DREGGORS, RIGSBY & TEAL, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

What is a buy-sell agreement?

Answer:

A buy-sell agreement is a contract that provides for the future sale of your business interest or for your purchase of a co-owner's interest in the business. Buy-sell agreements are also known as business continuation agreements and buyout agreements.

Under the terms of a buy-sell agreement (assuming you are the seller), you and the buyer enter into a contract for the transfer of your business interest by you (or your estate) at the occurrence of a specified triggering event. Typical triggering events include death, disability, and retirement.

Ideally, buy-sell agreements are fully funded, and life insurance is frequently used for this purpose. After determining the value of the business, you, your advisors, and the other parties to the agreement will determine the best way to fund the transaction, and the triggers appropriate for your business situation.

If you own a business and are concerned about how the death of a co-owner might affect its operation, a funded buy-sell agreement can help by ensuring that you will be able to purchase your partner's share, eliminating any doubts about the continuation of the business. You can also avoid the dilemma of being in business with your partner's survivors.

There are also costs and possible disadvantages involved in establishing a buy-sell agreement. One such disadvantage is that the agreement typically limits your freedom to sell the business to outside parties. If you think that a buy-sell agreement might benefit you and your business, consult your attorney and financial professional about the pros and cons of setting one up.