

BUY SELL PLANNING

What is the objective of a formal buy/sell agreement?

Secure the value of the business for the surviving family of the deceased.

Assure the continued success of the business without the deceased owners involvement.



Types of Buy/Sell Agreements

- Cross purchase agreement
 - Usually used when the number of owners involved is 4 or less. Each owner buys a policy on the other owners according to their ownership portion. Agreement is drawn that specifies that the survivors have to buy and the estate of the deceased has to sell at an agreed price.
- Wait & See Buy/Sell agreement
 - This incorporates features of both of the previous agreements. Usually the business itself has the first option to buy the shares. If the business doesn't exercise this option then the remaining owners have the option to buy the shares. If they do not exercise their option then the business is **REQUIRED** to buy/retire the shares. The decision can be made at that time depending upon business factors and current tax climate.
- Stock Redemption agreement
 - Often used in a corporation having a larger number of owner (shareholders). The corporation purchases life insurance and often disability buy out coverage on each owner according to their share value. At death or total disability the insurance proceeds are received by the company and the deceased shares are retired, resulting in the other shares' value increasing proportionately.