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Securing the Future

Succession Planning for Family Businesses

November 6, 2025

Today's Presenters



**Heather
Parbst**

Director

heather.parbst@CLAconnect.com



**Courtney
Scott**

Director

courtney.scott@CLAconnect.com



**Jamey
Rappis**

Principal

jamey.rappis@CLAconnect.com





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Owner Mindset



Critical Component

A Willingness to Go There



Succession Planning



Owner succession planning (transition planning)

Who will own this company next?
How do I transition out of ownership in a way that meets my personal and financial goals and leaves the company sustainable?

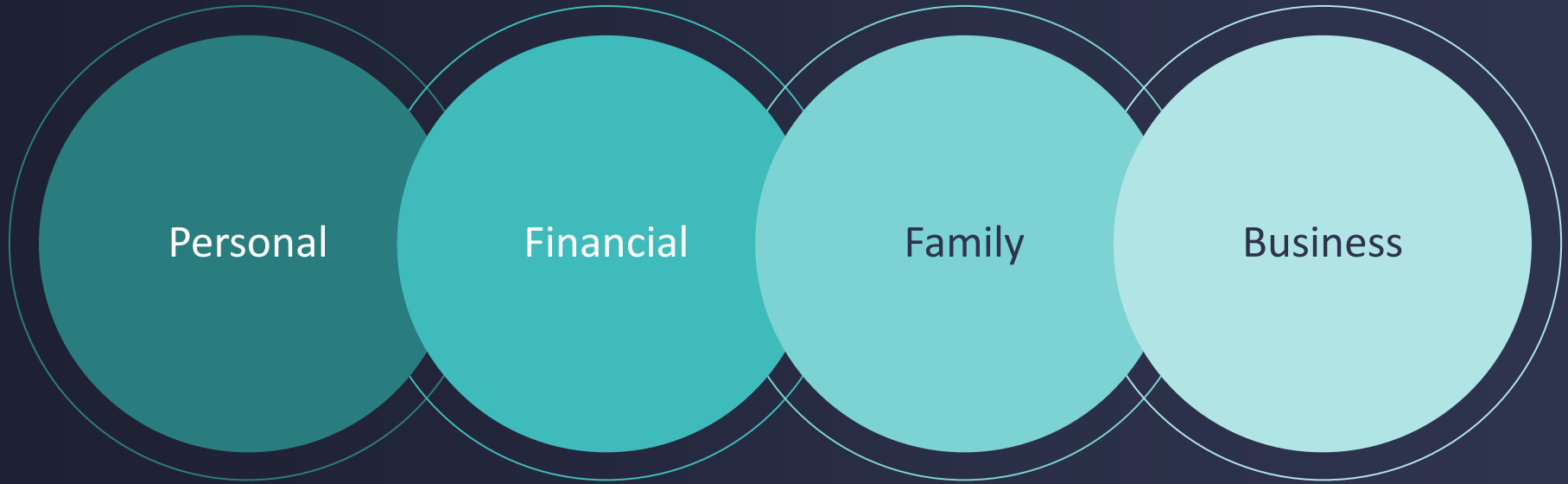


Leadership succession planning

Who will lead this company next? How do we identify and prepare the next generation of leaders?



Readiness Through Planning



Owner Personal Readiness

They are comfortable that they, their family, and their organization will be okay.

They've done the mental and emotional work of preparing to let go.

They know what they want their legacy to be.





Financial Readiness and Financial Structuring



Structuring Family Ownership Transitions



Gift, estate, and tax considerations in the current tax landscape



Fair versus equal in family ownership succession



Common discounts within internal transitions



Common financial structuring strategies



Current Landscape After OB3



Estate Planning Provisions



Estate and gift exemption

Permanently increased and
indexed for inflation
\$15,000,000 per person exemption



Transfer taxes

Estate and gift taxes
Generation skipping taxes
Portability



Fair Versus Equal

Sample tools

- Irrevocable defective grantor trusts
- Irrevocable life insurance trusts
- Charitable trusts
- Private annuities

"Fair" not "equal"

- Equal distribution means dividing assets evenly among heirs, but fairness considers individual circumstances—such as business involvement, financial need, or contributions.

Role-based allocation

- Fairness often involves giving active family members ownership and control of the business while compensating inactive heirs with other assets to maintain balance without jeopardizing operations.

Avoiding conflict through governance

- Equal ownership among active and passive heirs can lead to voting deadlocks and operational friction. Fairness strategies include governance tools (family councils, charters) and buy-sell agreements to minimize disputes.

Communication is critical

- Discuss intentions early and clearly with heirs to prevent surprises and resentment. Transparency helps align expectations and preserve family harmony.

Estate tools for fairness

- Use trusts, life insurance, and structured payouts to equalize value for non-business heirs while protecting business continuity. These tools allow flexibility in achieving fairness without diluting control.



Common Discounts Used With Internal Transactions



Minority interest discount

Reflects the reduced value of an ownership stake that does not confer control over business decisions, distributions, or liquidation



Lack of marketability discount

Accounts for the difficulty of selling shares in a closely held business compared to publicly traded stock



Voting rights discount

Applied when shares have limited or no voting rights, further reducing their attractiveness



Combined discounts

In practice, minority and marketability discounts are often combined, significantly reducing the appraised value for gift and estate tax purposes



Qualified Opportunity Zones

Provides opportunity to defer capital gains related to the current year and avoid capital gains on the growth of the QOZ

Must hold for 5 years to receive a 10% gain reduction

Must realize gain on the fifth anniversary of the investment



Common Strategies Transitioning to the Next Generation

- Outright gift of 100% of the business
- Outright gifts of interests in the business over time, reaching a tipping point of control at some date certain
- Part gift/part sale direct
- Part gift/part sale through an intentionally defective grantor trust





Family Readiness



Common Obstacles to Successful Transitions



Planning and strategy

Lack of planning

Not seeking outside guidance

Expecting what worked for Gen 1 to work for Gen 2



People and communication

Communication breakdowns

Unprepared successors

Emotional factors

Resistance to change



Fairness and alignment

Fair vs. equal

Lack of alignment between generations



Financial and legal

Financial strain

Legal and tax issues

Stuck owners

Common Communication Challenges

Triangulation

- Victim, persecutor, hero

Bullying and scapegoating

- Targeting or blaming instead of solving the problem.

Avoiding

- Sweeping it under the rug

Developing narratives

- Creating stories based on assumptions



Family Governance

May contain

- Family charter
- Family employment policy
- Communication framework
- Written contingency plans
- Separate ownership/family councils

Prevent conflict

- Creates agreed-upon rules and forums for decision-making, reducing misunderstandings, and emotional disputes.

Supports succession planning

- Helps to clarify roles, expectations, and processes.

Protects family unity

- Separates family from business issues

Builds long-term stability

- Aligns family value with strategy, helping to sustain both.

Clarifies decision rights

- Avoids confusion about who decides what.





Preparing the Next Generation for Leadership



Leading the Legacy: Future-Proofing During a Family Transition

Navigating generational differences

- Generational perspectives on leadership, risk, and business values.
- Vision of the business and an evolving definition of success.
- Leverage the strengths of each generation—experience, work styles, innovation, and adaptability

Harnessing technology advancements

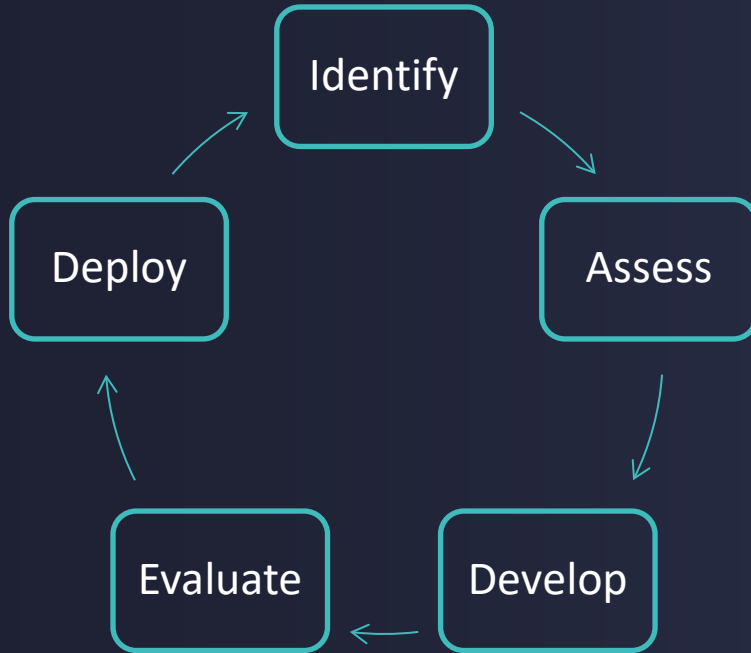
- View of a digital transformation as a strategic advantage, beyond an operational necessity.
- Bridge the digital divide: Invest in upskilling and reskilling to ensure every leader is equipped for tomorrow's challenges.
- Use AI, automation, and data analytics to streamline decision-making, enhance transparency, and enhance operations

Sustaining engagement and commitment through leadership development

- Tie leadership development to business strategy and family values, ensuring alignment across generations.
- Integrate the what and the how critical for sustainability of the business of the CEO seat-, essential relationships, decision making rationale, internal control processes, etc.
- Communicate relentlessly to the broader organization-everything from strategy to tactics—as part of building a strong CEO-ready culture.



The Succession Planning Cycle



Step 1:
Identify critical roles and future needs

Step 2:
Assess internal talent against those needs

Step 3:
Develop high-potential employees

Step 4:
Evaluate the alignment of business processes and technology with succession planning goals

Step 5:
Deploy and monitor readiness



Decision Impacts | No Succession Plan

Confusion and anxiety about the future

Reduction in quality

Drops in productivity

Decline in reputation

Drop in morale

Delays

Lack of ability to respond to changes in the market

No clear path / strategy for the future



Decision Impacts | Intentional Succession Plan

Avoids employees choosing
their plan B

Builds confidence in employees

Better ability to deliver
consistently on quality

Maintains
company's reputation

Benefits talent retention,
culture, sustainability

Create opportunities for
developing leaders to learn
and fail....and learn from failing



Transitioning to the Next Generation

Have you considered...

- Leadership development
- Knowledge transfer
- Communication to stakeholders
- Change management
- Clashing styles
- Balancing family and business interests
- Emotional attachment
- How will you be involved after the transfer?



Next Steps: From Engagement to Endurance

Engage to retain

Embed engagement in everyday

Succession as a continuum

Activate your plan

Your commitment



Final Take-Aways



**Heather
Parbst**

Director

heather.parbst@CLAconnect.com



**Courtney
Scott**

Director

courtney.scott@CLAconnect.com



**Jamey
Rappis**

Principal

jamey.rappis@CLAconnect.com



THANK YOU!