

Succession Planning and How to Exit the Profession





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- He holds an undergraduate degree in accounting from Pace University and completed additional specialized graduate courses at the New School.
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Objective:

To examine many of the issues surrounding the seasoned tax & accounting professional to help determine if the time to exit the profession is right and if so, how best to develop a succession plan.

Overview:

Topics this session will cover:

Why you may be considering exiting the profession and if so, we will look at the following:

- Effects on client relationships
- Transfer of knowledge
- Identifying the right successor
- Employee continuity
- Personal readiness

- How artificial intelligence may play a role in your succession plan and your decision to exit the practice.

Goals:

At the end of the session participants should come away with a better understanding of how to develop a succession plan, how to execute the plan and the vehicles and options available to the tax and accounting professional on exiting the profession.

Personal readiness:

Are you ready to leave the profession?



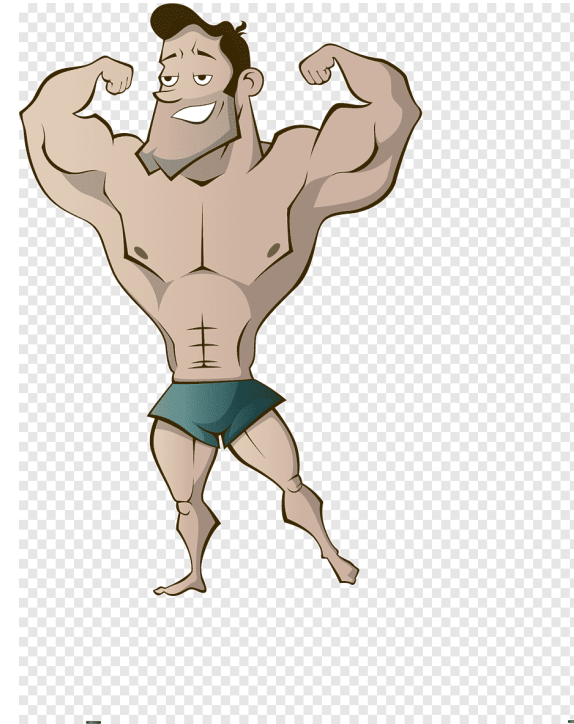
Some of the factors to determine to see if you are ready to start planning your exit:

- *Physical*
- *Emotional*
- *Financial*
- *Social*
- *Retirement*

Some of the factors to determine to see if you are ready to start planning your exit:

Physical:

Are you physically able to stay in the profession?



Some of the factors to determine to see if you are ready to start planning your exit:

Emotional

There are a bunch of factors that go into the emotional aspect of leaving a profession:

- *This is the only thing I know how to do and have been doing so long that it becomes scary to think about not doing it any longer.*
- *I like what I do and don't want to stop doing it for fear the unknown.*
- *I had enough of this, and I want out ASAP as the stress and pressure involved is something I do not want to deal with anymore.*

Some of the factors to determine to see if you are ready to start planning your exit:

Financial

Do I need to keep at it because I need the income or even better, I like making money.

I have a fear of not making any money anymore.

Can I afford to exit the profession.



Reduction in Daily Social Interactions:

Workplace Interactions: You will no longer have daily interactions with employees, customers, suppliers, and other business contacts.

Routine: Regular social activities tied to business operations will cease, potentially leading to feelings of isolation.

Professional Networks: Your professional network might shrink as you are no longer actively involved in business activities.

New Networks: There may be opportunities to develop new social networks, such as retirement communities, hobby groups, or volunteer organizations.



Some of the factors to determine to see if you are ready to start planning your exit- continued :

Retirement

Are you ready?

Things to consider: Is your partner or significant other ready.

What the heck I'm I going to do with all this free time?



Ready to pull the triggers



Step 1: Assessing the need for a plan

Identify Key positions which are critical to the business

Evaluate current staff

Step 2: Planning Goals

Short-term vs. long-term

Aligning your business vision

Ready to pull the triggers- continued

Step3: Identifying Potential Successors
Internal candidate's vs external candidates

Step 4: Develop successors
Training
Leadership



Transition Planning

Timeline – set dates and goals

Knowledge transfer – develop a plan to transfer knowledge.

Interim intervention - set a timetable in which you will be available to assist once you exit the business

Formalize your succession plan:

Document the plan showing dates, milestones and anticipated date of completion.

Line up ALL legal considerations.



Transition Planning- continued

Communicate your plan: Internal and External communication

Implementation:

EXECUTION - putting your plan in to action



Evaluate and Adjust the Plan

Monitoring and Support: Provide ongoing support to successors during the transition period and monitor their progress.

Regular Review: Periodically review the succession plan to ensure it remains relevant and effective.

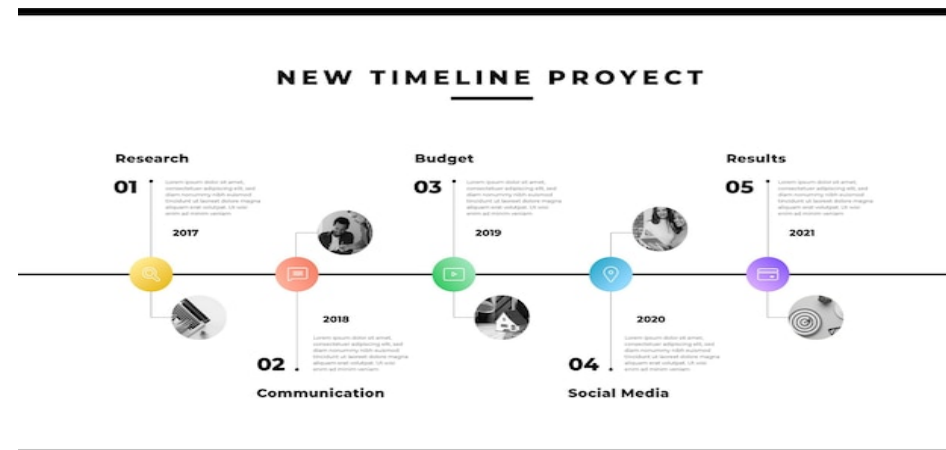
Make adjustments as needed based on changes in the business or the readiness of successors.



Succession Planning Timeline

Year 1:

- **Q1-Q2:** Assess key roles and identify potential successors.
- **Q3:** Develop training and development plans for successors.
- **Q4:** Begin leadership development programs and knowledge transfer processes.



Succession Planning Timeline

Year 2:

- **Q1-Q2:** Continue development activities and monitor progress.
- **Q3:** Formalize the transition plan and start communicating it.
- **Q4:** Begin implementing the transition plan, with interim arrangements if needed.

Succession Planning Timeline

Year 3:

- **Q1-Q2:** Complete the transition of responsibilities and roles.
- **Q3:** Provide ongoing support and monitor the performance of new leaders.
- **Q4:** Evaluate the success of the succession plan and make any necessary adjustments.

What happens if I just want to sell my practice?

Do I still need a plan?

YES!

Let's look at some of the steps we need to undertake



Valuation of Your Practice

Assess Financials: Gather financial statements, including balance sheets, income statements, and cash flow statements for the past few years. These reports have a ton of information as to your past and future value of your business

Client Base Analysis: Evaluate your client base, including the number of clients, average revenue per client, and client retention rates. Again, very important when valuating your practice.

Market Value: Consider the market conditions and comparable sales of similar practices in your area.



Prepare Your Practice for Sale

Clean Financial Records: Ensure that all financial records are accurate and up-to-date.

Standardize Procedures: Document and standardize operational procedures to make the transition or sale easier for potential buyers.

Enhance Value: Address any outstanding issues that could affect the value, such as open matters, client disputes, or pending legal matters

Identify Potential Buyers

Internal Sale: Consider selling to a partner, employee, or family member who is familiar with the business.

External Sale: Advertise your practice for sale using industry-specific brokers, professional organizations or online marketplaces.

Strategic Buyers: Look for other accounting firms or professionals who may be interested in acquiring your practice to expand their client base or geographic reach. Speak with colleagues to see if they are interested or will help you spread the word.

Marketing Your Practice

Confidentiality: Maintain confidentiality to avoid alarming clients and staff until the sale is more certain.

Sales Prospectus: Create a detailed prospectus that highlights the strengths and potential of your practice, including financial performance, client demographics, and growth opportunities.

CONFIDENTIAL

Negotiating the Sale

Initial Discussions: Engage in preliminary discussions with potential buyers to gauge interest and compatibility.

Due Diligence: Allow serious buyers to conduct due diligence, reviewing financial records, client lists, and other pertinent information (a letter of intent is a must).

Terms and Conditions: Negotiate the terms of the sale, including the purchase price, payment structure, transition period, and any contingencies.

Legal and Financial Considerations

Legal Documents: Work with an attorney to draft and review the sales agreement, ensuring it covers all aspects of the sale.

Tax Implications: Make sure you understand fully the tax implications of the sale and to structure the transaction in a tax-efficient manner.

Regulatory Compliance: Ensure compliance with any regulatory requirements specific to the accounting and tax industry.

Transition Planning

Client Communication: Plan how and when to inform your clients about the sale to maintain their confidence and ensure a smooth transition.

Staff Transition: If applicable, discuss the transition with your staff, addressing their concerns and outlining their roles in the new structure.

Training and Support: Provide training and support to the buyer to facilitate a seamless handover of operations and client relationships.

Finalize the Sale

Closing the Deal: Once all terms are agreed upon and due diligence is complete, finalize the sale by signing the legal documents and transferring ownership.

Post-Sale Support: Be available to assist the new owner during the initial period after the sale to ensure a smooth transition.



Example Timeline for Selling Your Practice

Months 1-3: Preparation

Conduct a valuation of your practice.
Clean and organize financial records.
Standardize operational procedures.

Months 4-6: Marketing and Identifying Buyers

Create a sales prospectus.
Confidentially market your practice.
Identify and engage with potential buyers.

Example Timeline for Selling Your Practice- Continued

Months 7-9: Negotiation and Due Diligence

Negotiate terms with interested buyers.

Allow for due diligence.

Draft and review legal documents.

Months 10-12: Transition and Closing

Communicate the sale to clients and staff.

Provide training and support to the buyer.

Finalize the sale and transfer ownership.

Example

Let's look at an example

Facts:

Personal

Individual has been working in the tax and accounting field their entire career 35 years

Age= 68

Family= Married with 2 children and 2 grandchildren

Interests= Sports (golf, biking), travel and working around the house, fixing and building things, spending time with family and friends.

Spouse = retired

Health= overall very good

Retirement savings = IRA \$1million

Is debt free

Business

Self employed

Income produced per year – \$400,000 Gross, Nets \$150K-\$175K

Practice composition = 3-4 staff, 700-800 clients with slow selective growth

Active in many professional organizations

Has many colleagues, contacts and friends in the business which was built up through the years

Other:

No succession plan in place

No children or family members wish to take over the business

No employees wish to take over the business

Currently has no merger prospects

What are some of the choices?

Stay working at the same rate:

Puts in 1000-1200 hours per year with half of the hours from Jan – April
Feels burnout by March end and usually gets sick because of it.
Loves the fact that the bank account swells

Result: **No change**

Still generates a very good income
Still has stress
Puts in the same amount of hours

What are some of the choices - Continued

Cut back and start easing out of the profession:

Reduce client base and trim down from 700-800 client to 100 clients. This requires off loading the remaining clients.

Turning off their referral acceptance with clients and peers which they build up over time.

Downsize staff - terminate staff

Maintain the same level of insurance, software and other operating costs

Should result in less stress, money and hopefully less time needed to be devoted to the business.

Result: Stays active in the profession, has some reduced stress, more free time and still generates some income.

What are some of the choices - Continued

Sell the business outright and walk into retirement

Spend time compiling firm information to present to potential buyers or accounting sales agency

Prepare exit letter to clients

Safeguard client information after sale

May possibly have to stay on for a specified period of time during the transition

Result: walks away with some money and lives happily ever- after- maybe?

What are some of the choices - Continued

Merging with another firm



Spend time compiling firm information to present to potential buyers or accounting sales representative

Prepare exit letter to clients

Doesn't need to focus on safeguarding client information after sale

Has to stay on for a specified period of time during the merger

Result: walks away with money and but has to stay in the game a while longer until the merger is complete per the merger contract .

What are some of the choices - Continued

Other:

Just say no to all the other choices and walk away.

No clients

No letters

No money

No stress

No operating expense

No employee

Result: It's over

May not be a good choice.

10 MINUTE BREAK

Artificial Intelligence: This can affect your decision, valuation and outcome of your plan.



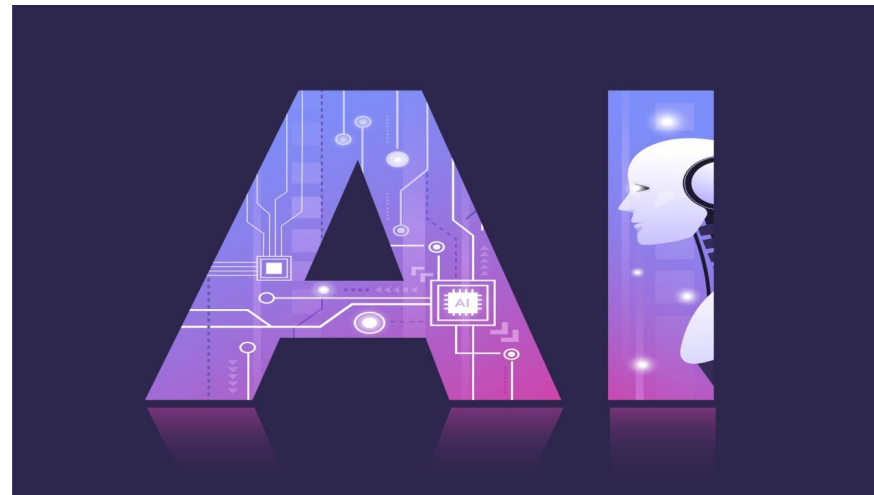
AI is set to significantly impact the tax and accounting professions in various ways includes enhancing efficiency, accuracy, and decision-making.



Automation of Routine Tasks

Data Entry and Bookkeeping: AI can automate repetitive tasks such as data entry, categorization of expenses, and reconciliation of accounts. This reduces the time accountants spend on mundane tasks and allows them to focus on more complex activities.

Invoice Processing: AI systems can process and manage invoices, automatically extracting relevant data and updating records.



Tax Preparation and Compliance

Automated Tax Filing: AI can handle tax preparation by analyzing financial data, identifying deductions, and filling out tax forms, ensuring compliance with tax laws and regulations.

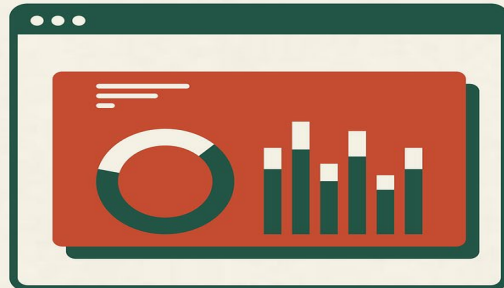
Real-Time Compliance Monitoring: AI systems can continuously monitor transactions and financial records for compliance with tax laws, identifying potential issues before they become problems.



Predictive Analytics

Forecasting and Budgeting: AI can analyze historical data to provide accurate financial forecasts and budgets, helping businesses plan more effectively.

Risk Assessment: AI can assess financial data to predict potential risks and opportunities, allowing accountants to provide more strategic advice to their clients.



Fraud Detection and Prevention

Anomaly Detection: AI algorithms can detect unusual patterns in financial transactions that may indicate fraud or errors, providing an additional layer of security.

Continuous Monitoring: AI systems can continuously monitor financial transactions in real-time, identifying and flagging suspicious activities immediately.

Enhanced Decision-Making

Data Analysis: AI can process large volumes of financial data quickly, providing insights and analytics that help accountants make informed decisions.

Advisory Services: By leveraging AI-driven insights, accountants can offer more strategic advisory services to clients, such as financial planning, investment advice, and business strategy.

Natural Language Processing (NLP)

Document Review: AI-powered NLP can analyze and interpret complex financial documents, contracts, and tax codes, extracting relevant information and highlighting key points.

Client Interaction: AI chatbots and virtual assistants can handle routine client inquiries, schedule appointments, and provide basic tax advice, improving customer service and efficiency.

Customization and Personalization

Tailored Services: AI can analyze client data to provide personalized financial and tax advice, tailored to the specific needs and circumstances of each client.

Dynamic Reporting: AI can generate customized financial reports that highlight the most relevant information for each client, making it easier for them to understand their financial situation.

Training and Continuous Learning

Skill Development: AI can help accountants stay updated with the latest tax laws, accounting standards, and industry trends by providing continuous learning resources and training modules.

Knowledge Management: AI systems can store and manage vast amounts of information, making it easy for accountants to access the knowledge they need to perform their tasks efficiently.

Integration with Other Technologies

Blockchain and AI: The integration of AI with blockchain technology can enhance the transparency and security of financial transactions, providing a robust framework for auditing and compliance.

IoT and AI: AI can analyze data from IoT devices, such as smart meters and sensors, to provide more accurate and timely financial information, especially in industries like utilities and manufacturing

Cost Reduction

Efficiency Gains: By automating routine tasks and improving accuracy, AI can significantly reduce the costs associated with accounting and tax preparation.

Resource Optimization: AI allows accounting firms to optimize their human resources, assigning complex tasks to human accountants and routine tasks to AI systems, maximizing productivity.

While AI offers numerous benefits to the tax and accounting professions, there are also potential adverse impacts to consider. These challenges primarily relate to job displacement, ethical concerns, and the need for adaptation. Here are some of the key adverse impacts:

Job Displacement and Redundancy

Automation of Routine Tasks: AI can automate many routine tasks such as data entry, bookkeeping, and invoice processing, which may lead to job losses for those performing these functions.

Reduced Need for Entry-Level Positions: As AI takes over basic accounting tasks, there will be a reduced demand for entry-level positions, making it harder for new graduates to enter the field and gain experience.

Skill Obsolescence

Need for New Skills: As AI takes on more complex tasks, accountants will need to develop new skills, particularly in data analysis, AI oversight, and strategic advisory roles. Those who do not adapt may find their skills becoming obsolete.

Continuous Learning Requirement: The rapid pace of technological advancement will require accountants to engage in continuous learning and professional development, which can be challenging and resource-intensive.

Ethical and Legal Concerns

Bias and Fairness: AI systems can inadvertently introduce biases based on the data they are trained on, leading to unfair or discriminatory outcomes in financial decision-making and risk assessments.

Accountability: Determining responsibility for decisions made by AI systems can be complex, raising questions about accountability and liability in cases of errors or unethical practices.

Data Security and Privacy

Cybersecurity Risks: The increased use of AI and digital tools in accounting raises the risk of cyberattacks and data breaches, which can compromise sensitive financial information.

Privacy Concerns: AI systems require large amounts of data to function effectively, which can lead to concerns about the privacy and security of client information.

Dependence on Technology

System Reliability: Over-reliance on AI systems can be problematic if these systems fail or produce incorrect results. Ensuring that there are adequate checks and balances in place is crucial.

Loss of Human Judgment: Heavy reliance on AI might reduce the use of human judgment and intuition, which can be important in complex and nuanced financial decision-making.

Economic Disparities

Access to Technology: Smaller firms and independent accountants might struggle to afford the latest AI technologies, leading to a competitive disadvantage compared to larger firms with more resources.

Widening Skills Gap: The need for advanced technical skills to manage and interpret AI systems can create a skills gap, where only those with higher education and training can thrive, potentially exacerbating economic disparities.

Client Relationships

Impersonal Interactions: The use of AI-driven chatbots and virtual assistants for client interactions can lead to less personal engagement, potentially affecting client relationships and satisfaction.

Trust Issues: Clients may be wary of AI systems handling their sensitive financial information and may prefer human interaction and judgment, impacting client retention and trust.

Regulatory and Compliance Challenges

Changing Regulations: The regulatory environment for AI in accounting is still evolving, and firms must stay updated with new laws and compliance requirements, which can be burdensome.

Ethical Use of AI: Ensuring that AI is used ethically and in compliance with all regulations requires robust governance frameworks, which can be complex and costly to implement.

Cultural Resistance

Resistance to Change: There may be resistance from within the profession to adopt AI technologies, particularly from those who are accustomed to traditional methods and practices.

Adaptation Challenges: Integrating AI into existing workflows and systems can be challenging, requiring significant changes in processes and potentially leading to disruption during the transition period.

Quality Control and Oversight

Maintaining Standards: Ensuring that AI systems maintain high standards of accuracy and reliability requires ongoing oversight and quality control, which can be resource-intensive.

Misinterpretation of Data: AI systems might misinterpret data or context, leading to errors in financial analysis and decision-making, which need to be carefully monitored and corrected.

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EMERGENCY SUCCESSION PLAN



VERSION HISTORY				
VERSION	APPROVED BY	REVISION DATE	DESCRIPTION OF CHANGE	AUTHOR

PREPARED BY		TITLE		DATE	
APPROVED BY		TITLE		DATE	

Practice Preservation

(Practice 911)

OVERVIEW

The purpose of this group is to provide short term coverage in the event of a member's sudden incapacity or death, particularly during a filing or busy season.

Participating Member Commitment and Requirements:

- A. **Time:** Minimum of four hours per week time commitment.
- B. **Period Length:** Up to four weeks during tax or busy season, and up to eight weeks outside of the tax or busy season.
- C. **Assistance Compensation:** Out of pocket costs for helper will be reimbursed. Time spent will be reimbursed at a 50% of fees charged to the client I'm assisting unless there is another agreed upon arrangement in place (Please submit with contract).
- D. **Scope of Services to be provided to Clients:** In season, write ups, audits, tax extensions and basic individual tax return preparation will be the focus. Correspondence will be handled as a secondary focus. Out of season, the scope expands to Audit Representation and Collection Case Work. Scope of Services DOES NOT include other activities the member may be involved in such as financial planning, investments, insurance sales, bookkeeping/payroll, etc.
- E. **Audit Representation and Collection Case Work** is reimbursed 100% to Provider of Service based upon the assistor's standard time and billing hourly rate.

F. **Contact and Information List** will be filled completed and submitted with this signed Contract and updated as needed.

G. **Location of Business Items and Information spreadsheet** has been filled out, secured in a safe place, and the responsible family member and staff member or colleague is aware of its existence and location.

H. **Participation** is open to ALL. You can choose to request only Enrolled Agents or only non-Enrolled Agents work or both enrolled and non- enrolled professionals to handle their returns. Keep in mind by limiting professional types may limit the amount of resources available to assist.

I. **Payment for services** _ see contract

J. **Non-Competition Agreement:** No member shall retain a client as his or her own without first reaching an agreement as to adequate compensation to be paid, if necessary, to the affected member or the family representative. (see contact agreement).

K. **Privacy Policy:** The business/firm's Privacy Policy covers anyone working on client returns on behalf of the business/firm.

L. **Insurance coverage** – errors and omission, general business, malpractice and cyber insurance coverage must be provided.

(Also known as Practice 911)

I _____ wish to become a participant in a Practice Preservation Support Group (also known as Practice 911).

I also attest that my professional status is governed under IRS circular 230, AICPA, or other oversight group which will allow me should I be called upon to assist another member as a condition of this agreement.

I will provide proof of malpractice, errors and omission, general business and cyber insurance when submitting this application and continue to do so annually while a participant. I will also maintain and keep current my tax preparation requirements as any failure to maintain any of the above will void my participation in the program.

I can withdraw from the program at any time by submitting to an administrator a formal written notice of withdrawal no later than 10 business days prior to my withdrawal date.

I understand the purpose of this program is to provide short-term assistance to qualified members who are also in good standing and meet the requirements stated above that experience sudden incapacity or death, especially during tax season.

I agree that if assistance is requested of me to help a fellow member who has also entered into this arrangement, I will provide up to 4 hours of support per week, for up to 4 weeks during the tax or busy season, eight weeks outside of tax or busy season.

Assistance is likely to include (but not limited to) such tasks as preparing tax extensions, responding to the taxing authorities notices, returning client phone calls, meeting tax filing deadlines and furnishing general tax information.

I request _____ only CPA's, Enrolled Agents and licensed professionals _____ only non CPA's-Enrolled Agents/non licensed professionals _____ or any tax professional to work with my clients (check one preference only).

I affirm that I have filled out the attached information forms (see attached) and given them to a trusted contact whom I have selected and informed about this group. The purpose of the forms are to make it possible for other members to have access to my client's information and files and my software if needed, as to fill in for me should a true emergency occur. That information will come from my trusted contact.

I also affirm that I have given my trusted contact the information forms and copies of any necessary physical keys and other relevant items needed to provide me support.

My trusted contact is:

Name: _____

Email address _____ Phone number (____) _____ - _____

If I do services for which a client will be compensating the member I'm helping, that member, by signing this agreement, will pay to me ___% of what the client will be billed for said services. I also agree that if I am the one who receives assistance, I will pay the assistor(s) within 15 days of my return to work ___% of what the client is to compensate me. All payment for services is irrespective of actually receiving funds from that client. I am also prohibited from getting paid directly from any member's client I'm assisting.

If a client of the member I'm assisting wishes to become my client, I am prohibited per this agreement from accepting that client as my client. However, if the member I'm assisting, or their legal designate in the case of death or incapacitation, has agreed in writing to move a client/clients

to me, with or without an agreed transfer price or formal business sales contract, said client/clients can continue to be serviced by me.

By signing this agreement, I fully understand this program and will abide by all the conditions, terms, and requirements as stated above.

Signed _____ Date _____

Print Name: _____

Business Name: _____

Address: _____

Phone Number: (B) _____

(C) _____

(H) _____

Please indicate your professional credentials. If none indicate such:

After signing this contract, please make a copy of this agreement for your files

THANK YOU !