



No Matter How You Slice It: Lessons in Business Succession From a Century Old NYC Institution

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[Elyse L. Schajer, Esq., Partner](#)

Business succession planning for closely held businesses determines whether ownership, leadership, and control transition smoothly or are forced by circumstance. The owners of Totonno's, a 101-year-old Brooklyn institution, recently shared that they are exploring a sale because there is no one left in the family to run the business. For business owners and families, this is not just a restaurant story—it is a case study in why intention estate, trust, and succession planning determines whether your life's work continues on your terms.

Why Business Succession Planning is Critical

[Estate and trust planning](#) decides who owns. Business succession planning decides who leads. Both determine whether your business can function during transition and whether your family's goals are respected. Waiting for the "right time" lets health, market cycles, and family dynamics set the agenda. Acting now gives you options. It separates value from any one person's capacity and makes your business transferable, financeable, and resilient. Absent a clear plan and identified successors, timing risk can force sales at steep discounts or in depressed markets.

Lack of coordination between estate taxes and succession can also create avoidable tax, a liquidity crunch at death, and even forced sales to raise cash, especially in states like New York. Estate tax value is measured at fair market value of assets in the decedent's estate on the date of death, which may be higher than the price you can achieve in a distressed, down-market, or fire-sale transaction, creating a mismatch between tax due and cash available.

From an income tax perspective, assets given away during life generally carry over the donor's basis, while assets retained and included in the taxable estate may receive a step-up in basis at death, so sale planning should account for these basis outcomes. The solution is coordinated pre-planning that aligns estate, trust, and succession work.

Use valuation discounts for lack of control and lack of marketability, where appropriate, to reduce transfer tax costs and stage gifts or sales over time. Select structures that fit your facts and values (e.g., [family LLCs and FLPs](#), grantor retained annuity trusts, intentionally defective grantor trusts, and spousal lifetime access trusts). The good news is that the tools are well understood. The challenge is sequencing them thoughtfully and aligning them with your values.

Ownership vs. Management

Ownership succession and leadership succession are distinct, but not mutually exclusive. Effective business succession planning addresses both on parallel tracks.

For ownership, focus on the capital stack. Trusts, [family LLCs](#), and voting versus nonvoting interests allow you to transfer economic value while retaining control. Be mindful that retaining too much control or enjoyment can trigger estate inclusion under the [Internal Revenue Code Section 2036](#). Design distributions, voting rights, and governance to avoid pullback.

You can gift or sell nonvoting equity to trusts for heirs to manage estate tax exposure and train the next generation as stewards of wealth. Voting control can be centralized in a trustee, a managing member, or a small group that understands the business. This separation gives you flexibility if no family member is able or willing to operate day to day.

For management, document the leadership path. Identify who will manage operations and how they are incentivized. Use employment agreements, clear manager or officer designations, and incentive compensation that aligns results with rewards. Consider phantom equity or profits interests for key employees so that motivation does not depend on inheritance. Write down decision rights and reporting lines so the organization can function even when the founder steps back.

Incapacity and Key-Person Risk

Incapacity is often the most immediate succession risk. Business succession planning should address it directly.

Use durable financial powers of attorney instead of springing powers wherever feasible. Durables are effective immediately, which reduces ambiguity and delay at the moment you need them most. Pair them with carefully drafted operating agreements and shareholder agreements that recognize and respect the agent's authority. Map successor trustee and successor manager pathways in your trust and entity documents so there is no vacuum if a key person cannot serve.

Protect the enterprise with properly structured disability insurance, key-person coverage, and a business continuity playbook that includes banking access, payroll procedures, vendor lists, critical passwords, and standard operating procedures for production and quality control. If one person holds the "secret sauce," that is not a point of pride. It is a point of failure. Transfer knowledge into processes that can be taught and monitored.

Buy-Sell Agreements and Liquidity Planning

A buy-sell agreement is a core tool in business succession planning, providing a clear framework for ownership changes and reducing uncertainty.

Set clear triggers such as death, disability, divorce, retirement, or deadlock. Choose valuation methods that are simple to administer and revisit them periodically. Fund the obligations with a mix of properly structured insurance, credit facilities, and staged redemptions so the company and the family do not face a liquidity crisis at the worst possible time. Outside-capital readiness also matters. Clean financials, audited statements where appropriate, and basic data room hygiene give you more options when opportunity or necessity arises.

Consider discount planning and thoughtful gifting. Lack of control and lack of marketability discounts can apply to minority, nonvoting, or illiquid interests. These discounts can increase the effectiveness of lifetime transfers or sales to trusts when used correctly and within the bounds of current law. Bring the next generation into ownership and governance early, even if they will not operate the business. Many families find that the probability of successful transition declines with each generation. Do not rely on statistics to set your course. Engineer the handoff.

A brief note on QSBS. If you operate through a C corporation and meet the requirements of Internal Revenue Code Section 1202, stock acquired at original issuance and held for more than five years may qualify for a significant federal capital gains exclusion. Some families also explore “QSBS stacking” by using multiple taxpayers, including non-grantor trusts, to multiply the exclusion. This approach is highly technical and must be planned early, with careful attention to substance, funding, and ongoing administration. Eligibility is specific to facts, business type, asset levels, and timing. State tax treatment varies. Opportunity Zones may offer deferral and potential exclusion for qualifying investments, and there are emerging opportunities and clarifications under the OBBBA that may interact with these strategies. These areas are evolving. Evaluate early with trusted advisors so structure follows strategy.

Governance that Honors Values

Governance structures in business succession planning help embed culture and decision-making frameworks into documents, not just institutional memory.

Form an advisory board or small board of directors with both family and independent voices. Write a family mission statement into the operating or shareholders agreement so successors understand what nonfinancial outcomes matter. Use rights of first offer or refusal to keep equity in trusted hands without freezing out needed capital. If certain practices are nonnegotiable, draft cultural covenants that are clear and enforceable. None of this is about bureaucracy. It is about clarity so future operators can both respect tradition and make timely decisions.

Common Mistakes in Business Succession Planning

Business succession planning often fails due to avoidable assumptions. For example, do not assume a

family operator will be available. Build a plan that allows professional management or an outside partner to take the helm if needed. Your heirs can own without running the business, and your operators can be professionals without inheriting it.

Do not keep the business untransferable by leaving everything in one person's head. Systematize know-how and access.

Do not wait to paper governance, buy-sell mechanics, or tax planning until a health event forces your hand. If a sale is the next logical step, get the entity and the business ready. Clean up books and records, rationalize entities, resolve shareholder issues, and review trust and tax planning. Preparation increases valuation and widens your choices.

Next Steps

Legacy does not preserve itself. Business succession planning requires deliberate action. The lesson from Totonno's is not about loss. It is about agency. A focused continuity review can align your estate, trust, and business succession planning with the future you want. Start with a timeline, document the roles, and choose your options while they are still options. Failing to plan is planning to hand off decisions to circumstance. Designing continuity now puts you and your family back in charge.

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Frequently Asked Questions (FAQs)

What is business succession planning for closely held businesses?

It is the process of preparing for the transfer of ownership and leadership to ensure continuity and alignment with family or business goals.

Why is succession planning important for family-owned businesses?

Without a plan, transitions may be driven by unexpected events, potentially leading to forced sales, operational disruption, or loss of value.

What is the difference between ownership and management succession?

Ownership determines who holds equity, while management determines who operates the business day to day. Both must be addressed.

When should business succession planning begin?

Planning is most effective when started early, before health, market, or family dynamics limit available options.

What role do buy-sell agreements play?

They establish clear rules for ownership changes, including triggers, valuation methods, and funding mechanisms.

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