Business intelligence report

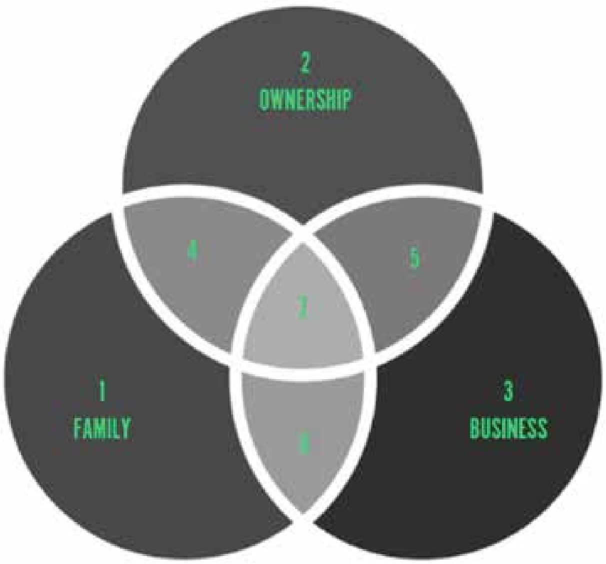
Advising the Family Business: Succeeding in Succession

While family businesses are built on strong foundations, their ability to survive through generations is far from guaranteed. Only 30% survive into the second generation, 12% into the third and just 3% into the fourth. These statistics reflect not a lack of potential, but a lack of planning.

Family businesses thrive on stability, quick decision-making and deeply embedded commitment. However, these advantages often come with challenges. Resistance to change, emotional decision-making and often a lack of formal structure frequently stand in the way of long-term sustainability. Leadership is often assigned based on family ties rather than capability, creating tensions and operational inefficiencies.

To understand these dynamics, the Three Circle Model is a useful framework. It distinguishes between different stakeholders:

1. Family members not involved in the business
2. External investors
3. Non-family employees
4. Family shareholders not involved in business
5. Non-family owners working in the business
6. Family members employed without shareholdings
7. Family owner-employees



Recognising these roles is essential to managing expectations and responsibilities effectively.

Developing an effective succession plan for a family business starts with an honest evaluation of the business's current position and long-term vision. This should be supported by a comprehensive SWOT and PESTEL analysis to identify internal strengths and external factors that could impact the transition. From there, succession options must be carefully considered—whether passing the business to the next generation, bringing in external leadership, or preparing for a sale. These ideas should be shaped into a structured succession strategy with clear milestones, defined roles, and measurable KPIs. Continuous oversight and regular reviews are essential to ensure the plan remains aligned with both family values and business objectives, while remaining flexible to adapt to changing circumstances.

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Preparing for succession requires investment in management structure, clear employment contracts, IP protection and the identification of surplus assets. A formal Statement of Affairs, covering both business and personal assets, can anchor this process.
Succession planning remains one of the most sensitive and significant challenges. Broadly, the options are:

- Transferring to family members
- Gradual buyouts via earn-in arrangements
- Appointing professional managers
- Liquidation
- Whole/partial sale through mechanisms like MBOs or EOTs (Management Buy Out/Employee Ownership Trust)

The right path depends on the nature of the business, availability of successors, financial and tax considerations and the owner's desired future role.

Successful transitions also rely on intergenerational collaboration, external facilitation and formalising succession through written plans and family agreements. Setting and sticking to a retirement date, establishing a leadership training process and defining roles and responsibilities, thereby avoiding leadership-by-committee, are also essential steps.

Often overlooked are the hidden costs: potentially misinterpreted financial statements, inadequate compensation structures, insufficient pension and insurance provisions, as well as the emotional tolls on relationships. Additional barriers to change include a reluctance to delegate, weak financial reporting systems and resistance to external input.

Misconceptions also persist such as assuming the eldest child should lead or that all children should hold equal shares. Equal ownership among younger generations can create friction between active and passive shareholders, especially where objectives differ. It's also a myth that businesses cannot thrive without their founder, with the right systems in place, the next generation can and should succeed.

The most common causes of difficulty encountered in succession planning and execution include postponing key decisions, allowing emotions to cloud objectivity and failing to take a comprehensive view of both business and personal assets. With strategic foresight and a willingness to evolve, family businesses can not only survive but thrive across generations and defy the statistics.

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Retirement Relief – How Will the Changes Impact Family Business Succession?

Recent changes to Retirement Relief (effective from 1 January 2025) have added complexity to succession planning. This Capital Gains Tax (CGT) exemption applies to individuals aged 55+ on the disposal of qualifying business assets, such as sole trades or shares in family companies.

Key thresholds under the revised rules:

Disposals to Third Parties (Section 598 TCA 1997)

- Age 55–69: Full CGT relief up to €750,000
- Age 70+: Relief capped at €500,000

Disposals Within the Family (Section 599 TCA 1997)

- Age 55–69: Full relief on assets up to €10 million, with deferred CGT if assets are disposed of within 12 years by the successor
- Age 70+: Relief capped at €3 million, with no deferral allowed

These tighter thresholds and retention rules may reduce the appeal of family transfers for older owners. As an alternative, Entrepreneur Relief offers a lower 10% CGT rate on qualifying gains (up to €1 million), with a shorter three-year ownership period and no age restriction.

Conclusion: Planning to Thrive, Not Just Survive

Succession planning is one of the most critical yet overlooked aspects of long-term business sustainability. Postponed decisions, emotionally driven leadership, and failure to consider both personal and business assets can derail even the most successful family enterprises.

Yet with strategic foresight, open dialogue, and a willingness to evolve, family businesses can successfully transition across generations, preserving both legacy and value. Early professional advice and an adaptive, transparent succession plan are key to defying the statistics and ensuring the next generation is ready to lead.

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