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## Passing a winery to the next generation requires planning

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Most Northwest wineries are family-owned and operated. For many owners, the business is their life's work.

Successfully capturing the value of it by passing it to the next generation or selling it to a third-party requires know-how, planning and dedication.

When your business is as much a way of life as an investment, family dynamics, business operations and investment interests inevitably intersect. Most individuals with a connection to the business fall within two or three overlapping categories: family member, business employee, and owner.

These overlapping roles make succession planning emotionally intense and particularly complex with virtually endless options.

When evaluating succession options, consider each option from the perspective of each category — family, business, and owner.

The earlier you start the more options and time you'll have to complete a smooth transition. Begin by understanding the owner's financial plan.

### Personal financial plan

The departing owner needs to formulate a personal financial plan that identifies his or her retirement timeline, cash flow, desired annual income during retirement and whether outside investments can help fund retirement.

These considerations influence and may dictate which exit strategies are considered and selected.

### Successor identification

The family must determine if it's committed to continuing the business as a family-owned enterprise, and if a management successor exists within the family. Successor selection should focus on the individual's interest, experience, and skills.

Sometimes a business can be divided among multiple family members by function, such as dividing the winemaking functions from sales and marketing.

Early successor identification provides opportunities for training and experience.

### Transfer options

Once the departing owner's financial needs and successor are determined, analyze various transition options. Transferring control within the family is often accomplished by gift or sale. Careful planning is required to minimize estate and inheritance taxes and to provide liquidity for taxes. To evaluate the methods for transferring control of the business, evaluate both the financial needs of the owner and the resources of the purchaser.

### Gifting

Gifting is common when the owner wants to transfer control and doesn't need the entire value of the business for retirement. The current annual federal gift-tax exclusion is \$13,000 per person.

One gifting strategy is to place assets within a family limited liability company before gifting. Because of the lack-of-marketability and minority discounts, it is often possible to use this technique to give substantially more.

Use of family LLCs as a transfer tool is particularly helpful for wineries and vineyards because the gifted asset is an operating entity. With currently depressed real estate valuations, now is a great time to implement a gifting strategy.

### Sale

A transfer by sale removes future appreciation of the business value from the selling owner's estate. Often the transfer to the new owner takes the form of an installment sale, with the income received by the departing owner treated as capital gain. Installment payments fund the owner's retirement.

### Estate plan

The estate plan is structured to transfer ownership, maximize wealth, and plan for your family. If not all children are active in the business, the estate plan can provide comparable financial benefits without necessarily providing equal ownership interests to non-active children.

For example, one child can own some of the vineyard's land and lease it at a pre-arranged rate to the winery owned by another child.

For those facing a potential estate tax, with advance planning there are various techniques to minimize your estate and create liquidity to fund anticipated tax liabilities.

Keep in mind, fair is not necessarily equal, particularly when children have different levels of business involvement and interest.

### **Successful business**

A key factor in any successful family transition is having a successful business to transition. Wineries should operate like a business.

Develop and follow a long-term strategic business plan.

Utilize the company's marketing and agricultural assets.

Secure long-term financing that will not default upon the owner's death or departure.

Consider an advisory board to obtain an outside perspective and establish built-in continuity upon the transition to the next generation.

Succession planning for your vineyard may seem overwhelming because of the unique nature of each family-owned business.

A succession plan that addresses your family's particular needs will help ensure that you have the funds to retire and that the business you built will continue to prosper in the hands of the next generation. Plan early and revisit the plan often.

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