

WHAT DO YOU THINK ABOUT WHEN YOU THINK ABOUT SUCCESSION PLANNING?

Set out below are some statements and questions that can help you understand the need for a Business Succession Plan and Buy/Sell (or Equity) Insurance.

What Happens If One of Your Partners Dies First?

Buy/Sell (or Equity) Insurance is about ensuring the life of your Business after the death of one of your Partners.

- If one of your Partners died, would you want to remain in Business with their spouse? Their accountant? Their lawyer? Their incredibly spoilt, Porsche driving son?
- If your Partner's Estate wanted to sell his Equity, how would the Purchase Price be worked out?
- Could you guarantee the Estate would only seek the fair value of the Equity?
- Would the Estate take into account the other needs and liabilities of the Estate, thus inflating the sale price?
- If one of your Partners died today, could you write a cheque for your share of his Equity?
- How could you afford the Purchase Price? Existing cash? Sell an asset? Borrow more from the bank?
- If you had to sell an asset unexpectedly, how long would it take?
- Could you get full value for it?
- Would you have to pay legal fees and other expenses on the sale?
- Would you have to pay capital gains tax on the sale of the asset?
- If you had to borrow some (or all) of the Purchase Price, would your bank be comfortable?
- Would the bank want additional security for the loan?
- Are you already over-encumbered?
- What interest rate would the bank charge?
- Could you fund the repayments out of your share of the Business income?
- If this is all too hard, would you have to sell the whole Business? Would you get full value for it? How would you survive afterwards?

What Happens If You Die First?

Buy/Sell (or Equity) Insurance is about ensuring that the most important people in your life get the full benefit of the most important asset in your life.

- How much of your wealth is tied up in your Equity in the Business?
- If you died, how would you ensure that your family will get the full benefit of your Equity?
- How long would it take?
- How would your family survive in the meantime?
- If there was a dispute over the Purchase Price, could your family afford the legal and accounting fees?
- Would the dispute lead to a reduction in the Purchase Price?
- Whether or not there was agreement about the Purchase Price or Value of your Equity, could your Partners afford to pay it?
- Whether or not your Partners could afford to pay the Purchase Price, would they be prepared to pay it?