

# Sole Proprietorship

*Protecting  
your business  
and family.*

## What is a sole proprietorship?

A sole proprietorship is an unincorporated business that is owned by one person. The advantage of a sole proprietorship is simplicity. You make your own decisions...without delays or red tape. However, your personal and business assets and debts are one and the same in a sole proprietorship. This means your personal assets are vulnerable if the business gets into financial trouble. And unless you plan ahead, your business might die with you.

## When you die, what will happen to your business?

It depends on how you plan. Basically, there are three alternatives:

- Liquidation.
- The business is retained by heirs.
- Planned or unplanned sale of the business.

## What happens when a business is liquidated?

Liquidation is the process by which all your business assets are sold. Whether you are forced to liquidate or you plan a liquidation, the following problems can occur:

- Business assets may be sold at reduced prices.
- Accounts receivable may be discounted or compromised.
- Creditors may press for full settlement of claims.
- The family may lose a primary source of income.
- Heirs may receive a fraction of the original value of the business.

## What problems can occur when your business is retained by heirs?

Working capital may not be available to your heirs to maintain normal business operations.

## How can you offset these problems?

A good solution is life insurance. Life insurance from American Family Life Insurance Company can help provide funds to help offset losses, pay debts incurred by the business, and help provide the working capital to keep the business running.



## What problems can occur if your business is sold at your death?

Whether a buyer is found before or after your death, several problems can arise:

- The new owner may lack necessary operating capital.
- The buyer may not have adequate personal funds to cover the full purchase price.
- If the buyer needs to borrow money, loan interest will add to the total cost.
- If the buyer pays in installments, heirs will have to wait for their money.

## How can you offset these problems?

A solution to many of these problems is a buy-sell agreement between you and a prospective purchaser, funded with a life insurance policy from American Family Life Insurance Company.

Some benefits to the deceased proprietor's estate or heirs include:

- Estate/heirs receive a payment in cash.
- Insurance proceeds can be used to help settle the proprietor's estate promptly and efficiently.
- Proprietor's heirs may be relieved of business worries.

Benefits to the purchaser:

- Money to help purchase the business is available at the time it is needed.
- Business is transferred with its assets, customers and goodwill intact.

## Importance of a Business Continuation Plan

When a sole proprietor dies, there are no co-owners who can take over operation of the business. Without a written business continuation agreement in place, potential problems can arise such as, delays in settling the estate, loss of customers and possible liquidation of the business. When a written agreement is drafted with a potential buyer, 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.

# Sole Proprietorship Buy-Sell

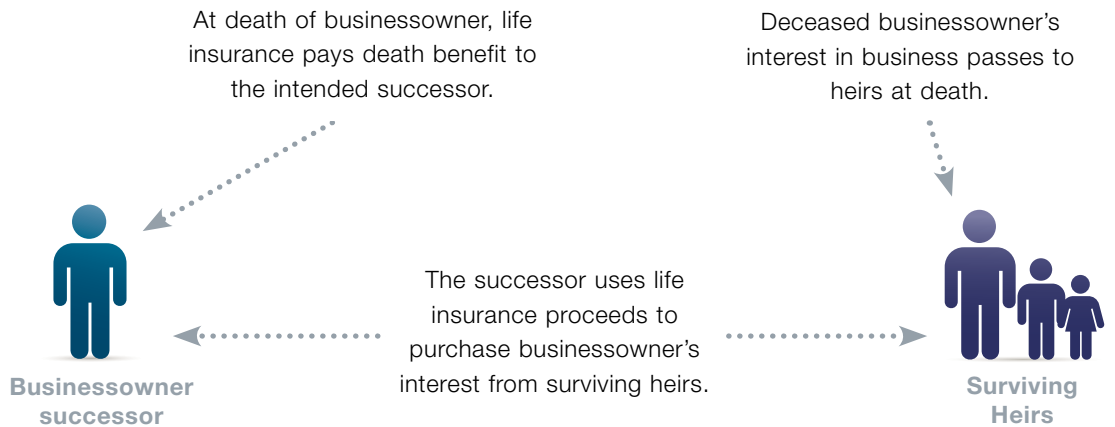
The chart below describes the series of events that take place using a sole proprietorship buy-sell agreement.

## Today

Individual (usually an employee) who will be the “successor owner” applies for, pays for, owns and is beneficiary of a life insurance policy on the businessowner.



## At Death



3 of 3

*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 current regulations and Employer-Owned Life Insurance Reporting requirements.*

*The information contained in this brochure reflects general principles of business law, and should not be construed as legal advice. Any buyout 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.*



All your protection under one roof®

access anytime  
**amfam.com**

1-800-MY AMFAM (692-6326)