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STRATEGIC EXIT PLANNING

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Business investing and development opportunities are more often than not viewed only from the point of beginning as having only one outcome – success. But for that view, no one would undertake a venture, obviously. However, there always needs to be an exit strategy in mind and documented as carefully as the entity selection and protective agreements that assure the lenders a return and the investors their return on risk taken.

The most usual and simple plan is to provide a buy–sell agreement that is formula based and has the alternative of providing a fixed number for a limited period of time. Such an agreement provides for the continuity of the business as long as the remaining owners are willing to continue the enterprise. The pricing of the buy–sell can be respected by Internal Revenue Service, as to transfer valuation for estate tax purposes provided the safe harbor provisions of [Code Sec. 2703\(a\)](#) ; [Reg § 25.2703-1\(a\)\(1\)](#) . This may be true even in the intra-family setting if care is taken to establish the bona fide business relationships of the restrictions and valuation techniques applied. Such agreements must be crafted to meet the conditions and circumstances of the particular business and the parties involved.

Such agreements may also be funded by life insurance on the life of the owners. However, in a corporate setting, it is important to avoid having the proceeds of life insurance payable to the corporation, since those proceeds could be treated as taxable income of the corporation. Several techniques are used to avoid this unhappy result.
