BUSINESS PLANNING

Buy-Sell Agreement

Concept applied:

A buy-sell agreement ensures stability in business transition and prevents heirs from having to run or sell the business after an owner dies. With a buyer in place, a life insurance policy assures 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 insurance on every other owner to fund the purchase.

Entity-purchase agreement—the business itself buys the interest. The business buys insurance on each owner to fund the purchase.

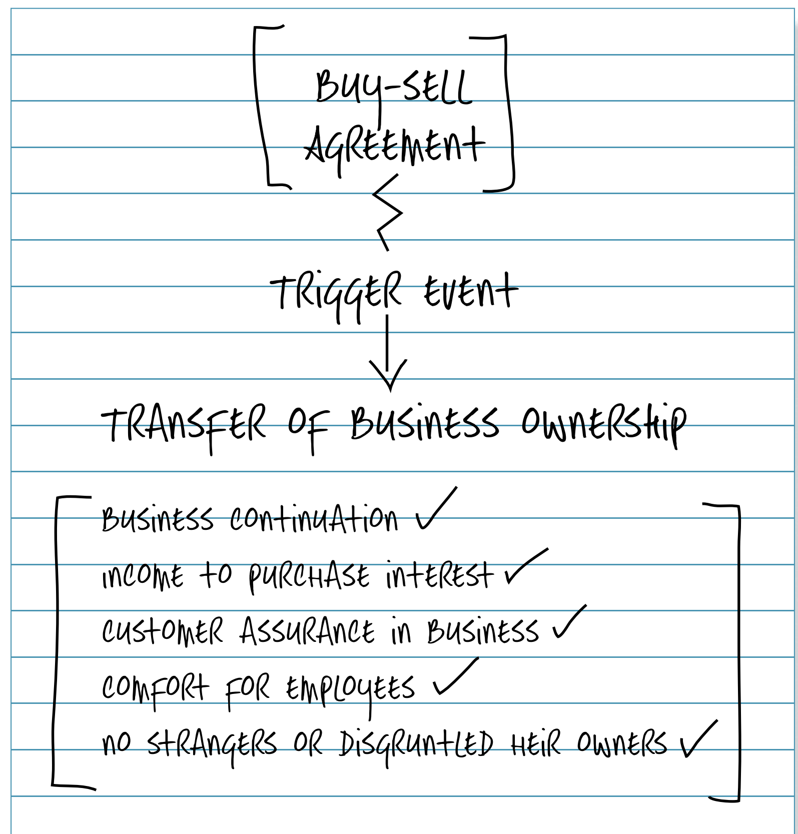
One-way agreement—an individual (usually a key employee) agrees to buy a sole-owner business. The buyer typically purchases life insurance on the owner to fund the purchase.

Why is it useful?

A buy-sell agreement ensures an orderly transition and alleviates conflicts over the value of a business. Heirs get needed cash, and surviving owners are assured that the heirs or a stranger cannot insert themselves into the business.

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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