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BUYING A BUSINESS FOR THE FIRST TIME

Buying a business for the first time can be both exciting and a very stressful.

There are so many questions that you need answers to. For that reason it is important that you engage the correct professionals to assist you. First and foremost you need an accountant and a lawyer to assist you with the process. You will need to decide how you are intending to own the business. Most commonly a limited liability company is used. Setting up a new company to own the business being purchased is the most common set up rather than purchasing shares in an existing company which may carry some risk which you do not wish to accept.

You need to ensure that you are GST registered and it is important that you undertake a proper due diligence investigation of the business you intend purchasing to ensure that you don't run into any problems post settlement.

If you are purchasing the business with one or more other partners then it is very important that you enter into an agreement with your business partners to deal with your individual roles in the business, how to deal with conflict and how to deal with exiting the business.

If for example you used a company to purchase the business with a friend and you both had 50 shares each, a Shareholders Agreement would be entered into to cover things such as your roles in the business, what

happens if someone wants to leave the business and sell their shares or what happens if one of the business partners dies.

In these circumstances it is advisable to have life insurance policies on each of the shareholders and a mechanism in the Shareholders Agreement so that any life insurance policy proceeds must be used by the surviving shareholders to purchase the deceased's shares from their estate.

This way the remaining shareholders are not left with having to deal with the deceased's spouse or other beneficiaries of the estate.

The agreement would also include a mechanism for valuing shares if someone wants to sell and giving the existing shareholders the first right to purchase.

These are just some of the matters that you will need to consider when buying a business. It is always more economic to ensure that you have these agreements and mechanisms in place to avoid any costly disputes later on.

If you are considering purchasing a business and wish to discuss any of these matters please feel free to contact Eugene Collins.

20 MINUTE FREE

WANT to review your Family Trust structure? THEN call us and take advantage of our 20 Minute Free interview