SPECIAL CONSIDERATIONS – DEATH, DISABILITY AND DIVORCE

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WARNING:

Partnerships, limited partnerships and limited liability companies are tax sensitive entities by their nature.

As you encounter issues with the sale of an interest in these entities, please consult tax advisors who are well versed in the issues relating to the sale of interests in Partnerships, Limited Partnerships and Limited Liability Companies.

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WARNING:

The laws relating to the formation and operations of partnerships, limited partnerships and limited liability companies will vary from state to state.

As you encounter issues with the formation of these entities, please consult the application of the local laws in the particular state.

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On an increasing basis family business and closely held businesses are owned in the form of partnerships and limited liability companies.

The flexibility of the format lends itself well to family planning as well as planning for owners of closely held businesses.

Often these businesses are run by key individuals.

As we assist clients in forming entities of this nature, practitioners should remain cognizant of the impact unplanned events may have on their operations.

For the purpose of this presentation we are going to talk about three of the more significant unplanned events:

- ✓ Death of a owner;
- ✓ The disability of an owner; and
- ✓ The divorce of an owner.

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Events to Consider in Anticipation of Death of an Owner :

- Who will replace the individual in management?
- What is the impact on the decision-making?
- Assignee status per 101.1115 and 152.406.
- Limitations on assignee.
- Who will succeed the individual in ownership?
- Statutory and contractual rights of assignee.
- Impact on lender relationships and guaranties.

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Events to Consider in Anticipation of Death of Owner :

- Is there a required buy out?
- Is there an optional buy out?
- Is there an optional put?
- What is the formula for price?
- How will a buyout be funded?
  - Key man life insurance
  - Note payable over time
  - Terms of note
  - Is the note secured?
  - Limitations on annual payment
  - Auto adjustments for liquidity

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"When Unplanned Events Impact Partners, How Does the Family Partnership Respond?"