

You have worked hard to establish your business. Your business has not only provided for your family's financial stability, more than likely it has become one of your most valuable assets.



BUY-SELL AGREEMENTS

What happens if you should die prematurely or become disabled and are unable to work? Proper planning is vital to ensure the success of the business as well as financial protection of your family.

When planning for business succession, it is important to find a solution that offers a smooth transition. You don't want your family to have to worry about selling your interest in the business to an outsider. On the other hand, if one of your co-owners passes away you don't want to be forced to work with a family member of the deceased; someone who may not be a good candidate for the business. A Buy-Sell Plan can not only offer an easy transition from one business shareholder to another, it can help to protect your family's financial future at the same time.

Whether it's the family of the deceased or the family of the surviving shareholder, a Buy-Sell plan provides financial protection for everyone. The family of the deceased isn't going to want to be left with a portion of the business they either have to run themselves or try to sell. Likewise, the family of the surviving shareholder might not be able to come up with a large sum of money to purchase the deceased owner's share of the business. Planning ahead of time prevents either family from having to deal with these types of serious personal or financial decisions. One option for a business succession plan is a Buy-Sell agreement.

What is a Buy-Sell Plan? A Buy-Sell Plan is a contract among business owners where at the passing of one shareholder their interest in the business is transferred equally among the other shareholders. With a Buy-Sell Agreement the remaining business shareholders are contractually obligated to purchase the deceased shareholders interest in the business and the family of the deceased is obligated to sell it.

There are a few variations of a Buy-Sell Agreement:

Cross Purchase Buy-Sell

A cross-purchase agreement states that the remaining shareholders will each purchase the interest of the deceased shareholder. Each shareholder purchases a life insurance policy on the other shareholders equal to their interest in the business.

Stock Redemption Buy-Sell

In a stock redemption agreement, the corporation agrees to purchase back the interest of the deceased shareholder. The corporation purchases life insurance policies on all the shareholders in the amount of the shareholders interest. The premium payments made by the corporation are non-deductible; however, the death proceeds are paid to the corporation income tax-free.

Wait and See Buy-Sell

In a wait and see agreement, the corporation and the shareholders agree to wait until the death of a shareholder before deciding whether or not they will utilize a cross purchase agreement or a stock redemption plan. Each of the shareholders purchases a life insurance policy on the other shareholders equal to their interest in the business. At the death of one of the shareholders, the corporation has the first right to exercise its option to purchase that shareholder's interest in the business. Next the remaining shareholders have the right to exercise their option to purchase any remaining shares not purchased by the corporation.

A Buy-Sell agreement, no matter which plan is used, allows for continuity of management and control of the business for the surviving shareholders without disruption to the families of the business partners. Life insurance offers the funding mechanism that ensures not only a smooth transition but also the future success of a business you worked hard to build.

This presentation presents an overview of business planning. It is not intended to provide full disclosure. It is not intended to give tax or legal advice. Any comments about tax treatment simply reflect an understanding of current interpretations of tax laws as they relate to business planning and life insurance. Tax laws are always subject to interpretation and possible changes in the future. It is recommended that you seek the counsel of your attorney, accountant, or other qualified tax advisor regarding business planning and life insurance taxation as it applies to your particular situation. These pages depict certain business planning options. All references to the present or future value of death benefits and cash values of pre-existing life insurance policies are based on the information you have provided for purposes of this analysis. They should not be construed to be the actual present or future values of the death benefits or cash values available in those life insurance policies. For a detailed projection of policy values of a given life insurance policy, please contact the company that issued the policy(ies) in question.