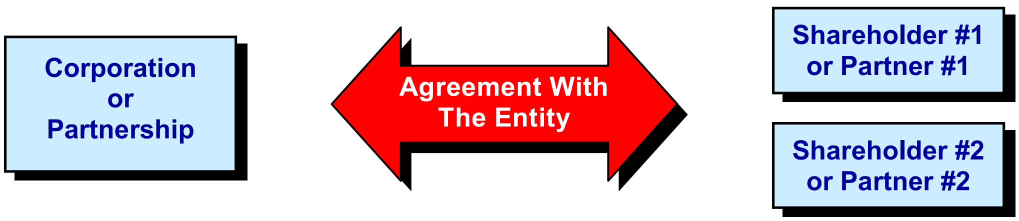
Buy-Sell Agreement

In order to guarantee a buyer for the interest in a business (particularly a minority interest which may be of very little value to one's heirs), consideration should be given to a lifetime agreement among the business owners as to how to dispose of the business.

Entity Plan

Under an entity plan the corporation (or partnership) buys the interest of the deceased shareholder (or partner). This type of arrangement is often used when there are several owners.



Cross-Purchase Plan

Under this arrangement each surviving shareholder or partner agrees to buy the interest of any deceased business owner.

An attorney should be consulted in deciding which plan is better.

Advantages of Buy-Sell Agreements

- Guarantees a buyer for an asset which probably will not pay dividends to one's heirs.
- Can establish a value for federal estate tax purposes which is binding on the IRS. See IRC Sec. 2703.[1]
- Spells out the terms of payment and is easily funded with life insurance and disability insurance, if desirable.
- Provides a smooth transition of complete control and ownership to those who are going to keep the business going.

[1] Under the Tax Act of 2001, the federal estate tax is gradually phased out until its final repeal in the year 2010. If Congress does not act at that time to repeal it for the years following, it will automatically revert back to the rates in effect during the year 2001, with an exemption for the first $1,000,000 of assets.