

BUSINESS PLANNING

Buy-Sell Agreement

CONCEPT APPLIED:

A buy-sell agreement can help ensure stability in business transition and also prevent heirs from having to run or sell the business after an owner dies. With a buyer in place, a life insurance policy ensures that funds will be available when needed.

HOW IT WORKS:

There are three main types of buy-sell agreements:

Cross-purchase agreement—each owner buys part of the interest. Each owner buys life insurance on every other owner to fund the purchase.

Entity-purchase agreement—the business itself buys the interest. The business buys life insurance on each owner to fund the purchase. Some entity-purchase agreements might have undesirable tax consequences.

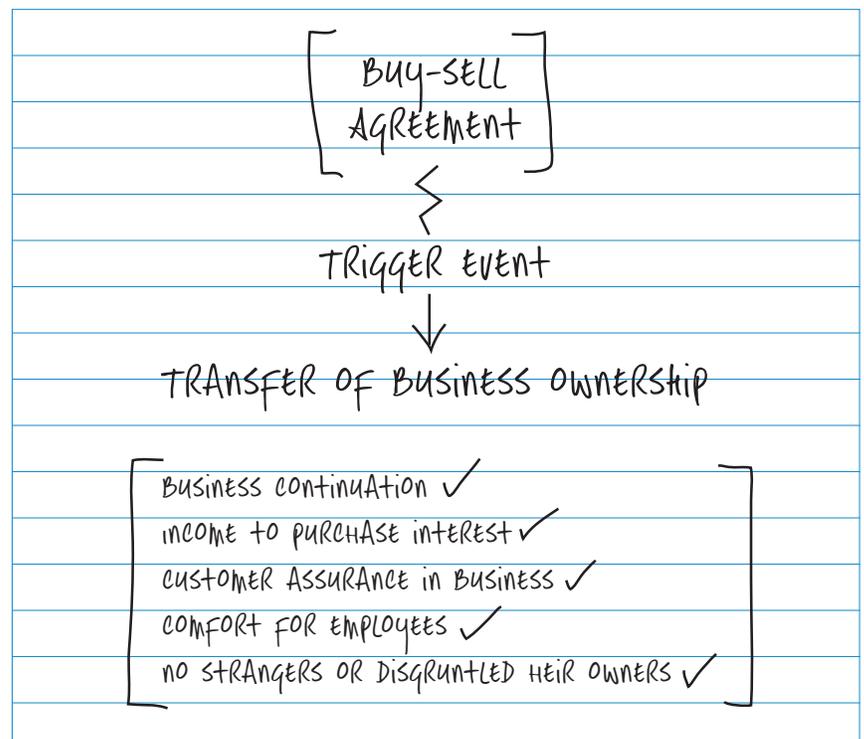
One-way agreement—an individual (usually a key employee) agrees to buy a sole-owner business. The buyer typically purchases life insurance on the owner to fund the purchase.

WHY IS IT USEFUL?

A buy-sell agreement can help ensure an orderly transition and alleviate conflicts over the value of a business. Surviving owners have security in their standing with the business and heirs can receive an agreed-upon value.

50 WORDS OR LESS

A buy-sell agreement is a legally binding contract—whether simple or complex—that dictates the terms of a future sale of a business interest, ensuring continuity of ownership and management. It specifies the triggering circumstances (retirement, death, disability), the buyer(s), and how the business will be valued.



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