

# Partnership

*Protecting the  
future of  
your business  
and partners.*

## What is a Partnership?

A partnership is formed by the association of two or more persons who own a business to make a profit.

## Who is responsible for the debts in the partnership?

Generally, as a partner, you are liable for all business debts. If your business has financial trouble, you could lose all of your personal assets (subject to certain exemptions), as well as the capital you have invested in the business.

## What happens to your business when one partner dies?

A partnership terminates by law when one of the partners dies. The choices for the remaining parties are liquidation or reorganization.

**Liquidation** — The surviving partner or partners may liquidate the business. They must complete all business transactions, collect accounts receivable, pay off debts and convert remaining assets to cash. What's left is divided between the deceased partner's estate and the surviving partner(s) according to their ownership interest.

**Reorganization** — A reorganization plan can take several forms. Surviving partners can sell the business to the deceased partner's heirs, take the heirs into the business, take in outsiders who have purchased the heirs' interests or purchase the deceased partner's interest in the business.

## What problems can occur with liquidation?

Whether you are forced to liquidate your business or you plan a liquidation, the following problems can occur:

- Surviving partners and the estate of the deceased partner are liable for business debts.
- The partnership is out of business.
- The family of the deceased partner will no longer receive an income from the deceased partner.
- Surviving partners can be out of jobs.
- Creditors may press for full settlement of claims.
- Accounts receivable may be compromised.
- Assets may be sold at a reduced price.
- Goodwill may be lost.

## How can you offset possible liquidation losses?

A good solution is life insurance. Upon the death of an insured partner, a life insurance policy from American Family Life Insurance Company can provide cash which can be used to help financially offset any losses that occur or help pay any debts incurred by the business. With permanent life insurance, the cash value of your policy is also available while all partners are living, as an emergency fund or a supplement to retirement income.



## What problems can occur with reorganization?

When the heirs join the partnership or sell their interests to outsiders, the following problems can arise:

- Heirs or new partners may not be compatible with the surviving partners.
- New partners may lack the necessary business knowledge and skill, making division of profits difficult to determine.

An alternative may be a buy-sell agreement. Either the heirs agree to buy out the surviving partners — or the partners buy out the heirs. When the latter occurs, the surviving partners face the following problems:

- The business may need additional operating capital.
- If the purchase price is funded with personal funds, they may not be adequate.
- If the purchase price is funded with borrowed money, the interest costs may be high.

## How can you avoid a future reorganization problem?

A **buy-sell agreement** between the partners can address many of these problems. Under this agreement, surviving partners buy a deceased partner's share of the business from his/her heirs at an established price.

A buy-sell agreement is often funded by life insurance on the partners. A buy-sell agreement funded by a life insurance policy from American Family Life Insurance Company can benefit the deceased partner's estate and heirs and the surviving partners.

### **Benefits of a Buy-Sell Agreement funded with Life Insurance to the Deceased Partner's Estate and Heirs:**

- Estate may receive a payment in cash.
- Payment can be used to help settle the estate promptly and efficiently.

### **Benefits to the Surviving Partners:**

- Helps keep the business intact.
- Courts will enforce the terms of the agreement, if necessary.
- Funds available to the partners to purchase the deceased partner's interest.

## Importance of a Business Continuation Plan

After a businessowner dies, the interests of the surviving owners and heirs can be competing. Without a written business continuation agreement in place, potential problems can arise such as, heated conflicts that could lead to litigation, delays in settling the estate, loss of customers, and possible liquidation of the business. When a written agreement is drafted prior to a crisis, it can benefit all parties and provide the following: an orderly transfer of the business, mutually agreeable sales price and terms of sale, and stability for customers, staff, creditors, and investors.

# Cross-Purchase Buy-Sell Agreement\*

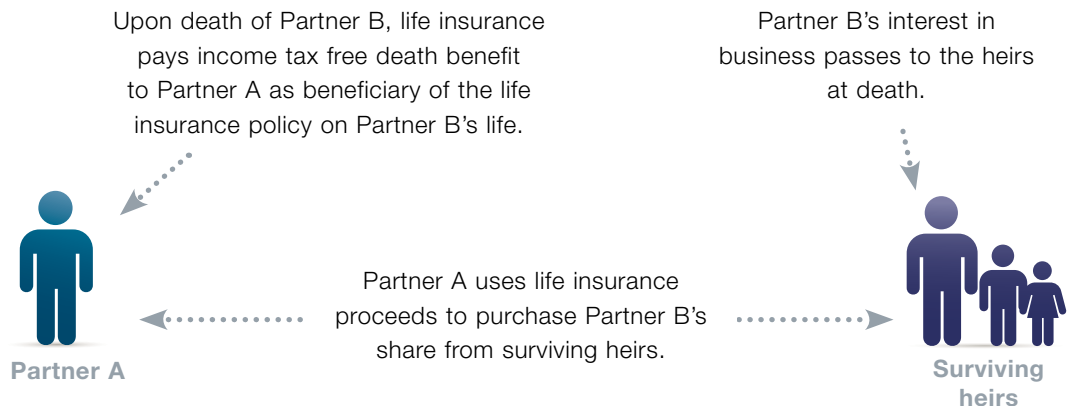
The chart below describes the series of events that take place using a cross-purchase buy-sell agreement.

## Today

Cross-purchase agreement directs Partners A & B to apply for, pay for, own, and be beneficiary of life insurance policies insuring each other's lives—the proceeds of which are to be used to purchase the other's share of the business at the death of the partner.



## At Death



\*A cross-purchase buy-sell agreement is one option for a buy-sell agreement.

You should discuss all options with your attorney and choose the one that's best for you and your business.

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*Using life insurance for business situations may have tax implications. Neither American Family Life Insurance Company nor its agents are authorized to give tax or legal advice. Employers should consult with their own tax advisor and/or attorney for tax advice and Employer-Owned Life Insurance Reporting requirements.*

*The information contained in this brochure reflects general principles of partnership law, and should not be construed as legal advice. Any cross-purchase agreement, buy-sell agreement or other necessary legal agreements must be prepared by a qualified attorney. Please consult a qualified attorney who is familiar with your business and personal circumstances to determine how these issues and your state's laws impact your individual situation.*

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