



Buy-Sell Agreements:

A Must-Have Strategy for Business Owners and Entrepreneurs

*Ensure continuity, avoid conflict, and protect what
you've built.*

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Protecting Your Business: Why Every Owner Needs a Buy-Sell Agreement

Forming a business partnership is akin to getting married; both involve periods of good and bad times. For that reason, it is important for partners to make a buy/sell agreement while they are still on good terms, just as many wealthy individuals create prenuptial agreements. This would provide a plan of action in case the partnership deteriorates in the future.

What is a Buy/Sell Agreement

Having a buy/sell agreement in place is an essential part of any business partnership. This contract outlines the conditions under which one partner's interest in the business will be bought out by the other partner or the company itself. This agreement provides clarity and protection should an unexpected event, such as death, occur to one of the partners. It states what triggering events will activate a buyout, how to calculate the value of the business, how it will be funded and how to go about purchasing it should a triggering event take place. A buy/sell agreement ensures both partners are safeguarded from any potential issues that could arise due to unforeseen circumstances.

You and your business partner may work great together, but if they passed away, would you and their spouse(or family) be as compatible?

Events Covered by Buy-Sell Agreements

The Death of a Partner:

Typically, the primary event addressed in a buy/sell agreement. For instance, as previously mentioned, it is unlikely that your business partner would want to become your spouse's business partner if you were to pass away. To that end, the buy/sell agreement specifies the necessary steps to be taken in the event of a partner's death.

Retirement:

Many buy/sell agreements stop there, which is a major issue since there are many other conditions to address. The next most common triggering event covered is retirement or exiting the business. The agreement will state at what value and how the exiting partner shall relinquish their interest.

Disability:

Is a factor that is often disregarded but should be taken into consideration when drafting a buy/sell agreement. If one partner becomes incapacitated or unable to work for an extended time, the other partner must decide whether they will offer compensation for their stake in the company. Therefore, a well-structured buy/sell agreement should address this situation and specify how the disabled partner will be bought out at an agreed upon rate.

Many companies are worth more than the amount of money in their bank accounts and even if they do have enough funds, it is not sensible to use all of it for a buyout. So how does one fund such a transaction? The way funding is provided for each part of the purchase/sale process varies.

Funding a Buy-Sell Agreements

The Death of a Partner:

The buy/sell agreement is funded through life insurance, with each partner taking out a policy equivalent to the worth of their stake.

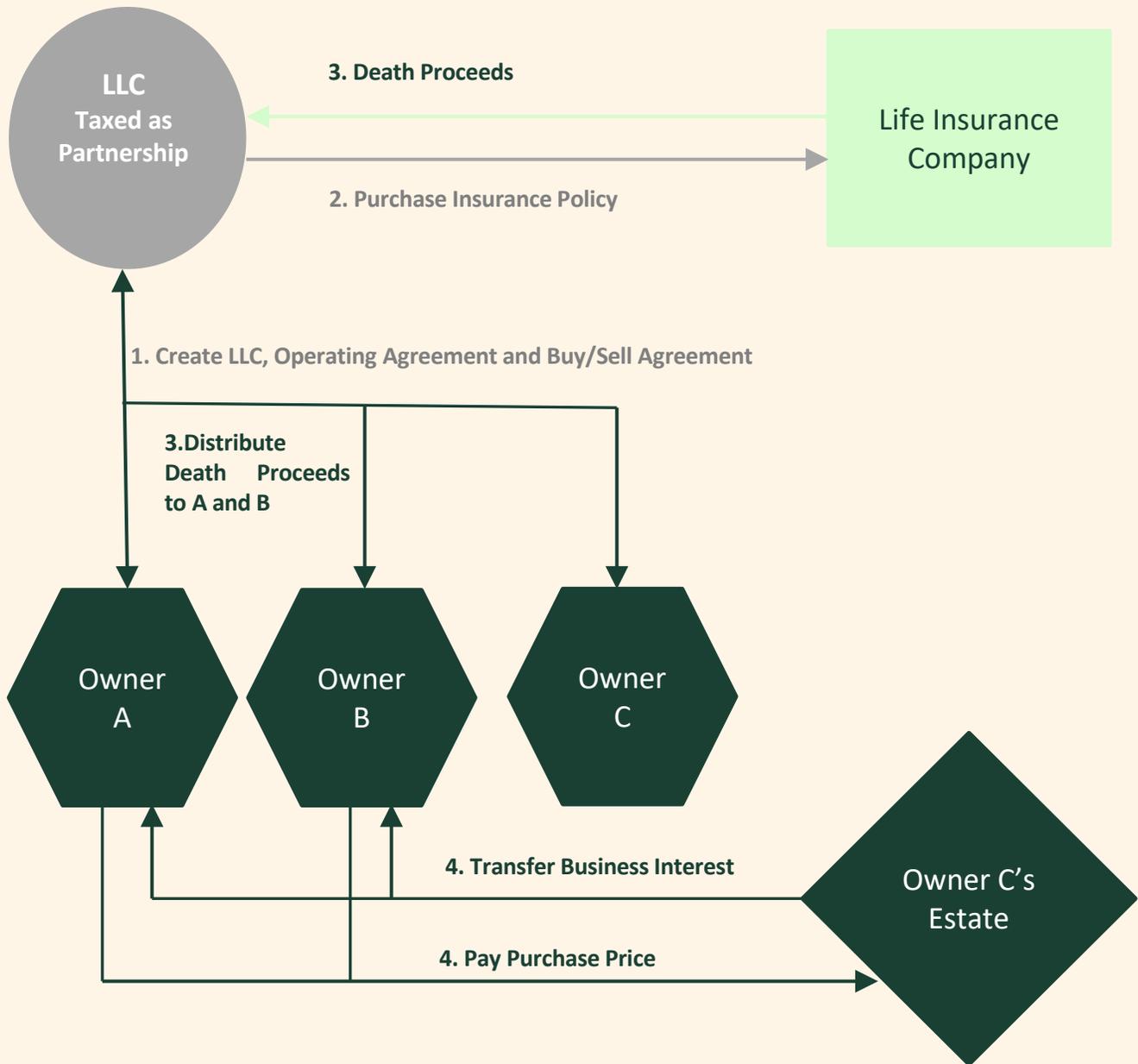
Retirement:

There are several innovative approaches partners employ to finance this. One popular means is taking a certain portion of the company's income over a predetermined period. Other partners put away a percentage of the yearly earnings into an individual account for eventual retirement funds. Another solution is utilizing whole life insurance with a cash accumulation feature that can be used in later years.

Disability Buyouts:

Are, in our opinion, one of the most essential yet overlooked occurrences that must be insured against. There are particular insurance policies created specifically for this purpose; it is important to obtain a policy with an extensive own-occupation coverage clause and make sure that is clearly stated in the contract.

Illustrative Example of a Possible Structure – Among Many Possibilities



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