

Business succession fact finder – post Connelly v. United States

The creation of a buy-sell agreement can be the most important step in the smooth transition of a company from one set of owners to another. Just as important is to review the agreement on a periodic basis to ensure it meets the objectives of the business owners.

The recent Connelly v. United States, 602 U.S. (2024) case may change a clients' results regarding redemptions and company-owned life insurance to effect the buy-out. The Supreme Court held that life insurance death proceeds held by a company must be included in the value of that company with no offsetting liability for the redemption. Thus, existing buy-sell agreements should be reviewed to see if they are impacted by the Connelly decision.

Business information

Business name	Phone
Address	Website
City, State, ZIP	Email

Who is on your professional team?

Role	Name	Firm	Phone	Email
Accountant				
Attorney				
Banker				
Investments				
Other				

Have steps been identified to transfer the business to others at a fair price?

Does your company currently have a buy-sell arrangement? Yes No

If yes, please note which type of agreement:

- | | |
|--|--|
| <input type="checkbox"/> One-way buy-sell | <input type="checkbox"/> Cross purchase |
| <input type="checkbox"/> Entity redemption* | <input type="checkbox"/> Cross-endorsed buy-sell |
| <input type="checkbox"/> Wait-and-see buy-sell | <input type="checkbox"/> Lifecycle buy-sell or Insurance LLC |
| <input type="checkbox"/> Other: _____ | <input type="checkbox"/> Not sure |

When was it last reviewed? _____

How is the current buy-sell agreement funded?

- | | |
|--|---|
| <input type="checkbox"/> Not funded - will pay in installments over time | <input type="checkbox"/> We are contributing to a side fund |
| <input type="checkbox"/> We will seek third-party financing | <input type="checkbox"/> Funded with life insurance death benefit |

How is your business organized for tax purposes?

- | | |
|---|---|
| <input type="checkbox"/> Sole proprietorship | <input type="checkbox"/> Professional corporation C corporation |
| <input type="checkbox"/> S corporation | <input type="checkbox"/> Tax exempt |
| <input type="checkbox"/> LLC taxed as corporation | <input type="checkbox"/> Partnership |
| <input type="checkbox"/> LLC taxed as partnership | <input type="checkbox"/> Professional corporation S corporation |
| <input type="checkbox"/> C corporation | |

Number of owners: _____ Number of employees: _____

Do you have ownership in any other business? Yes No

Ownership

Owner name	% Ownership	Role/Title	% Ownership in other companies
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Are any of the co-owners related? Yes No

Do you or any co-owners have family members in the company? Yes No

If so, are they included in future ownership? Yes No

Do you or any other co-owners plan to pass the business to family members by will, gift or sale?

Yes No

If so, to whom? _____

Do any family members of the owners work as employees of the business? Yes No

Is it important that your children maintain some connection to the operation? Yes No

*Entity redemption or stock purchase buy-sell agreements were specifically impacted by the Connelly decision.

Business valuation

What is the current approximate value of the business? _____

How is the business valued in the buy-sell agreement?

Agreed-upon value Multiplier
 Appraisal Other _____

Has the business ever been appraised? Yes No
If so, when? _____

What valuation method was used? _____

Is the valuation scheduled for regular review? Yes No

Life insurance products contain charges, such as Cost of Insurance Charge, Cash Extra Charge, and Additional Agreements Charge (which we refer to as mortality charges), and Premium Charge, Monthly Policy Charge, Policy Issue Charge, Transaction Charge, Index Segment Charge, and Surrender Charge (which we refer to as expense charges). These charges may increase over time, and the policies may contain restrictions, such as surrender periods.

Policy loans and withdrawals may create an adverse tax result in the event of lapse or policy surrender, and will reduce both the surrender value and death benefit. Withdrawals may be subject to taxation within the first 15 years of the contract. Clients should consult their tax advisor when considering taking a policy loan or withdrawal.

Guarantees are based on the claims-paying ability of the issuing life insurance company.

Please keep in mind that the primary reason to purchase a life insurance product is the death benefit.

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