

Trusts to Provide More Business Succession Planning Options

By Joseph M. Donegan on April 18th, 2012 Posted in Succession Planning, Trusts, Wealth Preservation

More business owners are relying on trusts to explore a variety of business succession planning options and take advantage of the benefits that come along with them.

While trusts have long been one strategy to ensure a smooth business transition to younger generations, experts say that more owners are relying upon them to pass businesses down earlier than in previous years and better support their tax planning initiatives, according to the North Bay Business Journal.

Because there are a variety of trusts to choose from, many business owners are becoming more selective about the vehicles they pick, often turning toward those that allow them to have a stake in the company after passing on ownership to prop up the value of business. These “intentionally defective grantor trusts” also give business owners more time and authority to cultivate the beneficiary’s handling of a company once they are gifted over to heirs, while at the same time retaining control of the business assets, the news source explains.

Trust law provisions for this type of succession plan also provide tax benefits that allow the owner to continue paying taxes on business assets, a move that protects beneficiaries from being overburdened by taxes and increases the benefit of the gift. Further, owners who take on the tax burden are also enabled to remove those funds from their estates, which are likely to be taxed at a higher rate than that of their beneficiaries.

Lastly, experts say that transferring ownership while an heir is still young allows the business to appreciate in value over time within the trust itself, which also has less of an impact on the business owner’s lifetime gift tax exemption.