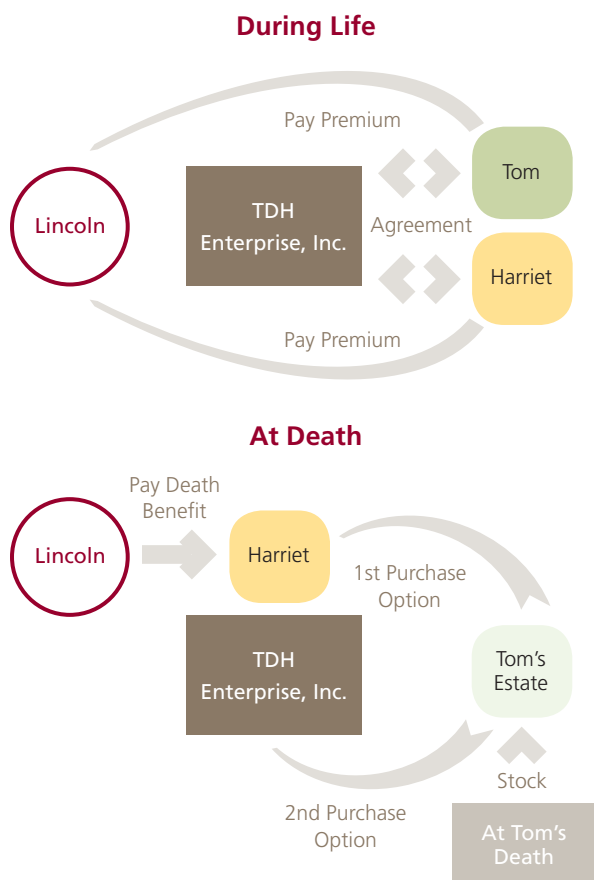




Wait-and-see buy-sell plans for businesses

Keep your cash flow healthy even if one owner isn't there



Why you should consider a buy-sell plan

Buy-sell plans are used to preserve the control and value of a business at the death, disability, or retirement of an owner. Buy-sell agreements provide that the estate of a deceased owner will be paid a fair value for his/her interest, and that the surviving owners will maintain control and ownership of the business. Life insurance on the owners can be a source of money to fund these arrangements.

How it works

There are two general approaches to structuring a buy-sell agreement:

- Entity purchase (or stock redemption) plan—The business entity itself owns the insurance and purchases the interest from the deceased partner's estate.
- Cross-purchase—The business owners buy insurance on each other, and the surviving owners purchase the deceased owner's interest from his/her estate.

Although the decedent's estate receives the purchase price with either approach, the tax results may be very different. A cross-purchase plan may help certain corporations avoid the potential application of the Alternative Minimum Tax, as well as giving the surviving owners a boost in basis. However, an entity purchase plan may be simpler.

A wait-and-see agreement gives you the flexibility to use either method if an owner dies. Typically, you start with a cross-purchase structure that specifies an option for the surviving owners to loan the insurance proceeds to the business when one dies, so an entity purchase plan can be used. With this approach, you can wait until a death occurs before deciding how to make the purchase that yields the better tax advantage.

Find out more

To help you learn whether your business would be a good candidate for this type of buy-sell planning, we've included this abbreviated worksheet. Jot down a few quick answers, and we can take it from there. Let us help you determine what type of buy-sell arrangement makes good business sense.



Business succession fact finder

Name of company _____

Type (C Corp, S Corp, LLC, partnership) _____ Tax bracket % _____ (federal + state)

Information for proposal

Owner name	Age	Tax bracket	Sex	S/N*	Percent owned	Annual compensation	Health [†]
_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____

Existing life insurance

*Smoker or nonsmoker †Preferred, standard or expected rating

Hypothetical business valuation

Assets \$ _____

Liabilities - _____

Book value \$ _____

Type of business risk (expected earnings) _____
(safe 8% – 11%, average 12% – 17%, speculative >18%)

Earnings history (goodwill multiplier) _____
(stable 7–9 times, variable 4–6 times, volatile 1–3 times)

Valuation experts, such as your accountant and appraiser, should always oversee the valuation process.

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