Succession Planning for CPAs

For most professionals, building their business into a successful enterprise has been their life’s work and is likely their most valuable asset, yet so many fail to plan for its future success and continuation. Most people (CPAs and others alike) don’t like to think about the inevitable; no one wants to ponder their own mortality or believe that they will ever face a time when they cannot continue to do what they love. However, as an estate planning attorney, I can tell you that planning for the future of your family or your business, while a little intimidating at first, can be a very empowering process.

Recently a client came to me with the desire to have a succession plan prepared for her CPA practice. She has been a sole-practitioner for many years and wanted the peace of mind of knowing that someone would be there to take care of her clients if she could no longer do so.

My client had done a lot of the initial legwork. She had found a similarly situated CPA with whom she had a close professional relationship and asked him if he would take over her practice if she could no longer manage it. He agreed, and I drafted a business continuation agreement between the parties. Working with my client to plan for the future of her practice, a practice she had worked very hard to build, highlighted this need within the CPA community – a need for succession planning. According to AICPA’s (American Institute of CPAs) 2012 Succession Survey, only 46 percent of multi-owner firms and 6 percent of sole practitioners have a written succession plans. Put differently, 94 percent of sole practitioners have no planning for the future of their business.

As the large pool of baby boomer partners of large and small accounting firms alike enter and near retirement age, succession planning becomes even more critical. It’s not only important for the existing partner or owner, but also critical for the employees who remain within the firm so they experience a smooth transition to new leadership, for a CPA’s surviving spouse and family who may rely on income from the practice for their support, and for the firm’s clients so they understand that their needs will not go unmet due to an unexpected or unanticipated changing of the guard.

Step One of Succession Planning: Set a Timeline

The first step in planning for the succession of your CPA practice (and for any business, really) is to set a timeline. If you know you plan to retire, what do you plan to do with your firm at that time? Do you plan to transition it to a family member or a junior employee? If so, what steps need to happen before they are prepared to take the helm? Do you plan to sell? If so, to whom, and for what terms? Will the intended buyer have the funds necessary to make the purchase or is a buy-sell agreement funded by life insurance required? What if something happens in the short-term and
you can no longer manage the affairs of your practice? Do you have someone briefed on the ways of your practice and what they need to do if they must step into your shoes unexpectedly?

**Step Two: Answer Key Questions to Plan for Your Succession**

There are many questions that need to be answered. The sooner you begin the planning process the more prepared you can make yourself, your associates and your successors.

A good succession plan will address the following:

- Who will be in the key leadership positions? Will the positions be filled by internal candidates or from outside the firm?
- What level of training needs to occur to prepare the new leaders for their new responsibilities?
- How will the transition occur? Does a purchase or sale need to happen first?
- If a sale is necessary, how will it be funded?
- Are there surviving spouses that rely on the business for their support? If so, how should they be compensated?
- Should the agreement be reciprocal?

**Step Three: Put Necessary Legal Documents and Agreements in Place**

Once you answer these important questions, the final step is putting the necessary legal documents and agreements in place to effectuate your plan. You may use a business continuation agreement between parties. You may wish to make it reciprocal if you and another CPA agree to take over for one another. You may also choose to address your plan for your firm’s succession in your revocable living trust (this works particularly well if you intend to sell the practice or have a family member manage things). Another alternative approach to consider is a buy-sell agreement with a partner, multiple partners or another key employee within your firm. In the case of sole practitioners, you may need to consider asking the owner of another similarly sized firm to serve as your successor, as my client did.

**Conclusion**

There is no standardized succession plan, but it's important that it's tailored to meet the needs of your business. The more lead time you can give yourself to think through all the various details, the better.