

Entity Purchase Buy-Sell Agreement

Problem.

Small business owners are typically focused on their company's day-to-day operations. As a result, many closely-held businesses do not adequately prepare plans for continuing the business after an owner's death. As a solution to what could become a significant problem, business owners may wish to enter into agreements with each other—called **buy-sell agreements**—for the orderly sale of their business interests upon retirement, disability, or death.

Solution.

One type of buy-sell agreement is an **Entity Purchase Buy-Sell Agreement**, also known as a “**Stock Redemption Agreement**.” This is a binding agreement between the corporation or partnership, and its owners. The entity agrees to buy, and the owners agree to sell, all of the business interest of an owner at a set price, upon an owner's retirement, disability or death.

Rather than relying on business revenues or loans, a cost-effective way to fund the agreement is for the business to buy permanent life insurance on the lives of the owners. The business is the policy owner, premium payor and beneficiary. A buy-out at an owner's retirement or disability can be funded with policy cash values and the buy-out at an owner's death can be funded with policy death benefits.

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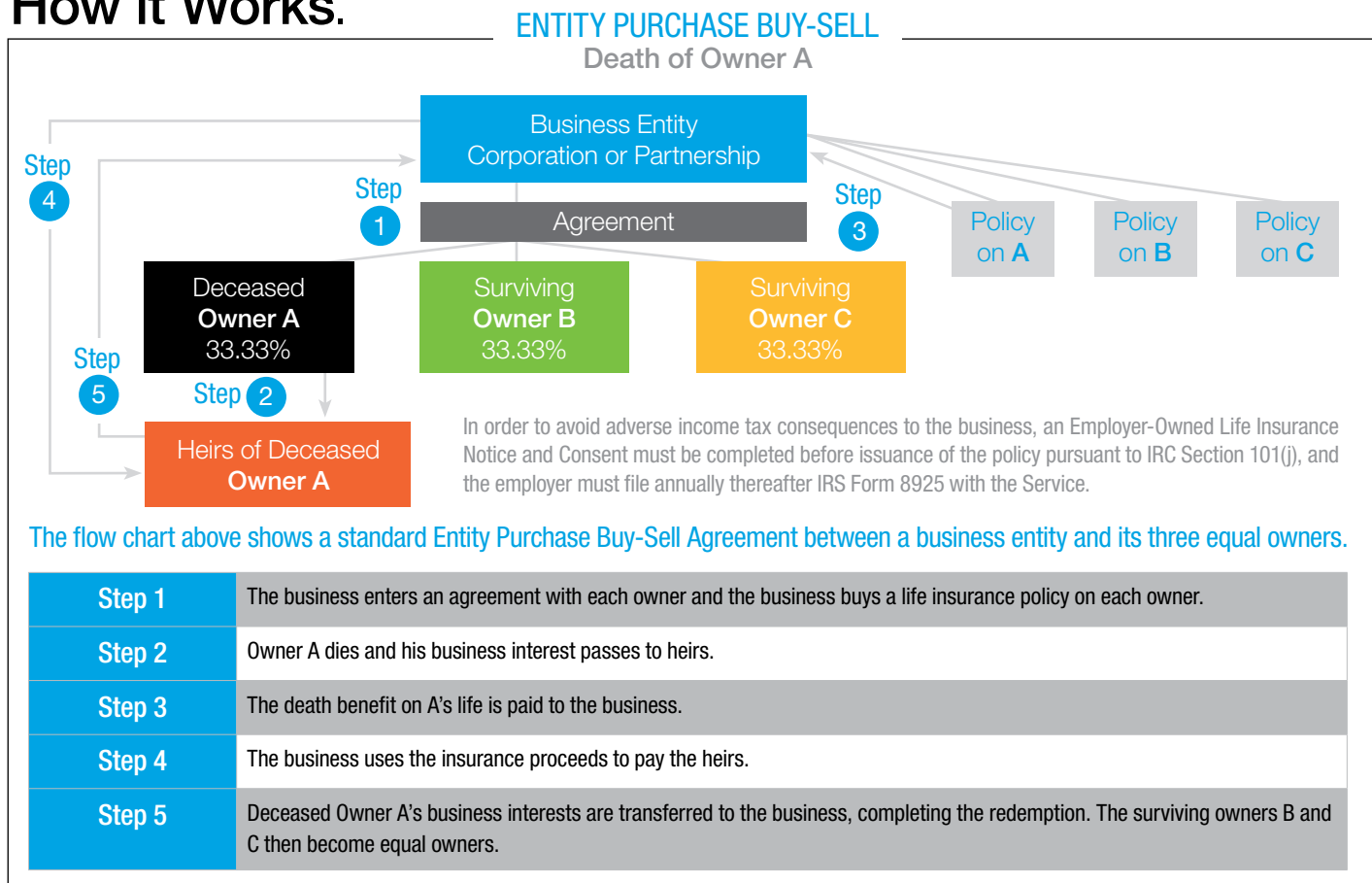
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Advantages of a Life Insurance Funded Entity Purchase Buy-Sell Agreement

- Creates a market to dispose of an interest in a closely-held business at death, retirement or disability.
- Provides the deceased owner's family with an obligated buyer at a predetermined price to help prevent IRS valuation disputes and family litigation.
- Obligates the deceased owner's family to sell the business interests to the business entity. This prevents unintended transfers to outsiders such as the deceased owner's spouse or children.
- Provides immediate cash to complete the purchase. The business entity receives the death benefit income-tax free.

How it Works.



Concerns for the Business Owners

- **Basis Increase** – *Entity Purchase Buy-Sell Agreement with a C Corporation does not increase the basis of the remaining owners' shares.*
- **Risk of Business Creditors** – *Business-owned life insurance used to fund a buy-sell arrangement is subject to the claims of creditors (varies by state). State law may prohibit any redemption when the business is either insolvent or lacks adequate capital.*

Concerns for the Business Entity

- **Tax Deductibility** – *Life insurance premiums paid by the business are not tax deductible.*
- **Alternative Minimum Tax (AMT)** – *For larger C Corporations, a redemption may increase their tax liability due to the AMT.*
- **Increased Value of Corporation** – *Both the ownership of the life insurance policies and the receipt of policy death benefits, which may increase the corporation's value, should be considered when determining selling price under an Entity Purchase Buy-Sell Agreement.*

For more information, contact
your **Financial Representative.**

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