Your Business

Family History or Continuing Legacy?

If you're a business owner, you've most likely worked hard to build and manage a company that provides for you and your family. As a result, the income and wealth derived from your business success has become a significant portion of your estate. However, the business that provides for your family during your lifetime may not do so after your death. In many cases, only a small number of family businesses are actually passed on to the next generation.

What will be the legacy of your business when you are no longer here? The business may be so dependent upon *your* involvement that it may have little remaining value. In addition, attempts to pass the business on to the next generation could be thwarted by **estate taxes,** which have increased to a top rate of 40% in 2015; these could force the liquidation of the business.

Even if your business survives, finding a buyer may not be easy. Unlike a publicly-traded firm, a small **closely-held business** may not command its real value on the market. If a family member does not *actively* manage the business after your death, the dividends from the business—on which your family will depend—may be insufficient to support their current or future lifestyle.

Succession Planning

Most owners begin **succession planning** by deciding whether they want to pass the business on to a family member, an associate, an employee, or an outsider. The business will command its greatest value when it is running at full speed. In other words, you should be looking for a buyer *now*.

The cornerstone of a good business succession plan is the **buy/sell agreement**—a contract between owners, or the business itself and owners. This legally binding agreement obligates the estate of the deceased owner to sell the interest of the business defined, at a predetermined price, to the business itself (in a **redemption agreement**), to co-partners or shareholders (in a **cross-purchase agreement**), or to both (a **hybrid agreement,** or "wait and see"). The buy/sell agreement creates a market for the business interest of the deceased, sets the price, and governs the orderly transition of the business.

A buy/sell agreement is only as good as the funding available to execute it. For this reason, most agreements stipulate how the purchase is to be funded. Since the agreement is triggered at your death, **life insurance** may be the logical and most cost-effective choice.

Selecting the best method of buy/sell can be an involved process. Certain tax, estate planning, and control advantages exist with each method. The decision is almost always case-specific and should be discussed with qualified professionals. In conjunction with your attorney and accountant, your insurance professional will play a critical role in developing and executing your **business continuation plans**.

Long-range planning is always subject to change; therefore, your buy/sell agreement should be reviewed periodically to help ensure that it continues to meet your overall objectives.

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