirement: Is the family keeping the beach house or cutting back? The answer to questions such as this can play a role in the time horizon for selling the business.

And knowing the time frame can help the CPA do a better job advising a business owner on staging the company for sale.

"You can do some real good work in three to five years, because buyers like to see a consistent performance over a three- to five-year period," Goodman said. "What I find with many business owners is they have been running their companies, they know every aspect, they're involved in everything. The company cannot run without them. So one of the huge value drivers is to reposition management or bring in additional management so the business can run without the owner. If you do that, you're developing a valuable asset."

Some business owners experience "reverse sticker shock" because they want to sell their business immediately without making much of an investment to make it attractive to a buyer. That is why starting the succession conversation early can help the business owner prepare to improve the business or reexamine lifestyle plans based on a lower valuation.

Lack of preparation is one reason business owners are not successful at turning over their businesses, said Chris Snider, CEO of the Exit Planning Institute. "They're not being proactive, and they're not integrating best practices for exit planning today," he said. "They view exit planning as something they'll do down the road."

WHAT TO KEEP, WHAT TO LET GO

Identifying weaknesses and strengths in a business can go a long way toward getting the best possible price for the company. CPAs must develop an understanding of the value drivers of a client's business, Goodman said, so they are well-positioned to analyze what parts, if any, need to be discarded when it's time to sell.

One way to help determine what parts of a business to keep is to compare product lines—or customers. Some customers might be dragging down the bottom line. Others might be such a large part of the business that losing them would be catastrophic to the company's bottom line. Say one customer accounts for 40% of a company's revenue. In that case, it might be best to find some new customers to mitigate the risk of losing the big customer.

Strategies for enhancing the value of a business might be different depending on what type of buyer the owner wants to find. For instance, it's likely the owner would accept a lower price if selling to family members or the company's existing management team than if the firm is being pursued by a competing company or some other sort of strategic or financial buyer.

PREPARE TO BE THE QUARTERBACK

Accountants are uniquely positioned to be the quarterback of a company's exit-planning team— the roster of which likely includes a banker, attorney, business valuation specialist, and possibly a life coach or personal financial planner. CPAs who acquire the knowledge to become the quarterback must understand the client and the business first. But they must also understand, and be willing to collaborate with, the team of advisers.

"CPAs must realize they need some education on how to be that quarterback," Goodman said. "They have to know who the players are and how it all comes together. If they can't do that, they will be doing their clients a big disservice."

CPAs also can end up doing themselves a disservice by failing to fill a key advisory role for the client.

CONCLUSION

Succession planning is not simply a transaction; rather, it's a process. In most instances, the actual succession planning event takes the collaboration of a number of professionals as there are many disciplines that are integral to the process.

About the author

Scott Miller (smiller@esi-enterprise.com (mailto:smiller@esi-enterprise.com)) is president of Enterprise Services Inc. in Delafield, Wis. He is a member of the AICPA Forensic and Valuation Services Executive Committee.

To comment on this article or to suggest an idea for another article, contact Neil Amato, senior editor, at namato@aicpa.org (mailto:namato@aicpa.org) or 919-402-2187.

ATRA is a boon for CPAs

As trusted advisers to their clients, CPAs and CPAs with specialized training in business valuations, taxes, and personal financial planning in particular have some strong opportunities to build client relations as a result of the passage of the American Taxpayer Relief Act of 2012 (ATRA), P.L. 112-240. ATRA raised taxes for most taxpayers by eliminating a temporary lower rate on certain payroll taxes and raising the highest marginal personal income tax rates along with the highest capital gain tax rates. Strategies to reduce exposure to these high marginal tax rates may be championed by CPAs. Perhaps most significantly, ATRA made substantial changes to gift and estate taxes. The overall effective exclusion amounts for federal gift and estate taxes were increased substantially above the prior limits. Highlights include a unified $5 million exclusion amount per person for gift and estate taxes ($5.43 million in 2015, adjusted for inflation). Further, the lifetime exclusions are "portable" between spouses' estates, so the estate of the second spouse to die can use the first spouse's unused exclusion amount, if the proper election is made, meaning the couple could shelter more than $10 million in assets from estate tax. These increased amounts mean that most family estates are not subject to estate taxes with effective planning—typically the planning provided by CPAs and other professionals.

AICPA RESOURCES

***JofA* articles**

- "CPA Succession Series," July 2013 through June 2014
- "Checklist: Evaluate Your BV Skills (/issues/2012/oct/20126045.html)," Oct. 2012, page 16
- "Plan Now for Inside Buyouts (/issues/2012/oct/20126072.html)," Oct. 2012, page 26
- "Checklist: Family Business Transition Planning (/issues/2011/nov/20114513.html)," Nov. 2011, page 22
- "The ESOP Exit Strategy (/issues/2010/mar/20092046.html)," March 2010, page 32

Publications

- *ESOPs: Savvy Strategy for Tax Management, Succession, and Continuity* (#PMA1205P, paperback; #PMA1205E, ebook)
- *Navigating Mergers & Acquisitions: Guidance for Small and Mid-Sized Organizations* (#PGN1302P, paperback; #PGN1302E, ebook)
- *Securing the Future, Vol. 1: Building Your Firm's Succession Plan* and *Vol. 2: Implementing Your Firm's Succession Plan* (#PPM1307HI, paperback)

- *Understanding Business Valuations: A Practical Guide to Valuing Small to Medium Sized Businesses,* Fourth Edition (#PBV1201P, hardcover)

CPE self-study

- Succession Planning: Developing Tomorrow's Leaders Today (#BLI165040, one-year online access)

For more information or to make a purchase, go to cpa2biz.com (http://www.cpa2biz.com) or call the Institute at 888-777-7077.

AICPA specialized credentials

The AICPA supports succession planning as part of its overall professional curriculum by offering specialty credentials including Personal Financial Specialist (PFS) and Accredited in Business Valuation (ABV), along with national conferences. Additionally, the core disciplines including attest financial statement services and tax planning are complementary to succession planning (aicpa.org (http://www.aicpa.org)).

Private Companies Practice Section and Succession Planning Resource Center

The Private Companies Practice Section (PCPS) is a voluntary firm membership section for CPAs that provides member firms with targeted practice management tools and resources, including the Succession Planning Resource Center, as well as a strong, collective voice within the CPA profession. Visit the PCPS Firm Practice Center at aicpa.org/PCPS (http://www.aicpa.org/PCPS) and the Succession Planning Resource Center at aicpa.org (http://www.aicpa.org/INTERESTAREAS/PRIVATECOMPANIESPRACTICESECTION/STRATEGYPLANNING/CENTER/Pages/default.aspx).