

BUSINESS SUCCESSION PLANNING

OVERCOMING CONSTRUCTION INDUSTRY CHALLENGES

A General Contractor's Business Transition to an Internal Employee

EXECUTIVE SUMMARY

A general contractor in the Midwest was ready to transition business ownership to an internal employee. The owner was faced with challenges in the construction industry and questions on determinations regarding the structure and potential impact of his succession plan. Sikich advisors facilitated the process and lead the team of outside advisors to help the owner reach full potential, while simultaneously ensuring the success of the new owner.

The result was a successful transition and realization of significant tax savings. Following a full valuation and run-through of best options, Sikich advised the owner to elect out of the installment sale in order to accelerate the proceeds into the current tax year, reducing tax burden.

CHALLENGES

Business succession planning for the construction industry presents unique challenges. The Sikich advisory team consisted of Certified Exit Planner Tom Bayer, outside counsel to advise on the business transition, outside labor counsel, an internal consultant, a valuation professional, an insurance advisor, and the current and future owner.

A few of the major challenges presented by this general contractor were:

TAX STRUCTURE - Sikich tax professionals evaluated the entity structure and determined the S Corporation was the best entity structure going forward to allow for the current and future owner to achieve their goals.

UNION PROVISIONS - The owner was a member of the trade union and was eligible to draw a union pension upon retirement. There were specific provisions in the union contract that had to be addressed to ensure his pension was secure and the advisory team worked through those specific issues with the owner.

EXPIRING TAX PROVISIONS - There was uncertainty in terms of the tax law and capital gains rates due to expiring provisions at the federal level that Sikich tax professionals had to address in their analysis of owner proceeds.

OPERATIONAL FUNDING - Sikich professionals developed an advantageous cash flow model that would allow for purchase price funding over five years, while allowing adequate capital to remain in the operating S Corporation.

Another important issue for construction firms facing business succession is the impact of the transition on other stakeholders such as the bonding company, the bank, customers, the current employees and the trade unions, as well as the suppliers that extend credit. In this case, the Sikich advisory team of internal and external advisors was able to take a comprehensive approach to address all of the issues and achieve a successful outcome, providing explanation and guidance along the way.

RESULTS, RETURN ON INVESTMENT

The former owner successfully retired and is receiving an annual installment payment of principal and interest for the sale of stock to the current owner. The business operations were successfully transitioned. IRS audits following the transition resulted in no changes to the tax structure of the business succession plan.



"The team of Sikich advisors was critical to ensuring we addressed the tax issues and construction industry-specific issues for Brieser Construction that were important to the transition of ownership of the business."

- VICE PRESIDENT
STRATEGIC PLANNING

