

SELLING OR GIFTING A BUSINESS: ADVISING YOUR CLIENT

TABLE OF CONTENTS

PART I – GIVE THE BUSINESS TO FAMILY MEMBERS

I. Recognize the Difficulties of Transferring a Family Business Through Multiple Generations	1
II. Address the Value of the Business	1
III. Address the Federal Gift Tax Rules.....	2
IV. If the Owner Dies Owning the Business, Address Liquidity Issues.....	3
A. Sources of Liquidity: Code Section 303 Redemptions to Pay Death Taxes.....	3
B. Sources of Liquidity: Code Section 6166 Installment Payments.....	6
V. Consider Advanced Estate Planning Techniques to Freeze the Value of the Business and/or Transfer it to the Next Generation	12
A. Estate Freezes: The Self-Canceling Installment Note (SCIN).....	12
B. Estate Freeze Transactions: The Private Annuity	14
C. Estate Freeze Transactions: Grantor Retained Interest Trusts	16
D. Estate Freezes: Installment Sales to Intentionally Defective Grantor Trusts.....	21

PART II – ENTER INTO A BUY-SELL AGREEMENT

Considerations for Buyers and Sellers in Buy-Sell Agreements for Closely-Held Businesses

A. Definition	25
B. Objectives of a Buy-Sell Agreement.....	25
C. Checklist of Planning Considerations – Factors to Consider.....	27
D. Types of Buy-Sell Agreements	28
E. Choosing the Right Type of Agreement.....	29
F. Suggested Terms of a Buy-Sell Agreement.....	39

PART III – SELL THE BUSINESS TO THIRD PARTIES

I. The Scope of the Task	48
A. Legal and Tax Issues.....	48
B. The Team of Advisors.....	48
C. Due Diligence Considerations.....	50
D. The Form of the Transaction.....	50
II. Preliminary Documentation	51
A. Confidentiality Agreements	51
B. Letter of Intent.....	52
III. Non-Tax Considerations in Business Acquisitions.....	53
I. Introduction	53

II. Environmental Concerns	53
A. General Concerns	53
B. Federal Environmental Laws	54
C. State Environmental Laws	54
III. ERISA and Retirement Plan Considerations	55
A. General Requirements	55
B. Negotiation Considerations	56
IV. Additional Employment and Labor Issues	57
A. General Considerations	57
B. Plant Closing Laws.....	58
C. COBRA Responsibilities.....	59
D. Family and Medical Leave Act.....	60
E. Other State Employment Law Issues	61
F. Additional Due Diligence in Labor and Employment Matters.....	61
V. Antitrust Issues.....	62
A. Hart-Scott-Rodino.....	62
B. State Law Issues	64
VI. Federal and State Security Laws.....	64
A. General Considerations	64
B. Antifraud Provisions	66
VII. Additional Specific Due Diligence Considerations.....	67
A. The Overriding Theme; Timing Issues	67
B. Specific Areas of Investigation	68
VIII. Tax Considerations In Buying And Selling a Business	71
I. Introductory Considerations – Overview	71
A. Basic Structuring Choices.....	71
B. The Parties’ Preferences.....	71
C. Tax Classifications of Business Acquisitions	72
II. Analyzing Taxable Acquisitions	75
A. Why a Taxable Transaction	75
B. Taxable Acquisitions – Tax Consequences to the Target Corporation.....	75
C. Taxable Acquisitions – Tax Consequences to the Selling Shareholders	77
D. Allocation of the Purchase Price Among the Acquired Assets – General Rules	78
E. Code Section 1060: Specific Rules for Allocation of the Purchase Price – Taxable Asset Acquisitions.....	79
III. Analyzing Tax-Free Reorganizations	83
A. Overview	83
IV. The Role of Liquidation in Corporate Acquisitions	84
A. Overview: The Liquidation Context	84
B. Taxation of Liquidations: Non-Subsidiary Liquidations	84
C. Taxation of Liquidations: Subsidiary Liquidations.....	86

D. Section 338 Liquidations: Deemed Asset Sales.....	87
V. Tax Attributes in Corporate Acquisitions: Carryover and Limitations.....	90
A. General Considerations.....	90
VI. Special Considerations Involving S Corporation Acquisitions	91
A. Eligibility Issues.....	91
B. Debt vs. Equity Issues	92
C. Built-In Gains Tax Issues.....	92
VII. Special Considerations Involving Acquisitions of Partnership Interests	93
A. General Rules – Capital gain and Ordinary Income Issues	93
B. General Rules – Basis of Acquiring Partner’s Interest	95
VIII. Purchase Agreements, Representations, Warranties and Opinion Letters.....	96
A. The Purchase Agreement	96
B. Representations and Warranties – Generally	96
C. Representations and Warranties Desired by the Buyer.....	97
D. Representations and Warranties Desired by the Seller.....	100
E. Opinion Letters.....	101
IX. Pre-Closing Consideration of Post-Closing Operations: Consulting, Employment, Non Competition Agreements	104
A. Restrictive Covenants	104
B. Consulting Agreements.....	105
C. Employment Agreements.....	105
D. Employee Stock Option Issues	107
X. Closing the Deal.....	108
A. Documentation	108
B. Corporate Formalities.....	109
C. Delivery of Consideration	110
D. Post-Closing Matters.....	111