

Business Succession and Estate Planning

INTRODUCTION

Business Succession planning and Estate planning are not new concepts. Buy/Sell agreements have been a standard part of most financial advisors armory for years and many people have been speculating on "cradle to grave" planning and advice.

The question you need to ask yourself is "What has changed now to suddenly bring so much extra attention to these areas and make them so "flavour of the monthish"?"

The answer, comes from a maturing/more sophisticated understanding of the legislative environment in which we live.

In particular there is a growing realisation that Capital Gains Tax will significantly impact upon the financial security of many estates/business unless it is properly planned for.






Additionally, there is also a growing realisation that for many people either running their own business or in position of responsibility that their personal assets are highly exposed as personal liability increases.

It has also been said that with their aging partners the so-called baby boomers are contemplating "the greatest transfer of wealth in history" (sic). Proper estate planning is now becoming an issue for many families with the maturity and experience to grasp its complexities.

In addition there is a need for providers of financial advice (and other) to diversify their service range to cope with changing market conditions.

BUSINESS & ESTATE PLANNING

The five principles of business planning are:

-  ensure the "right" parties get the "right" amounts at the "right" time.
-  simple flexible strategies are best.
-  sums insured and capital accumulation targets should reflect true, not artificial, business values.
-  a plan that does not unnecessarily trigger CGT is a key test.
-  it is vital to include the Financial Advisor, Accountant, and Solicitor in any Business Succession and Estate Planning matters.

THE IMPORTANCE OF A "BUSINESS WILL"

People suffer traumatic accidents, become disabled and sometimes tragically die - all facts of life.

The problems that can occur if they are not planned for can destroy the business, and probably the livelihood of the proprietors and their families. Specific problems that may occur include:

- ✓ the estate/family of the departed proprietor may demand an involvement in the business with existing shareholders or partners.
- ✓ creditors may call in outstanding amounts, particularly where the departed proprietor had a significant impact on the business perceived credit worthiness
- ✓ lending institutions: banks etc, may limit the continuing availability of finance if they perceive that the business' financial capacity has diminished.
- ✓ the departed proprietors estate/family may be placed in the position of accepting less than what the business is really worth.
- ✓ clients may take their business elsewhere if they perceive a reduction in the ability of the business to service their needs.

Whilst a properly structured and funded buy/sell arrangement can't stop any of the above occurring it can ensure that there is adequate compensation in the event of their happening.

The prime purpose for a buy/sell agreement is to ensure the efficient withdrawal of a partner from a business (or from jointly held property) without the need for expense, legal advice or proceedings. Put simply, **it makes good business sense.**

Following the death or disablement of a partner two needs immediately arise:

- ✓ the continuing partner's need to take quick control of that parties interest at a reasonable price to protect the ongoing business; and
- ✓ the dependants of the deceased or disabled need relief from the concerns of the business and the ability to receive full value for the business interests.

A buy/sell agreement together with the correct insurance policy will meet those needs. All too often we devote our efforts to wealth creation, wealth preservation and wealth distribution (tax effectively) but ignore wealth succession and yet often the cost of control of wealth succession is negligible.

A buy/sell agreement will assist in protecting your control and the value of your business if your partner dies and enables your estate and dependants to obtain full hassle free value for your share in your business if you die.

[Back to top](#)

Death Only?

Death is the most common trigger for a buy/sell agreement but there are others. Total and permanent disablement is also very common, especially because this and death can be covered by life insurance which in comparison to the value and protection it gives, is relatively cheap.

There are many other events apart from these two that can trigger the operation of a buy/sell agreement. It is usual however, that these other events are very personal to the parties and often require a tailored Buy/Sell Agreement. A sample of these "other events" includes bankruptcy, trauma, conviction of a crime, retirement etc.

Can't I use my own Lawyer?

There is nothing stopping you using your own lawyer, however a significant amount of research and man hours have gone into the formulation and drafting of redchip lawyers' buy/sell contracts. We have already done the "hard yards" and this enables us to provide a very competitive and fixed price in relation to the services we offer in this very specialised area. **So why not call us now?**

THE NEXT STEP

Call us!

The following all need to happen at some stage, and we will help you with the process:

- ✓ Accountant values business, resolves valuation criteria and provides information about the structure and ownership of the business.
- ✓ Order form is completed and sent to **redchip** together with the required information.
- ✓ Insurance policies are put in place;
- ✓ Contracts are signed, stamped and put in safe custody.

We will get the ball rolling for you and help coordinate things with your accountant (or recommend one if you like) and a competent insurance professional who has expertise in this area.

Protect your business and yourself - **Act Now!**

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