

To quote the famous words of Benjamin Franklin: “in this world nothing is certain but death and taxes.” That said, as a business owner, you should consider what will happen to your business if you die suddenly. You must prepare for the unexpected by communicating your wishes in writing regarding the future of your business before you die.

Specify whether your family members should retain, sell or liquidate the business. If you would like the business to continue providing a steady cash flow for surviving family members, who will manage the daily operations? Who will make financial decisions? What advisors can the family trust? How will management be compensated for staying on with the business? Has anyone expressed interest in buying your business?

Business continuity planning identifies business functions that are crucial to the business' survival and helps the organization retain its most important suppliers, vendors and key contacts that keep the business running smoothly.

By undertaking a periodic review of the business and writing a business continuity plan, you will be forced to consider who will run the business in case of your early demise. To keep the business running profitably after your death, you must plan for retaining key employees who are indispensable to the business. If they leave, the business will be in grave trouble. The plan should provide key employees with a substantial pay increase to keep them on board after your demise.

Buy-Sell Agreement

If your business involves co-owners, a written and funded buy-sell agreement allows for orderly disposition of the business. It can be between shareholders of a corporation, partners of a partnership, or a key employee and a sole proprietor. The agreement obligates the surviving business owners, key employees, or the business itself to purchase the interest of the deceased owner.

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The advantages of a buy-sell agreement are:

- It creates a guaranteed market for the business interest.
- It allows for those who are interested in continuing the business to do so without interference from the owner's heirs.
- It provides liquidity of the deceased owner's estate by turning the business interest into cash.
- It establishes the value of the business for federal estate tax purposes.

This agreement needs to address all transfer issues. It must be kept up-to-date and always reflect the current value of the business. The agreement needs to be adequately funded with life insurance, employee stock ownership plans or other vehicles to guarantee that there will be funds to execute the transfer.

Business-Owner Life Insurance

Your business will incur financial losses upon your death. By purchasing inexpensive term life insurance, you will bolster the company's cash position. When determining your life insurance needs, be sure to consider any costs, expenses or liabilities related to your business and how they will be handled when you're gone. A financial professional can advise you how much life insurance coverage you may need. By providing this protection to your family members, you will give them peace of mind and there will be funds available when creditors come knocking. The life insurance proceeds also can secure ongoing capitalization for the business.

Purchasing life insurance is only one way you, as a business owner, can prepare for death. Money cannot buy happiness, but it makes your departure easier for your survivors. And by having committed succession management in place, your business can continue smoothly in your absence.

Helping business owners protect, preserve and pursue more value from their business, more tax efficiently!®

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