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THE BUSINESS NEWSLETTER FROM AUSWILD & CO
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Family + Business = Harmony or Fireworks?

Over the years, we have come across many families where one member of the family does not talk to another, or where one family "branch" is suing another in court, all because of business and financial issues. Sad and tragic, yes, but not uncommon. Having worked with many business owners and their families, we have witnessed situation after situation in which the family business has resulted in family heartache.

Fortunately, that does not have to be the end result – there are many examples of family businesses being run successfully by harmonious family members through different generations. In an article on succession planning, **Hugh Roberts**, a Partner/Director of business succession planning firm, *The Rawls Group*, wrote that if family harmony is important, then you, as a business owner need to avoid some landmines –

False expectations regarding working in the business

As parents, we can be guilty of having good intentions but creating false expectations with our children. If your desire is to see your children succeed you in the business, it's likely you have conveyed that message over many years. Since you were highly motivated and did what you had to do to succeed, you may assume your children will do the same – but often they don't! Usually, children working in family businesses don't do what they have to because they are not held to the same standards as their parents held themselves to; they are allowed to bend the rules. Some may be paid and promoted regardless of their productivity, and when that happens, a false expectation is created that they are succeeding and are entitled to be their parents' successor one day.

Owning a business is tough. "Only the strong survive" is more reality than a cliché. Therefore, unless your children have paid the price to be capable leaders, they are likely to be counted among the casualties once you are not there to prop them up.

False expectations regarding the rewards from the business

Business owners often utilise their businesses to pay for many family perks, such as cars, petrol, telephone, travel, payroll above-and-beyond services rendered, etc. Often, this will go on for years without significant problems until the day one of the owner's children begins to work in the business and feels as though they are having to earn their benefits, while other family members continue to enjoy the perks without participating in the running of the business. And from the perspective of the inactive children, they are still entitled to these benefits as "Dad has always run the company as a 'family business'."

False expectations that everyone is to be treated equally

Most parents spend a great deal of energy trying to equalise gifts to their children, whether this involves holiday gifts, life experiences, or opportunities. In general, parents want their children to know they are loved equally and never want to come across as favouring one child over another. It's easy to relate to this concern as most of us have experienced what *Roberts* calls "the Christmas Syndrome." That happens as you lay out your gifts on your bed or table and start figuring out whether you have bought the right number of gifts. "Let's see, I have 3 gifts for John, but only 2 for Hannah, but the 2 for Hannah cost more than the 3 for John – how do I make this work?" When the same thinking is applied to estate planning it can really get crazy.

This problem of equalisation reaches a crescendo when an owner has multiple children and wants to transfer the business to them. In reality there are only two ways to divide an estate equally among one's children. The first is to have only one child! The other is to sell off all assets and divide the cash. However, this involves selling the business and real estate which is usually what an owner is trying to preserve.

For most business owners, the business represents a disproportionately large portion of their estate. Therefore, if only one child is committed to succeeding you—and you are committed to an equal estate distribution — it's likely that you will need to commit that child to having to pay a significant amount to his/her siblings in order for the estate numbers to be equal. The questions then are, whether the business will be able to generate the profits needed to pay the siblings and is this fair to the child running the business?

As a parent, *Roberts* says that he fully understands how easy it is to get caught in the bind of creating false expectations. But continuing to plan your business and estate based on false expectations is a road to family and business disaster. Usually outside advisors are needed to help guide the business owner and his/her family through this minefield as emotions can escalate quickly when assumptions that were planted years ago are challenged.

If family harmony and business success are the objectives, then it's critical that business owners honestly evaluate where they and their family members stand in terms of employment, benefits and treatment expectations for family members. *Roberts* says that an outside advisor can help with this process by interviewing each family member so that a true picture is revealed. Once it is known what expectations exist, a plan can be developed to correct false expectations. In addition to realigning expectations, make sure you are consistently sending the right messages to everyone regarding what they can expect for the future of the business.

The choice is yours: "Let the kids work it out" and expect family fireworks or address the issues now and achieve your goals of family harmony and business succession.

Hugh Roberts, CFP® is a Partner/Director of The Rawls Group, a business succession planning firm, and a Board member of the International Succession Planning Association (ISPA). Hugh specialises in dealing with the issues that must be resolved by business owners and their families in order to preserve assets and develop succession plans for their businesses. For additional information, contact him directly at hbroberts@rawlsgroup.com. www.rawlsgroup.com

WE HAVE UPDATED OUR "AUSWILD APP"

As an accounting firm, we are constantly looking at ways we can improve the services we provide all our clients, and we are pleased to announce a major overhaul of our "**Auswild App**".

Our existing App will cease to be supported from 27 August so please do follow the instructions below to download our updated App to ensure that you are accessing the most up-to-date information within our App.

- Go to the App Store (iOS Devices) or Playstore (Android Devices) on your device and search for "MyAccountants"
- Download this App
- Enter our unique access code: **AUSWILD**
- Find our old App on the home screen of your phone and delete it

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