

Business succession planning: Four questions and one word of caution



At the Chester County Community Foundation, we work with a wide range of individuals, families, and businesses for whom charitable giving is a priority, especially related to supporting causes in our community that improve the quality of life for everyone. In many cases, we're helping business owners structure their personal and family philanthropy. A natural extension of that work is to explore ways a business owner's succession plan can incorporate gifts to favorite charities and causes. Some attorneys, CPAs, and financial advisors are surprised to learn how many charitable planning options may be available in connection with a business succession event. The Chester County Community Foundation is here to help.

What's going on here?

Business succession planning is becoming increasingly important as a growing share of American wealth is tied to privately held companies. According to the [National Center for the Middle Market](#) at The Ohio State University, approximately 200,000 U.S. companies generate annual revenues between \$10 million and \$1 billion. At the same time, a recent [Wall Street Journal](#) article highlighted the growing ranks of wealthy Americans whose fortunes were built through private business ownership and equity growth. For many of these business owners, a succession event may represent the largest liquidity event of their lifetime. And for attorneys, CPAs, and financial advisors, these trends point to a growing need for thoughtful planning around business transitions, wealth transfer, and charitable legacy strategies.

What is *most* important for advisors to know?

The single most important takeaway is that charitable planning should be part of the succession conversation as early as possible. Whether a client is preparing to sell a closely held business, transfer ownership to family members, explore an employee stock ownership plan (ESOP), or simply begin thinking about life after the company, charitable planning deserves a seat at the table early in the process. Too often, philanthropy enters the conversation only after a transaction is in the works or already complete. By then, some of the most effective planning windows may be closed. By asking the right questions early, you can help your clients support meaningful causes, potentially reduce taxes, involve family members in giving, and create a lasting charitable legacy.

What questions should I ask my clients?

Here are four "must ask" questions and why they are important, plus a word of caution.

Have you thought about including charitable giving in your business succession plan?

Many business owners have most of their wealth tied up in their companies. When a sale or ownership transition occurs, the resulting tax consequences can be significant. In some situations, contributing a portion of closely held business interests to charity before a transaction may allow a client to support charitable goals while potentially reducing capital gains tax exposure. Again, timing is key. Once letters of intent are signed or a transaction becomes

binding, certain charitable planning opportunities may no longer be available. That's why advisors should raise charitable planning discussions long before the deal reaches the finish line.

Remember that charitable planning is not limited to third-party sales. Clients considering ESOPs, family transfers, recapitalizations, redemptions, or other succession strategies may also benefit from exploring charitable opportunities.

Are there causes or organizations that helped shape your business, your employees, or your family's values?

Business succession often prompts reflection. Many owners begin thinking not only about what they have built, but also about the communities, schools, nonprofits, and organizations that contributed to their success. This conversation can help clients identify charitable priorities that might otherwise be left unexplored. It also creates an opportunity to discuss how a business transition could become a catalyst for meaningful community impact rather than simply a financial event.

Would you like your children or grandchildren to be involved in charitable decisions after the transition?

For many families, succession planning is about more than transferring wealth. It is also about passing along values. A donor-advised fund at the Chester County Community Foundation can provide a flexible way for family members to participate in charitable decisions over time. Rather than making all charitable decisions immediately after a sale, a family can establish a fund, potentially involve multiple generations in recommending grants, and create a structure that supports ongoing conversations about philanthropy and community impact.

Are you interested in creating a charitable fund that can support multiple organizations over time?

Many business owners want to make a significant charitable commitment during a liquidity event but are not yet ready to determine exactly which organizations should receive support. A donor-advised fund can help bridge that gap. Clients can contribute assets during a high-income year, potentially receive a charitable deduction if eligible, and then recommend grants to charitable organizations over time. This flexibility allows clients to separate the timing of a charitable contribution from the timing of individual grant decisions.

A word of caution

Some clients may initially assume that a private foundation is the best vehicle for implementing their charitable goals alongside a business exit or succession plan. However, private foundations can be subject to complex rules governing self-dealing, excess business holdings, required distributions, investments, and other activities, not to mention the unfavorable tax deductibility rules for gifts of closely held stock to a private foundation as compared with a donor-advised fund. For many business owners, a donor-advised fund can provide a simpler alternative with significantly less administrative burden and, in many cases, more favorable tax treatment.

Our team at the Chester County Community Foundation is happy to work alongside you and your clients to explore charitable planning opportunities. Please reach out anytime you encounter a pending business succession situation—or preferably a *potential* business succession situation!

For more information, contact the Chester County Community Foundation:

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The team at the Chester County Community Foundation is a resource and sounding board as you serve your philanthropic clients. We understand the charitable side of the equation and are happy to serve as a secondary source as you manage the primary relationship with your clients. This newsletter is provided for informational purposes only. It is not intended as legal, accounting, or financial planning advice.