



4 Reasons to Use Trusts in Business Succession Planning

When people think about trusts, what first comes to mind are wealthy families, the elderly, and the disabled. And yes, they are great for helping individuals in those circumstances. But what many don't realize are the additional benefits family-owned and closely held business owners have when using a trust.

Trusts Develop Control

Closely held businesses find trusts useful for owning and controlling their company. The contract appoints a person or entity (the trustee) to manage the property. Bound by a fiduciary duty, the trustee exercises ownership and control of the business— all actions done by the trustee must benefit all trust beneficiaries. Trusts enable several co-trustees and multiple beneficiaries to benefit from the same assets, making it ideal for holding an asset long-term.

Trusts Ensure Seamless Leadership

Sometimes the unforeseen happens, and owners or key personnel pass away unexpectedly. Trusts enable trustees to appoint a successor, ensuring seamless leadership. It can keep the business intact and functioning, and the trust instrument can be drafted flexibly to anticipate and respond to changing circumstances. No matter the situation, trusts help prepare everyone for their roles.

Trusts Give Shareholders a Voice

Businesses use trusts to give everyone a say. They can be used as an instrument to require unanimous consent or a majority vote of the trustees for action— an ability limited by activities such as selling stock. Some businesses also appoint an outside tie-breaker voter if the trustees cannot reach a consensus. This tool is terrific because businesses can achieve mutual control of the

company at the shareholder level for the collective benefit of all the beneficiaries.

Trusts Help Avoid Conflict

Trusts address some of the fundamental tensions and sources of potential conflict. When you name a trustee, that person must follow the trust document language. The opinions or desires of others should not matter. The trustee is required to run the business in the best interest of all beneficiaries.

Of course, no perfect solution exists in a vacuum, and the suitability of any given planning strategy must be considered in the context of the actual situation.



However, the trust can provide significantly more protection for the interests of the beneficiaries and both flexibility and accountability in the continued management of the family business. Consider talking more about your situation and how trusts can benefit your business with your CPM family wealth & estate planning or business attorney.