PROPRIETARY FRAMEWORK

THE LIQUIDITY GAP™

When valuable operating assets cannot meet succession obligations

FROM ASSET VALUE.
TO ACCESSIBLE CAPITAL.

Liquidity preserves choice.
Timing protects continuity.

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NORTH AMERICA | AUGUST 2026 | VERSION 1.1

THE MERRICK SPITTERS RESET REPORT™

The Liquidity Gap™ Framework

A diagnostic system for funding succession obligations without forcing the sale of valuable operating assets

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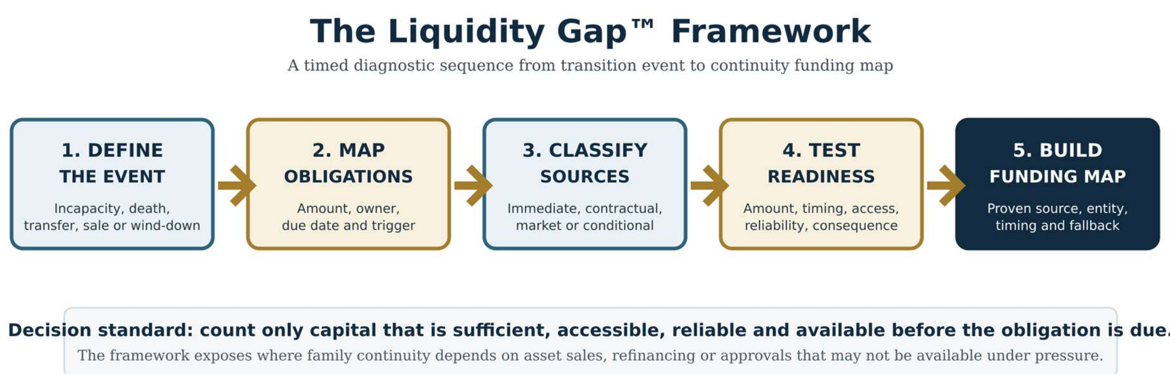
Framework at a Glance

Formal definition. The Liquidity Gap™ Framework is a diagnostic system that determines whether a family enterprise can meet its transition obligations with accessible, independent capital in the correct entity and at the required time, without forcing the sale, refinancing or impairment of a valuable operating asset.



The governing problem

A succession plan can fail even when a family is wealthy. Land, a business, development property or a concentrated portfolio may carry substantial value, yet the event that creates an obligation may arrive before that value can be converted into usable capital. The framework makes that timing mismatch visible before pressure removes choice.

The intended outcome

The output is a timed funding map. It identifies the event, each obligation, the responsible entity, the source of capital, the conditions attached to that source and the continuity consequence if the source cannot perform as assumed.

What this framework does not do

It does not calculate tax, establish valuation, select insurance, approve credit, draft legal documents or determine fairness among family members. Those functions remain with appropriately qualified legal, tax, accounting, insurance, lending and investment professionals. The framework identifies the questions their coordinated work must answer.

Executive Overview

Net worth is not liquidity. A family may have an asset-rich balance sheet and still have no practical way to meet tax, debt, payroll, redemption, equalization or transition costs without selling under pressure. The risk is not merely that the asset may be worth less than expected. The deeper risk is that the asset is needed for the operating family's future but becomes the only available source of cash at the wrong time.

The Liquidity Gap™ Framework separates asset value from usable transition capital. It tests the cash requirement under a defined event, then tests every proposed funding source for amount, timing, legal access, reliability and consequence. A source that fails one of those tests may still be useful, but it should not be counted as fully available.

The Dual Balance Sheet Concept™ is the compatible upstream diagnostic: it distinguishes visible asset value from the structure needed to support continuity. The Liquidity Gap™ Framework then tests whether the necessary transition capital is actually available.

The framework is deliberately North American. Canada and the United States have different tax, estate, ownership and succession rules. The economic discipline is the same: valuable assets should not be assumed to fund an obligation until their cash, timing and control characteristics have been established.

Purpose and Boundaries

When to use it

Use the framework when incapacity, death, a shareholder redemption, an internal management buyout, a family transfer, a third-party sale or an orderly wind-down could create a material cash obligation. It is especially relevant for operating farms, private companies, developers, landowners and families whose wealth is concentrated in productive assets.

Why a net-worth statement is insufficient

A net-worth statement records what a family owns at one point in time. A transition requires a different map: what must be paid, when it is due, who is legally responsible and which capital can be used without compromising continuity. The answer may sit across several people, entities and jurisdictions.

The central distinction

> **Liquidity Gap calculation.** Transition obligations due, less accessible independent capital available at the required time. The calculation is simple; the evidence required to support it is not.

The Framework Architecture

The five components must be applied in sequence. Skipping an earlier component creates a false answer later in the process. For example, a family cannot assess the adequacy of insurance or borrowing capacity before it has defined the event, the obligations and the entity expected to make the payment.

Component	Formal role	Core question	Output
1. Transition Event	Defines the circumstance that activates the analysis.	What changed, and when?	A specific planning scenario.
2. Obligation Map	Identifies all cash demands created by that event.	What must be paid, by whom and by what date?	A timed list of obligations.
3. Liquidity Source Map	Classifies every proposed source of capital.	Where will capital come from, and under what conditions?	A source inventory by entity and timing.
4. Readiness Tests	Tests each source for practical availability.	Can the source perform without creating a new dependency?	A conservative assessment of usable capital.
5. Timed Funding Map	Coordinates obligations and proven sources.	Which source funds which obligation, and what remains exposed?	A continuity-focused decision map.

Component Exposition

1. Transition Event

The framework begins with a defined event because different events create different obligations. Incapacity may leave the owner alive but unable to provide management, guarantees or approvals. Death may create a transfer of authority, tax or estate administration. An internal transfer may require financing that does not impair the company paying for it. A third-party sale can involve holdbacks, purchase-price allocation, indemnities and a closing timetable outside the family's control.

2. Obligation Map

Obligations should include more than tax. The map may include bank debt, shareholder loans, covenant cures, payroll, supplier needs, share redemptions, partner buyouts, estate equalization, professional fees, family support and temporary operating capital. Every item needs an owner, amount range, due date and an identified legal or economic trigger.

3. Liquidity Source Map

Proposed capital is classified by its source, owner and conditions. Immediate cash held by the correct entity is different from policy proceeds, a sale expected to close, or a lender's future approval. The framework uses four source categories so a family does not give conditional capital the same confidence as capital that is already accessible.

Source type	Definition	Primary exposure
Immediate liquidity	Cash and near-cash assets already accessible to the responsible person or entity.	May be insufficient or needed for working capital.
Contractual liquidity	Capital payable upon a defined event under a documented arrangement, subject to its terms.	Ownership, beneficiary, underwriting, policy and legal-structure errors.
Market liquidity	Capital expected from a sale of securities, real estate, a private business or another asset.	Price, demand, timing, cost and transaction completion risk.
Conditional liquidity	Capital dependent on future approval by a lender, buyer, family member or other institution.	Refinancing, covenant, approval and change-of-control risk.

4. Readiness Tests

Each source must pass five tests before it is counted as available transition capital. The tests prevent a balance sheet from treating a sale estimate, a lender conversation or a future business result as though it were cash in the correct account today.

Diagnostic lens	Question	Evidence required	Continuity implication
Amount	Is the expected capital sufficient after tax, fees and competing claims?	Current estimate, tax assumptions and priority of claims.	A shortfall may force a sale or borrowing.
Timing	Will capital arrive before the obligation is due?	Due dates, policy terms, closing conditions and processing timelines.	Timing mismatch can create distress even when value exists.
Access	Can the correct person or entity legally use it?	Account ownership, authority, beneficiary, corporate and trust records.	Capital in the wrong entity may be unavailable.
Reliability	Is the source contractual, committed, market-dependent or discretionary?	Contract, lender terms, valuation support and conditions precedent.	Conditional sources require a conservative discount.
Consequence	Does using the source weaken the business or transfer another risk to the family?	Cash-flow forecast, covenants, guarantees and operating needs.	A source can solve one obligation while damaging continuity.

The Three Duration Tests

These are interpretive inputs to Components 2, 3 and 4, not a sixth component or a separate framework. They make the timing assumptions behind a proposed source of capital explicit.

- Asset duration. How long can the asset remain owned or be converted to cash without impairing control, operating capacity or value?
- Obligation duration. When do taxes, covenants, redemptions, equalization commitments, estate costs and other transition obligations become due?
- Liquidity elasticity. How much capital can be accessed under the tested event without a forced sale, covenant breach, refinancing dependence or control impairment?

5. Timed Funding Map

The final component assigns a source to each obligation. The map should record source entity, responsible decision-maker, timing, tax treatment, conditions and fallback action. Its purpose is not to create false precision. Its purpose is to make unsupported assumptions visible while the family still has time to change ownership, funding, documents or expectations.

Diagnostic Questions

1. Define the event. Is the working scenario incapacity, death, internal transfer, external sale or wind-down? Do not blend several events into one vague forecast.
2. List every obligation. Include taxes, debt, payroll, redemptions, equalization, fees, family support and operating needs. Assign an owner and due-date range to each.
3. Map every source. Identify cash, insurance, investments, facilities, sale proceeds and other capital. Record the account or entity, decision-maker, expected date, tax treatment and key conditions.
4. Apply conservative timing. Do not assume the highest valuation, fastest closing, full credit renewal and immediate estate access in the same scenario.
5. Test lost guarantees. Confirm how death, incapacity or a change in control affects covenants, approvals and available facilities. Obtain current lender advice rather than relying on informal expectations.
6. Model family fairness. Equal ownership, equal value and fair treatment are not the same objective. Quantify each before promising an outcome.
7. Coordinate documents. Confirm that wills, powers of attorney, shareholder agreements, account registrations, insurance ownership and beneficiary arrangements direct capital where the map assumes.
8. Review after material change. Recalculate when value, debt, family circumstances, health, ownership, tax law, financing or jurisdiction changes.

The Liquidity Gap™ Funding Map

Use this practical worksheet to connect each obligation to one tested funding source. It is a diagnostic record, not a tax calculation or a recommendation. Complete it for one defined transition event at a time.

Obligation	Responsible entity	Due-date range	Amount range	Funding source	Source type	Readiness issue	Contingency
[Enter obligation]	[Entity]	[Date range]	[Range]	[Source]	[Type]	[Issue]	[Fallback]
[Enter obligation]	[Entity]	[Date range]	[Range]	[Source]	[Type]	[Issue]	[Fallback]
[Enter obligation]	[Entity]	[Date range]	[Range]	[Source]	[Type]	[Issue]	[Fallback]
[Enter obligation]	[Entity]	[Date range]	[Range]	[Source]	[Type]	[Issue]	[Fallback]

Source types: immediate liquidity, contractual liquidity, market liquidity or conditional liquidity. A source should only be treated as usable to the degree it has passed the readiness tests for the event being mapped.

Illustrative Application

Composite example: Operating farm with non-operating heirs

A Canadian farm has valuable land, moderate operating cash flow and seasonal borrowing. One adult child operates the farm while two siblings work elsewhere. The parents want the land and business to remain intact but also want to treat all children fairly. At death or incapacity, the family may face tax after available planning, debt, professional costs and a meaningful equalization objective.

The framework does not begin by asking what the land is worth. It begins by identifying the event, then mapping the obligations. It identifies the cash already accessible to the correct entity, any properly structured contractual capital, marketable investments, available committed facilities and expected sale or transfer proceeds. Each source then passes the five readiness tests.

The result may show that part of the land value is not usable at the required time without a sale, mortgage or covenant pressure. The implementation work may include revised ownership, staged transfers, corporate and personal reserves, appropriately structured insurance, revised equalization, documented credit capacity and coordinated professional advice. The framework does not determine the recommendation. It ensures the recommendation is based on a complete funding map.

Composite example: U.S. internal management buyout

A U.S. founder intends to sell a private operating company to an internal management team. The proposed purchase price includes buyer financing, a seller note and company-supported debt. The founder also expects the proceeds to fund retirement income and to provide an independent financial floor after the transition. The company must retain enough working capital to operate without relying on the founder's personal guarantees.

The Liquidity Gap™ Framework separates the purchase-price narrative from the funding path. It tests the buyer's financing conditions, the company's debt capacity, the seller note's timing and concentration, tax obligations triggered by the transaction, working-capital needs and the founder's ability to meet personal commitments if a payment is delayed. A high headline value does not, by itself, establish accessible independent capital.

The timed funding map may reveal that the seller note is valuable but conditional, that the company can fund a redemption only by creating covenant pressure, or that the founder's retirement plan depends too heavily on one post-sale payment stream. The implementation task is to coordinate legal, tax, lending, valuation, insurance and investment work so the transaction does not convert a successful succession into a new continuity risk.

Implementation Considerations

Canadian and United States context

Canadian and United States tax and estate rules differ, and both depend on current facts, ownership structure, jurisdiction and professional interpretation. In Canada, death can involve a deemed disposition of capital property, subject to applicable rules and elections. In the United States, a business sale and a transfer at death can involve their own federal, state, ownership and filing considerations. The framework therefore treats tax estimates as timed obligations to be confirmed, not as static assumptions.

Refinancing dependence

Credit can be a legitimate planning tool. A committed facility arranged while the owner is healthy and the enterprise is strong is not the same as an emergency application after a change in control. The framework does not reject credit; it exposes whether continuity depends entirely on a future lender decision.

Insurance as continuity capital

When appropriate and correctly structured, insurance may create contractual liquidity without requiring a family to sell productive land, negotiate with a buyer or seek new credit during grief. Suitability depends on underwriting, cost, ownership, beneficiary designations, tax treatment, carrier terms and jurisdiction. It must be evaluated within the family's full legal and financial structure.

Professional coordination

A credible funding map should distinguish facts from assumptions, identify the person accountable for each input and record where professional confirmation is required. Legal, tax, accounting, lending, insurance and investment disciplines each answer different questions. The coordinating task is to ensure their work points to the same event, entities, obligations and timing assumptions.

Relationship to the Merrick Spitters Architecture

Relationship	Role of The Liquidity Gap™ Framework
Governing architecture	Supports Operating Dynasty Architecture by protecting enterprise continuity when ownership, capital and family responsibilities change.
Upstream diagnostic	The Dual Balance Sheet Concept™ identifies structural weakness between visible assets and the support systems required for continuity.
Adjacent framework	The Five Pillars of Succession Security™ addresses liquidity, refinancing resilience and other coordinated succession protections.
Timing lens	The Succession Compression Thesis™ explains why shrinking time and narrowing alternatives can turn a manageable gap into a forced decision.
Downstream implementation	Supports coordinated work on tax, estate, insurance, credit, ownership, governance and family equalization with qualified professionals.
No-overlap statement	This framework does not replace succession architecture. It isolates and tests the timing, access and reliability of capital required to make that architecture perform.

Liquidity Preserves Choice

Liquidity is sometimes treated as idle capital. During transition, it is choice in financial form. It can give a family time to grieve before selling, allow an operating child to retain productive land, help a company redeem shares without impairing payroll and reduce the number of decisions that must be approved by a lender under pressure.

The objective is not to maximize cash at all times. It is to engineer enough accessible capital, in the correct place and at the correct time, to protect the family's intended outcome. A valuable asset becomes more secure when its owner does not have to sell it to meet an obligation that could have been funded in advance.

Technical Context and Evidence

The following context preserves the source evidence that supports the framework. It is not a sixth component and does not replace jurisdiction-specific professional analysis.

Why the Gap Moves: Event-Specific Obligations

Death, incapacity, a shareholder redemption, an internal transfer, a third-party sale and an orderly wind-down can create different obligations. The same asset may be valuable in each event yet unavailable when tax, debt, payroll, equalization, covenant or redemption requirements fall due.

Canadian Technical Context

In Canada, death may trigger a deemed disposition of capital property. Relief and rollover treatment can depend on the property, the taxpayer, the recipient, ownership facts and professional interpretation. Planning involving qualified small-business corporation shares or farm and fishing property requires current tax advice. Statistics Canada reported that only 12 percent of farms had a written succession plan in 2021, reinforcing the need to document the funding path before an event.

United States Technical Context

In the United States, estate and business-sale obligations depend on current federal and state rules, ownership and transaction design. IRC section 6166 may permit qualifying estates to pay certain federal estate tax in instalments; it is a timing mechanism, not tax forgiveness. A business sale can also allocate consideration among asset classes, while seller notes, earn-outs and buyer financing can defer or condition proceeds. The U.S. Small Business Administration reported 34.8 million small businesses in 2024.

Funding-Source Due Diligence

Immediate, contractual, market and conditional liquidity perform different functions. A resilient plan does not count an estimated sale, an unapproved loan or restricted portfolio capital as equal to cash or enforceable proceeds. It combines sources conservatively, recognizing the entity that owns them, the conditions attached and the consequence of use.

Insurance and Credit Coordination

Insurance and credit require coordinated ownership, beneficiary, policy-maintenance, shareholder-agreement, trust, will and lender review. Carrier strength, policy performance, guarantees, jurisdiction and cross-border ownership can materially affect access. Refinancing may be useful when arranged in advance, but emergency credit should not be treated as certain liquidity.

Decision Consequences

Prepared liquidity preserves the ability to decline buyer terms that would impair employees, customers, family relationships or the operating enterprise. The objective is continuity and choice, not simply the highest stated value.

About the Authors

Peter J. Merrick, TEP®. Peter is an international speaker, educator and estate-planning specialist with more than three decades of experience advising business owners, professionals and family enterprises across Canada and the United States. His work now spans Toronto and San Diego. He is the author of The King of Main Street and co-author of It Starts With Gold™.

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Research Note

This framework develops a proprietary educational system from The Merrick Spitters Reset Report™ and recurring client patterns. Composite examples are generalized to protect privacy. Tax, estate, insurance, lending and ownership treatment depends on current facts, law, jurisdiction and professional interpretation. Figures used in planning should be independently calculated and updated.

Disclosure

Related Reset Report Research

The following compatible Reset Report publications provide deeper context for the diagnostic terms used in this framework. They do not alter its five-component architecture or replace jurisdiction-specific professional analysis.

- The Dual Balance Sheet Concept™ - An upstream distinction between visible wealth and the structural support required for continuity.
- Before Succession Becomes a Liquidity Event - The asset-duration, obligation-duration and liquidity-elasticity context for testing capital before an event.
- Why Strong Balance Sheets Still Fail at Succession - How concurrent timing, covenant and funding pressures can defeat an otherwise valuable balance sheet.
- Wealth Architecture and the Discipline of Continuity - Definitions and governance context for duration mismatch, liquidity elasticity and continuity planning.
- What Smart Capital Builders and Stewards Know About Risk - The case for engineering liquidity and optionality rather than assuming either will appear when needed.
- When Risk Is Not Volatility but Timing - Why timing compression can turn a liquidity shortfall into a forced decision.
- The Five Pillars of Succession Security™ - The adjacent coordinated succession architecture that this framework supports but does not replace.
- When Your Portfolio Becomes the Entire Balance Sheet - A related perspective for founders and families whose independent capital must support life after transition.

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