

Buy-Sell Agreement

Your hard work over the years has built your business to its current level of success and strength. Now you're looking forward to a positive transition to the next generation. But a family business is not handed down as easily as homes and heirlooms. The fact is, a successful business transfer takes careful planning. Without it, many family-owned businesses may struggle to survive beyond the first generation.

How can you help ensure your business remains in the family? An effective succession strategy offers you a great opportunity to maximize the value of your business assets, minimize taxes, and continue the privileges of and potential for family-business ownership. A Buy-Sell Agreement is a succession strategy designed to help you transfer your business to the next generation.

BUILDING YOUR SUCCESSION STRATEGY

In most cases, your business represents the largest and most important asset you own. So developing a strategy for the transition of your business to the next generation is one of the most important planning issues facing your family and your business. As you develop your business succession strategy, consider the following:

- Are you financially able to retire?
- How long do you want to run the business?
- Who will run your business if you die prematurely?
- Which child wants to take over the business?
- Is this child capable and properly trained to run the business?
- Does a Buy-Sell Agreement make sense for your family business?

INTEGRATING YOUR STRATEGY

You may want to consider combining your estate and business-planning efforts when developing a business succession strategy. Language in a Buy-Sell Agreement should be coordinated with your estate documents — your Will or Trust. You can establish the terms of the buyout agreement among your children, which will ensure that the business is transitioned to the child who will run the business. Without a Buy-Sell Agreement, it's important to realize that the child who's active in the business may find it difficult to be able to purchase the business interests from the other children.

Integrating your business succession strategy into your estate program will help ensure that:

- Your income needs will be adequately considered.
- The active child ends up with your business.
- Inactive children are treated fairly.
- Estate taxes can be minimized.

After you establish the Buy-Sell Agreement, life insurance can be an excellent way to help equalize estate distribution among your children.

ADVANTAGES FOR PARENTS

- Ensures the business will remain in the family.
- Preserves goodwill among the children, since heirs will be treated fairly.
- Since the strategy can make the active child's future more secure, the likelihood of a more profitable business can mean more dependable retirement income for you.

ADVANTAGES FOR BUSINESS HEIR (ACTIVE CHILD)

- Can own and operate the family business without interference from inactive or non-business heirs.
- Annual premium payments for a life insurance policy on you, the parents, can be less than a bank loan or installment contract with inactive heirs.
- The business heir receives life insurance proceeds income tax-free upon your death to purchase shares of the business from the other siblings.
- Investments and improvements made to the business will belong to the business heir in the future, eliminating the need to “buy them a second time.”

ADVANTAGES FOR NON-BUSINESS HEIRS (NON-ACTIVE CHILDREN)

- Their inheritance will not be dependent on the business heir’s success with the business.
- Since non-business heirs get a step-up in basis on inherited business assets, they’ll receive buyout proceeds income tax-free from the business heir.
- Helps maintain a positive relationship among all children.

SETTING UP A BUY-SELL AGREEMENT

Talk with your Farm Bureau agent today about initiating a Buy-Sell Agreement for your family business. It’s never too early to begin making plans for the future of your business. Even if you haven’t discussed your plans with family members, your children are forming their own expectations, and counting on you for a smooth and successful transition to the next generation.

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This material provides general information about a Buy-Sell Agreement for small business owners that can be funded with life insurance through Farm Bureau Life Insurance Company. For more complete information about the life insurance products available, including costs and features, contact your agent. The contract is contained only in the policy. Neither the Company nor its agents give tax or legal advice. Consult with your attorney and other professional advisers for tax and legal advice to determine the best solution for your specific situation.

Long-Term Care and Disability Income insurance policies are underwritten by a variety of insurance companies that are not affiliated with our companies. See your Farm Bureau agent for more information about these products.

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