PROSPERA PERSPECTIVES

The Agreement That Decides Everything: Succession Planning After Connelly

Only 42 percent of business owners have a succession plan. Among those who do, most were drafted before a Supreme Court decision and a new permanent estate tax exemption changed how these agreements actually work.

A 2024 Supreme Court decision and a 2026 tax law quietly rewrote the rules for closely held businesses. Most agreements have not caught up.

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> You built the company. You know your numbers, your people, and your market. But there is one document that will decide what happens to all of it — who gets your shares, what your family is paid, and whether the business survives the transition — and odds are you have not read it since you signed it.

The Transition Nobody Has Scheduled

The demographics are not subtle. Roughly 52 percent of U.S. business owners are 55 or older, and McKinsey projects that about six million small and midsize American businesses will face an ownership transition by 2035, representing trillions of dollars in enterprise value. Yet only about a third of owners have a documented exit plan, and roughly four out of five businesses that go to market never actually sell.

A 2026 survey of small business owners by TD Bank found the same gap from a different angle: only 42 percent have a succession plan in place, while 47 percent said they intend to build one — someday. Meanwhile, 40 percent named finding advice from a trusted financial partner as one of their biggest obstacles.

Here is what makes that gap dangerous. A succession plan is not only for the retirement you schedule. It is for the transition you do not schedule: a death, a disability, a divorce, a partner who wants out at the worst possible moment. Those events do not wait for the plan to be ready.

> **The core question:** If you did not come to work tomorrow — permanently — who owns your shares, who runs the company, where does the money come from to buy your family out, and does everyone involved already agree on the answer in writing?

Why 2026 Changed the Math

Two developments reshaped succession planning for closely held businesses, and most existing agreements predate both.

1. The Connelly decision

In June 2024, the U.S. Supreme Court unanimously decided Connelly v. United States. The Court held that when a company owns life insurance on an owner and uses the proceeds to redeem that owner's shares at death, those proceeds increase the value of the company for federal estate tax purposes — and the redemption obligation does not offset them.

The practical effect: a business that bought a policy specifically to fund a buyout may have inflated the deceased owner's taxable estate by the amount of that policy. This affects the entity-purchase (or redemption) structure, historically the most common arrangement in closely held companies because it is simple to administer. For many multi-owner businesses, that structure is no longer the automatic answer, and cross-purchase or insurance-LLC arrangements deserve a fresh look with counsel.

2. A permanent, higher estate tax exemption

The One Big Beautiful Bill Act, signed in July 2025, permanently raised the federal estate and gift tax exemption to $15 million per person beginning in 2026 — roughly $30 million for a married couple using portability — with no sunset and inflation indexing going forward. The long-feared drop to about $7 million never happened.

That is good news, and it creates its own trap. Many older estate plans and buy-sell agreements contain formula clauses written as “an amount equal to the federal estate tax exemption.” Language drafted when the exemption was $5 million or $11.7 million now moves a dramatically larger sum into a trust or to one class of beneficiary — often not what the owner intended, and often at the expense of a surviving spouse. Portability also is not automatic; it requires a timely estate tax filing even when no tax is owed. And seventeen states plus the District of Columbia still impose their own estate or inheritance taxes at far lower thresholds.

> **What this means practically:** If your buy-sell agreement, your funding structure, or your estate documents were drafted before mid-2024, they were written for a different legal and tax environment. This is a review conversation with your attorney and CPA — not a reason to panic, and not something to leave sitting in a drawer for another five years.

Where the Money Comes From

An agreement that says what should happen is only half a plan. The other half is liquidity: the cash to actually execute it on the day it is triggered. Owners generally have four options, and they are not equal.

Funding source	Available when needed?	Effect on the business
Cash reserves	Only if fully funded in advance	Drains working capital at a fragile moment
Bank loan at time of death	Uncertain	Lenders are cautious after losing a key owner
Installment payments to the family	Yes, but slowly	Ties the family’s security to future performance
Life insurance funding	**Yes — at the exact moment of the trigger**	**Provides liquidity without draining operations**

This is the practical case for insurance-funded agreements: the money arrives when the event happens, not when the balance sheet or a lender allows. Disability matters here too. A significant share of professionals experience a disabling event before retirement, and a buy-sell triggered by disability with no funding behind it is simply an unfunded promise between partners.

Key person coverage sits alongside this. If the loss of one person — the founder, the rainmaker, the operator who holds the customer relationships — would materially impair revenue, coverage owned by the business provides the runway to stabilize, recruit, and retain the team while the transition happens.

Structure determines outcome. Who owns the policy, who pays the premium, who is the beneficiary, and how the agreement is worded drive the tax result — including estate inclusion, basis step-up for surviving owners, and whether the price set in the agreement is respected for estate tax purposes. Two companies with identical coverage can end up with materially different outcomes based solely on structure. This is why the agreement, the funding, and the estate plan have to be designed together rather than in three separate offices.

The Valuation Nobody Updated

The most common failure we see is not a missing agreement. It is a stale one. A price set in 2015, or a formula tied to a multiple the industry no longer uses, produces a number disconnected from what the company is worth today. If the business has tripled in value, the family receives a fraction of fair value — or the surviving owners face an obligation they cannot fund.

Coverage drifts the same way. A $2 million policy written against a $2 million valuation is inadequate against an $8 million company. Valuation and coverage should be reviewed together, on a defined schedule, not revisited only when something goes wrong.

A Practical Review Sequence

- **Find the document and read it.** Confirm what actually triggers it — death, disability, retirement, departure, divorce — and what each trigger obligates the parties to do.
- **Check the date.** Anything drafted before mid-2024 predates Connelly. Anything before 2026 predates the permanent $15 million exemption. Both warrant an attorney's review.
- **Test the valuation.** Is the price current, and is the method one a third party would defend? Set a recurring review interval and put it on the calendar.
- **Trace the funding.** For every trigger in the agreement, identify exactly where the dollars come from. Any trigger without an answer is an unfunded promise.
- **Reconcile with your estate plan.** Hunt for formula clauses tied to the exemption amount, verify beneficiary designations, and confirm the business plan and the personal plan tell the same story.
- **Name and prepare a successor.** Documents transfer ownership; they do not transfer capability. Identify who runs the company and start the handoff while you are still there to guide it.

This is precisely the kind of work that falls between advisors. The attorney drafts, the CPA models the tax, the insurance professional funds it — and too often no one owns the coordination. Serving as the strategic quarterback across those three conversations is what we mean by **the entrepreneur's family office**: one team making sure the agreement, the funding, and the estate plan still agree with each other, year after year.

When Did You Last Read Your Buy-Sell Agreement?

At Prospera, we work alongside your attorney and CPA to pressure-test succession agreements, valuations, and funding structures — so the plan holds up on the day it is needed.

Schedule a complimentary succession review.

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The Entrepreneur's Family Office