

# SEMINAR ON

# TAX AUDIT & BUSINESS SUCCESSION PLANNING



**Hotel Radisson Gurgaon**  
Sector-49, Sohna Road, Gurugram



**Saturday, 3rd August 2024**  
09:30 AM to 04:45PM



## Business Succession Planning

Presented By :  
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Prepared By :  
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Chartered Accountant

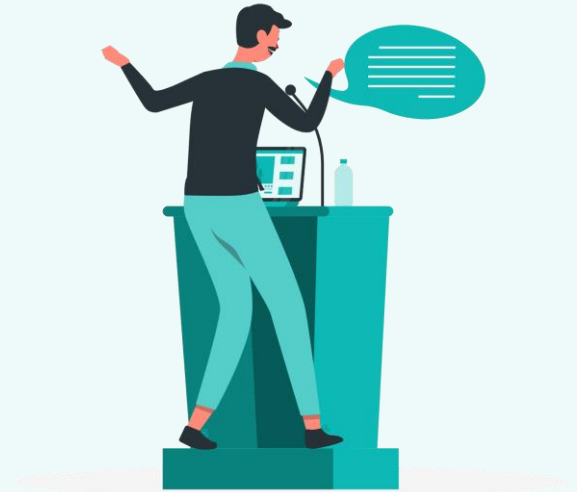
# Agenda For Today's Session

- ✔ **Why** as a professional you should understand about the Succession?
- ✔ **How** Succession can act as a catalyst for your professional practice?
- ✔ **When** is the right time to talk about it ?
- ✔ **5 Step approach** to plan for succession & wheel of succession



# Your take away in Next 1 hour

- ✔ **To be conscious** about the importance and need of timely Succession Planning.
- ✔ To know the **Approach** to deal with the **Conflicts** in Family Business
- ✔ To understand the **difference** in Distribution of **Assets** from Distribution of **Business**.
- ✔ To Consult over the **Transition** process to the next generation
- ✔ To learn the **Structuring** of Family Owned Businesses to continue the **Legacy**.



# My Journey

**2011**

Passed CA Exam



**2012**

Started my own Practice without any family background



**2012-16**

Faced initial level struggle and suffered from breaking up of partnership

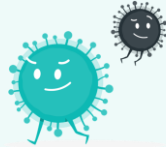


**2016**

Lost my father in an accident and my life turned upside down as I was the eldest in the family

## 2016-2019

Going through the darkest phase, I was multitasking by settling the family, managing the business, raising up my children and surviving the society, all at the same time



## 2020

One of the client approached for an advice over Succession planning and that took me to a flashback of my father's incident and gave me an in depth understanding of the importance Succession planning in Business owners' life.



## 2019

Again Picked up but due to COVID-19, the business got completely shaken up. However, it gave all of us an understanding of the uncertainty of life

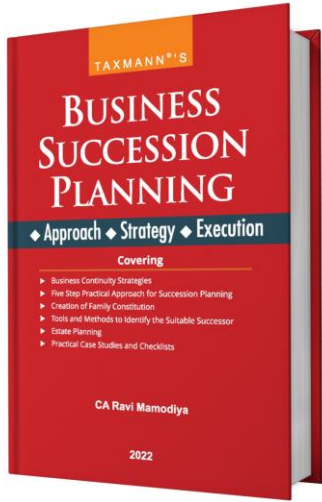


## 2021-24

Wrote 3 books on Business succession planning to spread the knowledge on this topic and help people who are facing similar problems as I did during my father's times.

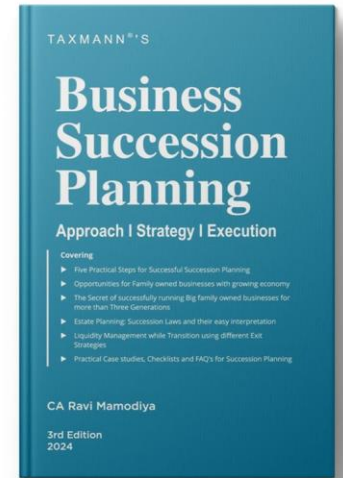
**If You're not failing, you're not pushing your limits,  
and if you're not pushing your limits, you're not maximizing your potential**

~ Ray Dalio ~

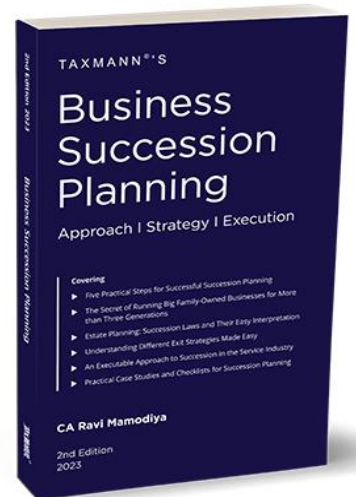


**1st Edition  
2022**

**3rd Edition  
2024**



**2nd Edition  
2023**





Authored  
a book

Business  
Succession  
Planning

Nationally  
Published by  
Taxmann



Read to Lead!!  
New Book  
New Learnings!!  
@RAVI MAMODIYA

FEELING  
EXCITED

A Sethi  
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Appreciating the people behind my book

Appreciating the people behind my book

Sanjay Porwal & Ashish Porwal

@CARAVIMAMODIYA

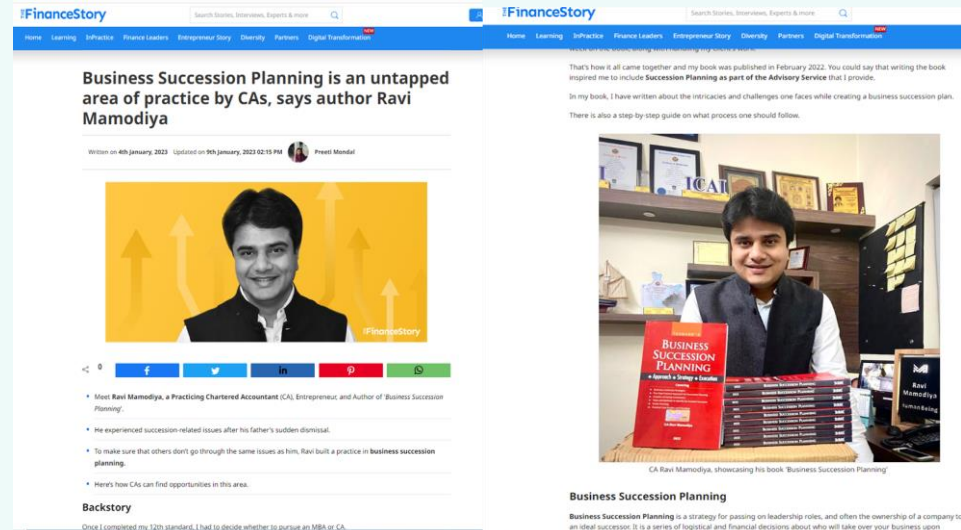
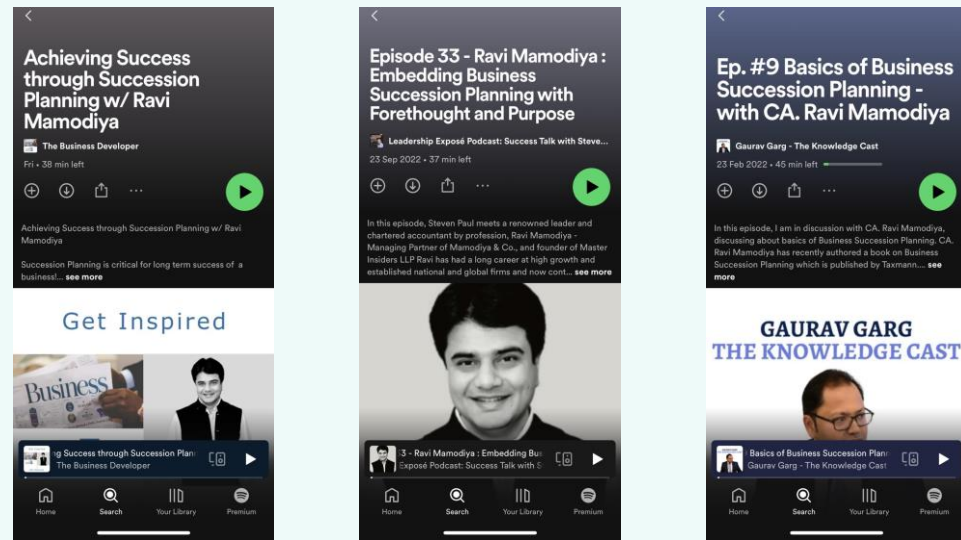






# Featured on Digital Platforms

## Podcasts on Spotify



## My Story at 'The Finance Story'

# Took Sessions at Different Platforms





A seagull is captured in flight, its wings spread, against a dark, overcast sky. Below the bird, the ocean stretches to the horizon, with gentle waves and a small patch of white foam. The overall mood is somber and contemplative.

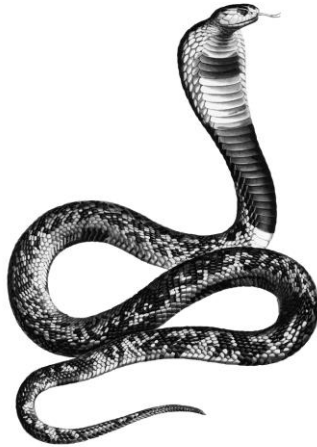
If death is inevitable, one  
should try to die well.

Mary Jo Putney

“ quote fancy

**In Hindu mythology, Lord Vishnu is frequently represented by two animals:**

**The 'Sarp' View**



**The 'Garud' View**





If your thought is different then



# What is Succession?



# Meaning of Succession

- **Succession planning** is nothing but the smooth transition of business from one leader to another, that can be within family or outside family so that the business can be planned in a proper systematic way.
- In our life, **Death is the only certain reality but nobody is comfortable talking about it.** Although we cannot change this reality but all we can do is plan for the same and take the calculative risk.
- There are **two kind** of succession planning
  - ◆ Family Succession Planning
  - ◆ Business Succession Planning



# Why Succession Planning?





In our life, Death is the only certain reality but nobody is comfortable talking about it

Saving and growth of the estate - Wealth Creation

Long term strategic thinking

Legacy Bound

Keeping the Family Values intact

Aligning Individual aspirations with Business

Tax Planning

Identifying Key Employees

Finding the right successor

Providing better and fair career opportunities

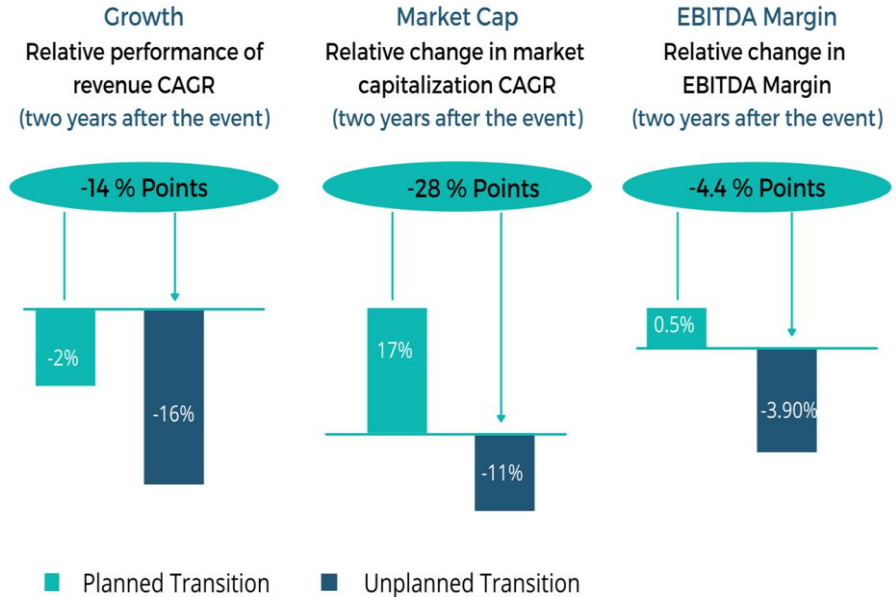


# Why we should talk on this ?

# Planned V/s Unplanned Transition

- Planned Transition **reduces** revenue spent on **Capital employed** by 14%
- Planned Transition leads to 28% **increase** in **Market Capitalization**
- Planned Transition **increases** company's **EBITDA** by 5%

## Unplanned Transitions Destroy Values



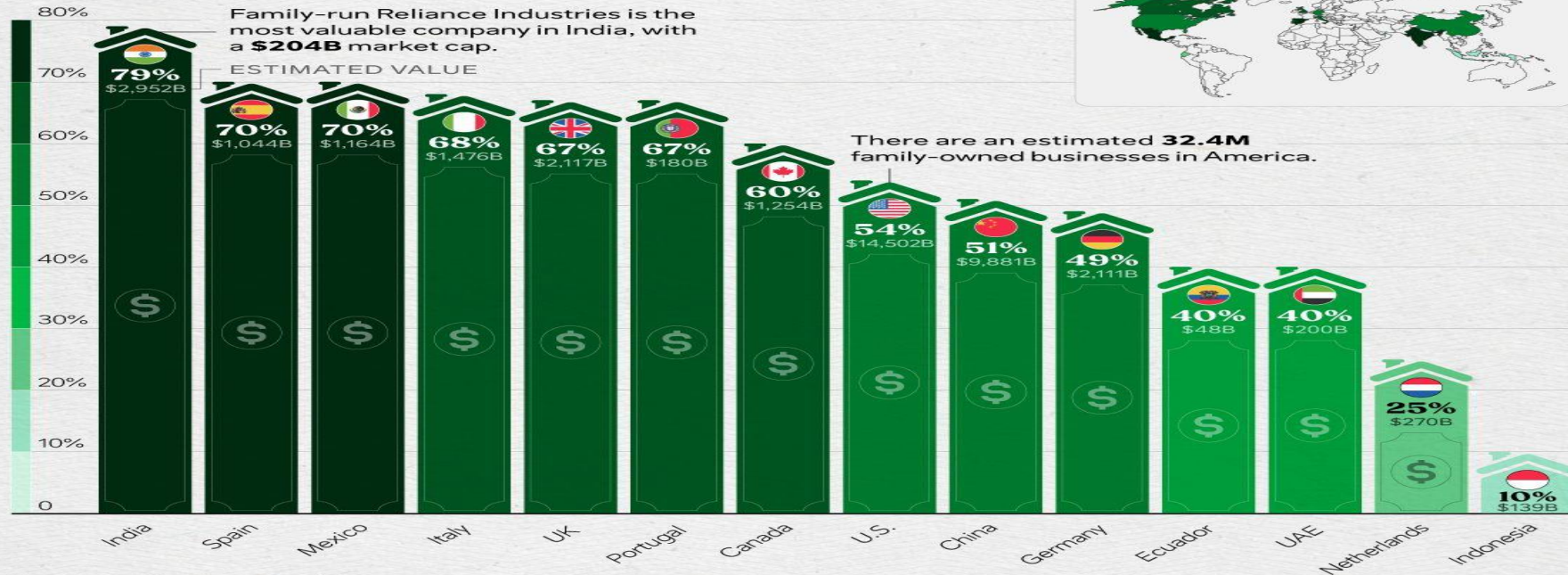
# Family Business

BY SHARE OF GDP

Globally, **90%** of enterprises are run by family businesses. As a key driver of economic growth, they employ millions of people around the world.



SHARE OF GDP %



Note: Figures have been rounded.  
Source: Tharawat, IMF, Fortune



@CARAVIMAMODIYA

# ECONOMY



Indicator	Unit	2030	2040	2047
GDP at current prices	\$ trillion	6.7	16.1	29
Per capita GDP at current prices	\$	4,418	10,021	17,590
Exports	\$ trillion	1.6	4.6	8.7
Imports	\$ trillion	1.9	5.9	12.1
Investment	₹ trillion	195.5	591.1	1,273.4
Savings	₹ trillion	207.8	649.4	1,339.7

Source: Niti Aayog



# Succession of Wealth Vs Succession of Business

## Succession of Wealth

- Past Incidence
- Ensure Equitable Distribution
- Planned through Will, Gift, Trust, etc



## Succession of Business

- Future Incidence
- Ensure Continuity
- Planned through BSP and its tools

# Needs of any Business

## **Tangible**

Land, Machinery, Building, etc

## **Intangible**

Goodwill, Brand Value, Trademarks, etc

## **Entrepreneur**

Skill of taking decision and direction of business

## **Manager**

Skill of managing and executing

# Entrepreneur vs Manager

- Identify **Entrepreneurship Skills and Managerial Skills** in the Family members.
- Entrepreneurs shall be given a **Stake** while Managers shall be compensated with **Remuneration**.
- Entrepreneurs shall continue the **Legacy to Future and Managers shall grow the business by their conduct**.

**What should be done in case there are no Entrepreneurs in the Family?**



# Case Study 1

First generation	Second Generation
Mr. Karthik (40%ownership)	Elder Son - Mr. Vijay (5%ownership) Younger Son - Mr. Sanjay (5%ownership)
Mr. Suresh (40%ownership)	Son - Mr. Vaibhav (5%ownership) Daughter - Miss. Preeti (5%ownership)

## Integrated Decision-Making in the Family Business of Karthik-Suresh (Application of Three Circle Model)

Two significant matters required careful consideration:

### → Matter 1 : Land Acquisition for Business Expansion

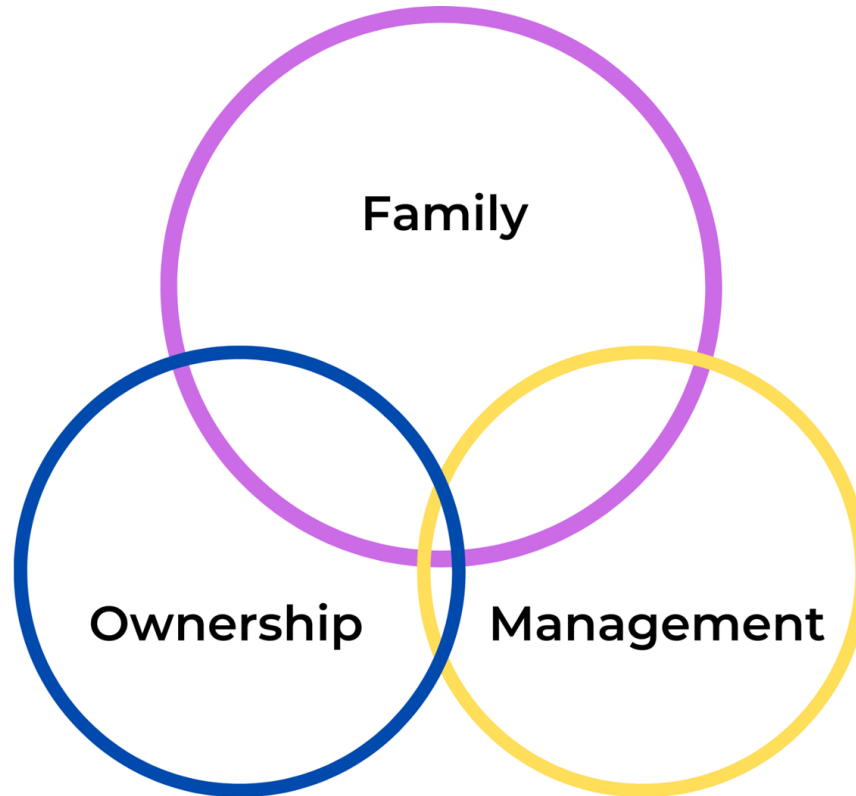
- ◆ Decision making involved **active owners** - Mr. Karthik, Mr. Suresh, and Mr. Sanjay
- ◆ Required to apply **logic and financial** approach

### → Matter 2 : Planning for Miss Preeti's Marriage

- ◆ Decision making involved **entire family** - both active and non-active members\
- ◆ Required to apply **emotional** approach considering the well-being of all family members



# Owner Vs Manager Vs Family





# Gen Z - Successors to Millennials

- Born between the years **1997's to 2012's**
- Called as **'Digital Natives'** due to technological advancements.
- Affected by **'COVID-19'** and has **'Climate Anxiety'** thinking about the fate of the planet.
- Known for **'Idealism'**, they are more socially progressive dreamers.
- Feeling of **belongingness to an inclusive and supportive community**
- Advantage with **better Adaptability and Resilience.**



# How Gen Z operates?

<b>Factors</b>	<b>First Generation (Gen X)</b>	<b>Second Generation (Gen Y)</b>	<b>Third Generation (Gen Z)</b>
<b>Marriage</b>	As per the wishes of Parents	As per their own wish	Why Marriage?
<b>Climate</b>	Not a concern	Following the compliances	Active for protection of environment
<b>Earnings</b>	Money focused	Growth focused	Purpose focused

# When should Succession Planning be done?



## There's a popular Chinese proverb that says:

“The best time to plant a tree was **20 years ago**.

The second best time is **now**.”

**Succession planning should begin anywhere from**

**10 to 15 years before you plan your retirement.**



# Business Life Cycle

Just as there is a human life cycle, most business owners fail to understand that there is also a business life cycle:

1. It begins with the **Conceptual/Idea stage**,
2. then the actual **Startup period**.
3. Next comes the **Growth phase**
4. followed by the **Well-established Maturing** years
5. and finally the **Exit or Retirement phase**.

The most common mistake most business owners make is that they don't plan far enough in advance for the exit phase.



# How to Start the Process of Succession Planning?



## Before understanding How, Let's understand Few More Things

<p><b>Physical Assets</b></p> <p>Land, Building, Gold , Car, Watches, etc</p>	<p><b>Financial Assets</b></p> <p>Shares, Mutual Funds, FDR's, Bank A/c, etc</p>
<p><b>Intangibles Assets</b></p> <p>Trade Mark, Copyright, Logo, Brand, etc</p>	<p><b>Digital Assets</b></p> <p>Social Media, Mobile no., Mail id., Data, Software, List of customers, etc</p>

# Understand the Objective of Succession for the client

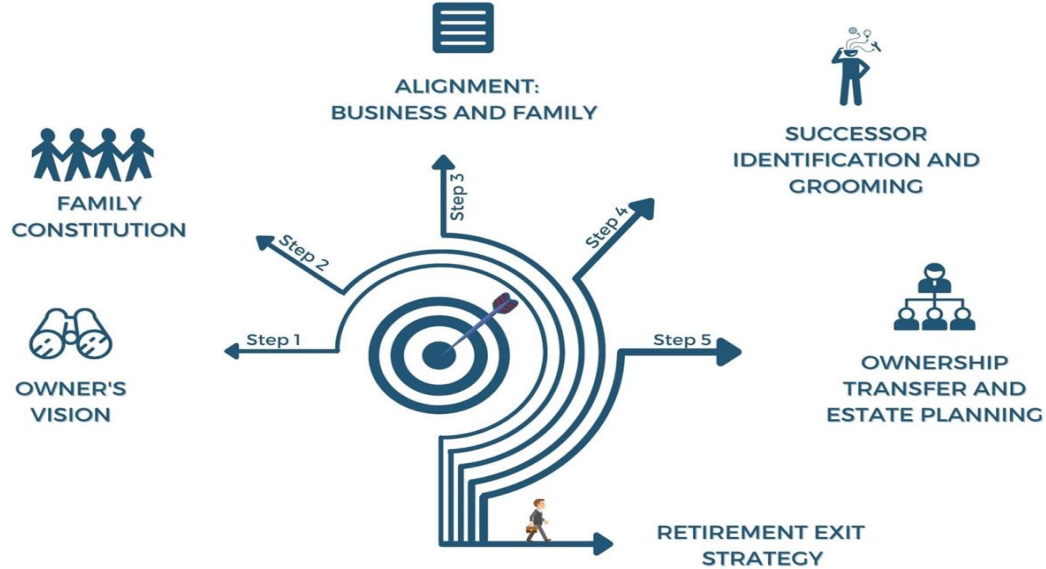
Why does the client want to plan for succession; To understand his needs :-

- To **Protect** the wealth what he/she has accumulated till now.
- To **Grow** his/her existing wealth
- To **Transfer** his/her wealth to the next generation

There can be a combination of two or it can be all three of them together.



# 5 Step Approach



FIVE-STEP APPROACH TOWARDS  
FAMILY SUCCESSION PLANNING



# Owner's Vision

## Crystal Clear

Clarity → Focus → Energy → Results

**Vision** - A vision statement focuses on **tomorrow** and what an organization wants to ultimately become.

**Mission** - A mission statement focuses on **today** and what an organization does to achieve it

**Goal** - Goals are the broad **primary outcomes** towards which effort and actions are directed in an organisation.

**Passion** - Passion is about **emotions, motivation** and what makes you feel good, i.e. "do what you love"

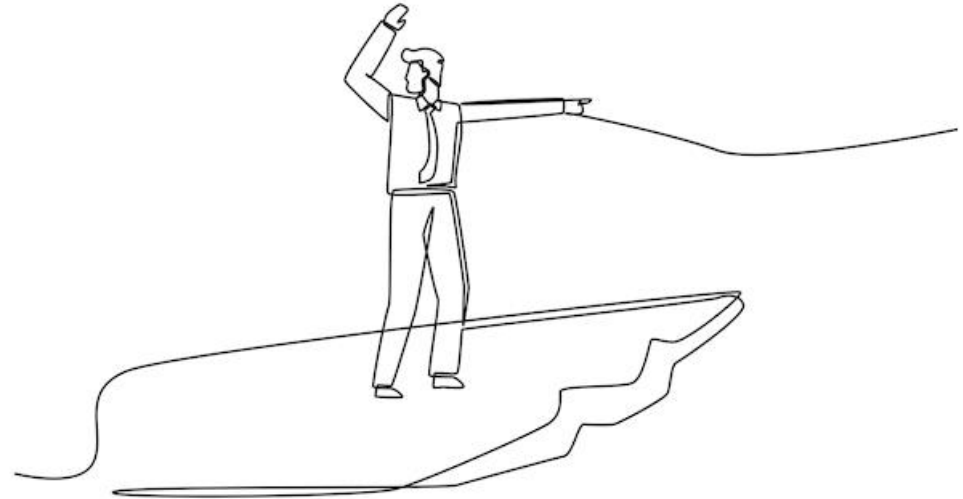
**Purpose** - Purpose is the **reason**, or the **why** behind what you do, primarily for others, i.e. "do what contributes"

**Values** - the **moral** and **ethical** principles traditionally upheld and passed on within a family.



# Owner's Vision

- Need a proper **Business plan** with yearly goals and quarterly targets
- **Organization Chart** and Responsibility Matrix
- **Team aligned** with the Vision of the organization
- **System** oriented company



## Case Study 2

The **Tata** family follow **Zoroastrianism**—one of the world's oldest monotheistic religions. Guided by the mantra "**Good Thoughts, Good Words, Good Deeds**," they prioritise ethical conduct and positive contributions to society in their personal and business pursuits.

Using the different roles as below, given an option to work amongst MNCs vs Tata, what would be your choice:

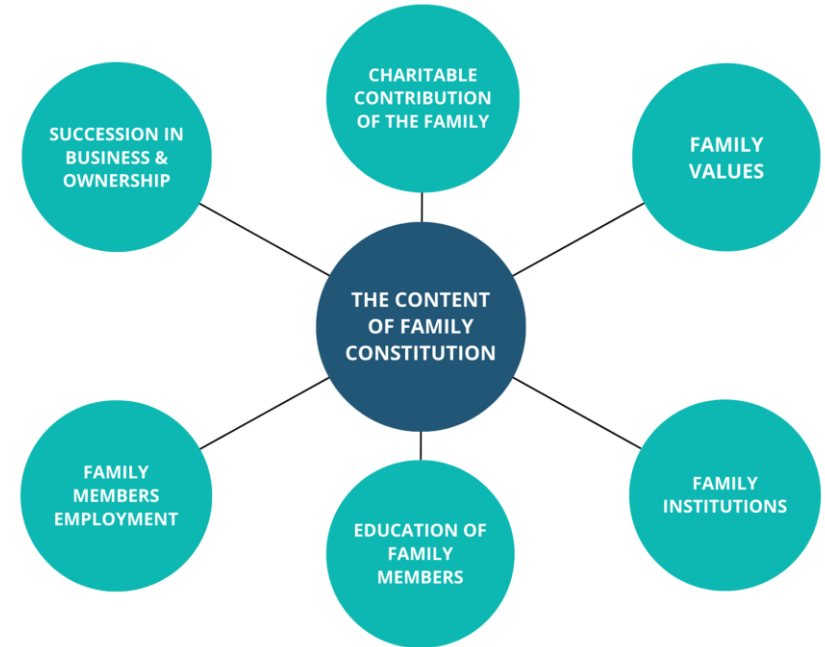
- As an Employee
- As a Vendor/Consultant
- As a Shareholder
- Any other way



# Value System of Tata

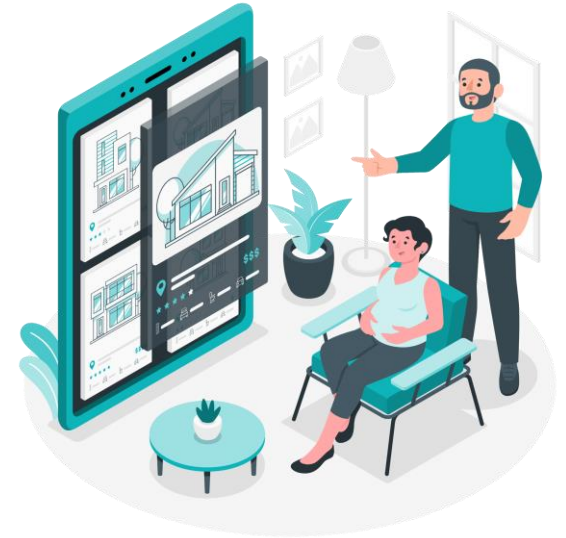
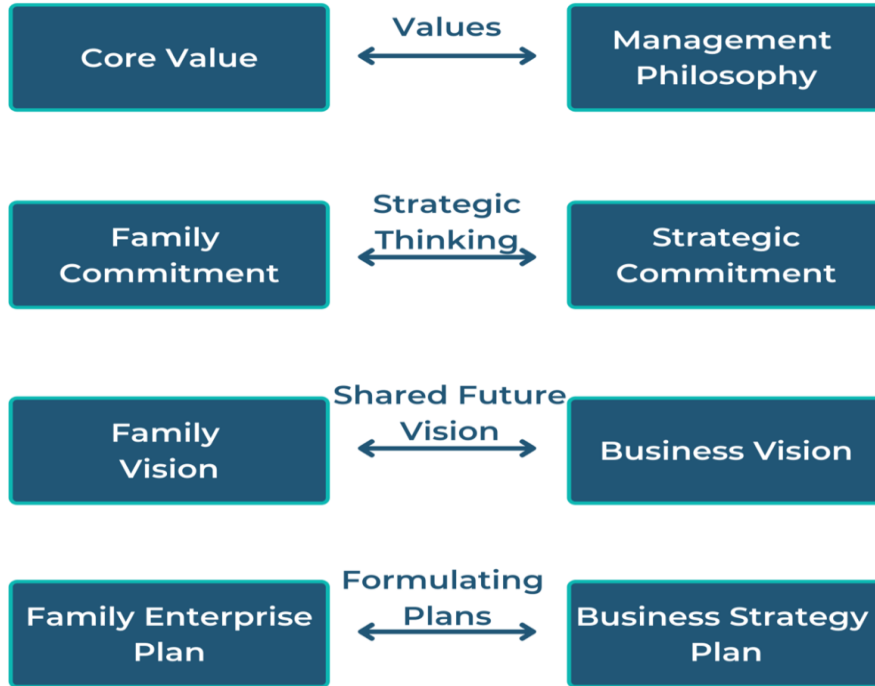


- **Family Council** - Formed by Core Representatives
- **Family Assembly** - Hold regular meetings
- **Family Association** - Exclusive meetings
- **Family Fund** - Mini Bank
- **Family Office** - Employs CXO level employees





# Alignment of family and business : Parallel Planning Process





### → Leadership (The Four Profiles)

1. The “Boss”
2. The person others want to work with
3. The highly productive team Lead
4. The Empowering Lead

### → Three step Model

1. Assessment
2. Management
3. Grooming

### → Continuing the Succession Process (Basic to Comprehensive)





# Grooming

Education



Experiential Learning

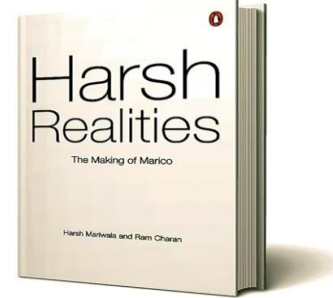
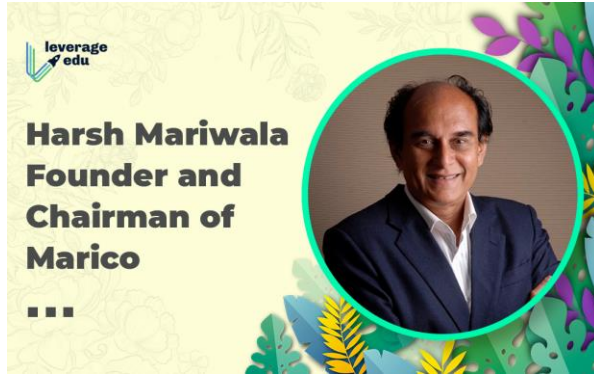


Coaching



Mentoring

# Case Study 3



His **Distinctive Approach** in passing on the leadership of the family business

- Despite having own son and daughter, he appointed an **employee**, Sauga Gupta, with longstanding tenure since 2004, as the **CEO**.
- Focused on **Logical and Competent Leadership** rather than Emotional ties.
- True example to prove that **Succession in a family business is not an automatic birthright** but needs to be earned.

**And  
Few more Things...**



# Liquidity Management

The Liquidity is blocked in all the four asset which we have already discussed

## Why we need Liquidity

- To Incorporate the **new ideas of new generation** and give them a free hand to work
- If I will exit I also want to take some **funds out to manage** rest of my life and not dependent on anyone else.
- To distribute the **wealth to the family members** who are not actively involved in the family business (like daughters).



Plan wisely.....

## Case Study 4

**Premature Death of Mr. Kumar** leading to significant challenges for InnoTech Solutions and his family:

- Sudden loss created **uncertainty** among customers and employees, risking the overall business stability
- Lenders started calling for **Loans**, suppliers withheld **Credits**, and difficulty in **Collecting** receivables, disrupting the company's **Cash Flow**.
- Accumulated **Wealth** was in **trouble** due to the potential challenges arising from Mr. Kumar's **sudden absence**.





# Once Planned it should be Implemented properly

Post Understanding 4 steps for succession it is important to see it should be implemented with true spirit

## Why implementation is important

- To regularly monitor that it has been followed or not
- It should be in the same spirit and with the wish to establish good governance.
- No communication gap and smooth conduction of business
- To keep the Family, Business and Manager Circle different.



**Plan wisely.....**

# Open Mindedness

To align on the **same page** while planning for Succession, it is very crucial to keep an Open Mind

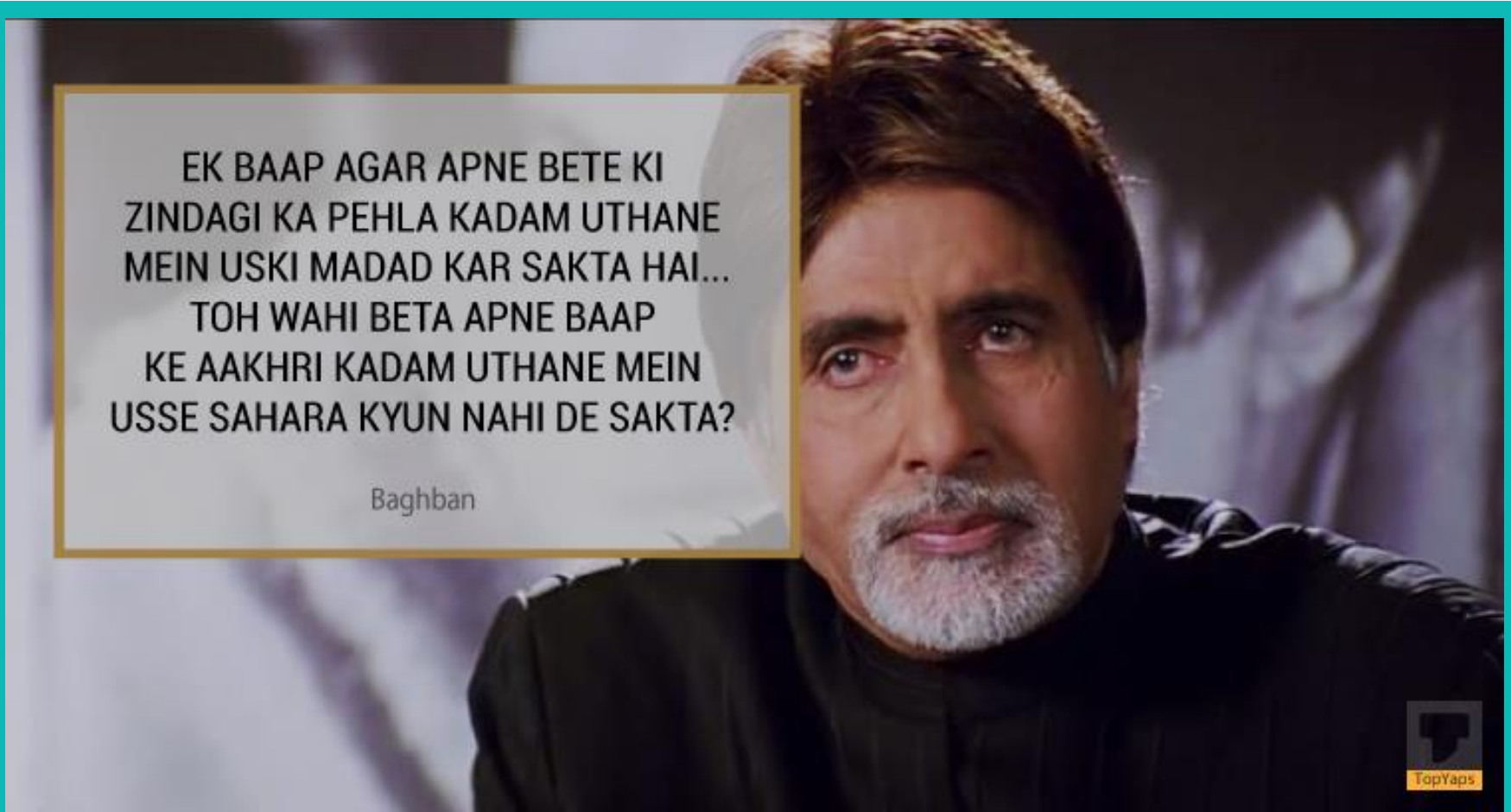
- Be **radically open** minded to understand others opinion
- Be open to be able to view **Your truth and Real truth**
- Be **open to accept** others truth as well.



# Tools for better Succession Planning

- Family Business Board
- Family Council
- Family Constitution
- Family Meetings
- Family Office
- Family Fund
- Family Agreement
- Will, Gift & Trust Structure





EK BAAP AGAR APNE BETE KI  
ZINDAGI KA PEHLA KADAM UTHANE  
MEIN USKI MADAD KAR SAKTA HAI...  
TOH WAHI BETA APNE BAAP  
KE AAKHRI KADAM UTHANE MEIN  
USSE SAHARA KYUN NAHI DE SAKTA?

Baghban



# Myths on Succession

- Succession is meant only for the Rich or Old people
  - ◆ **Even a Thadi Wala can plan for Succession**
- Succession Planning is about retirement, and I'm not ready to retire
  - ◆ **Retirement is the last stage of Succession Planning**
- Giving up ownership means giving up control and income
  - ◆ **Through Proper Succession planning, the retirement era can be planned properly**
- There is no effect on my business profit even if I am not prepared for transferring the business to next generation
  - ◆ **The study of BCG clearly specifies that a Planned Transition effects or gives a very positive response by the stakeholders of the company**

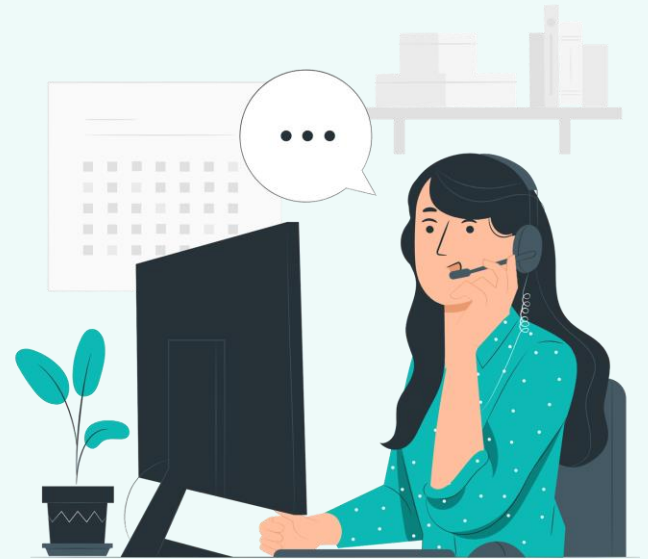
# How to begin.....





# Services which we can Offer

- Succession Due Diligence
- Help in creation of their Vision & Mission and Business Plan
- Create Family Board
- Draft their Family constitution
- Grooming of successors
- Will drafting and registration
- Creation of Trust and creating the proper structuring
- Wealth Management related advisory
- Help them in playing of their IPO



# How to Continue.....



# Family Office Services

- Assisting them in smooth conduction of Board Meeting
- Accounting and Compliance of the Family office
- Taxation of Family office
- Wealth Management Services
- Drafting of different agreement & Documents



# So what to do now ?

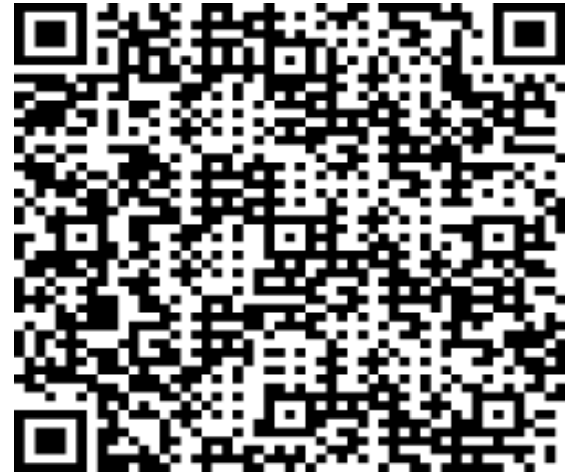
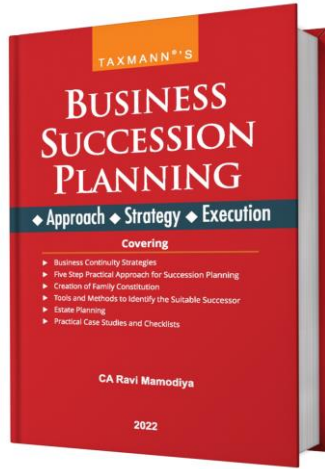


# Analyse your **As Is Situation**

- Analyse the **Present Situation** of Clients business. - Succession Due Diligence
- Understand and analyse the **Family Matrix** and **Family Legacy**.
- Follow the **5 Step Approach**.
- Choose Client **Exit strategy**
- Assist your client in **drafting of a will** and other legal documents.



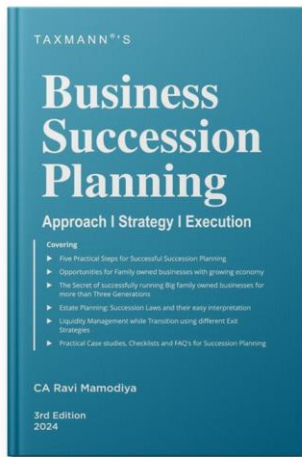
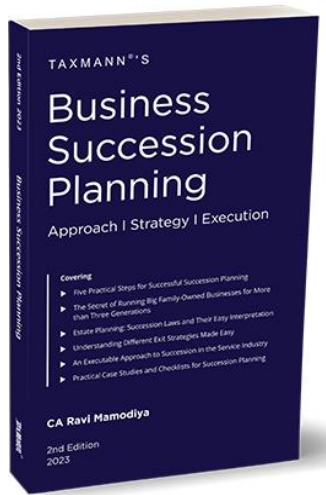
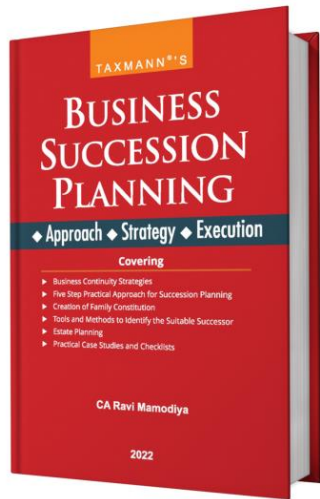
# One more **Gift** from my side..



I am providing you the **Checklist by using that you can assist your client in analysing as is Situation of their Business.** Take this today and apply it on your Company.

You will also get the **40 page summary of my book** for your better understanding of this topic.

Scan the **QR code** below and you will get the checklist on your mail from my back office.



Succession Beyond Success...

Thank You  
CA Ravi Mamodiya



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