

Entity purchase buy/sell arrangement

The concept

An entity purchase buy/sell arrangement is an agreement in which business owners contract with their business entity (whether a corporation, partnership or LLC) that upon the death, disability, separation of service or retirement of an owner, the entity will purchase that person's business interest. To fund the purchase obligations, the entity acquires a life insurance policy on each business owner's life.

Benefits

Here the business owners have a ready market for their interests at a fair price. Funding the entity purchase buy/sell agreement with life insurance means that upon death, cash is available to immediately purchase the deceased business owner's interest. Additionally, if the purchase takes place during life, the policy's cash value may be used as a down payment, with the balance of the purchase price covered by installment notes.

Tax considerations

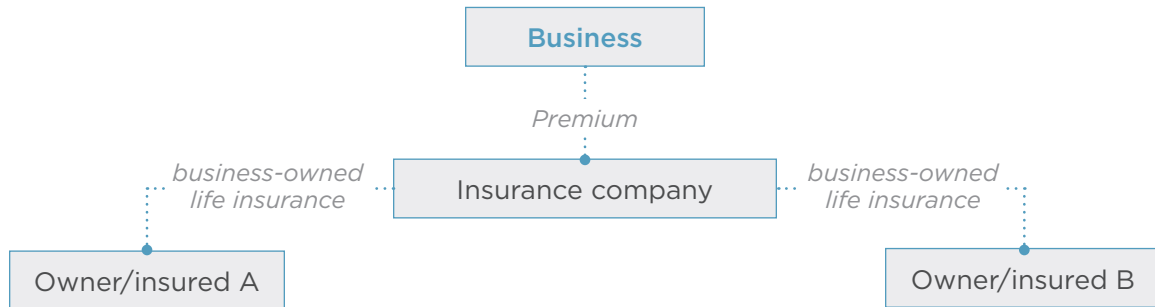
The remaining business owners will not receive a step-up in basis on the purchase of a departing business owner's interest.

Steps

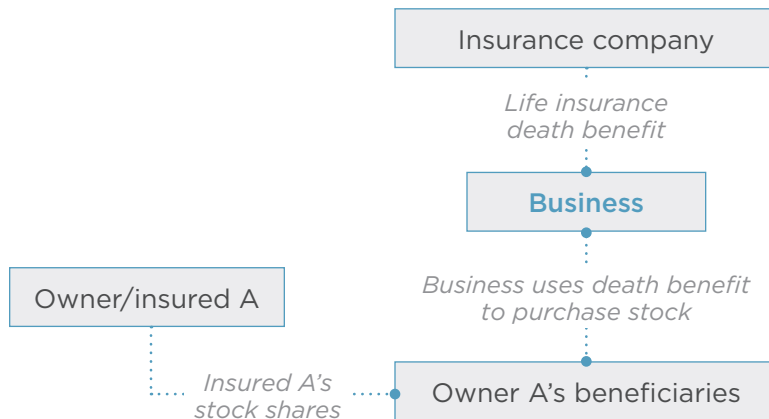
- The business owners enter into a written buy/sell agreement with the business entity, providing for the purchase and sale of a departing owner's interest upon their death, disability or retirement
- The business entity acquires insurance on each business owner's life to fund its purchase obligations
- Upon an owner's death, disability or retirement, a sale of the departing owner's interest to the entity takes place

How it works while employed

During life

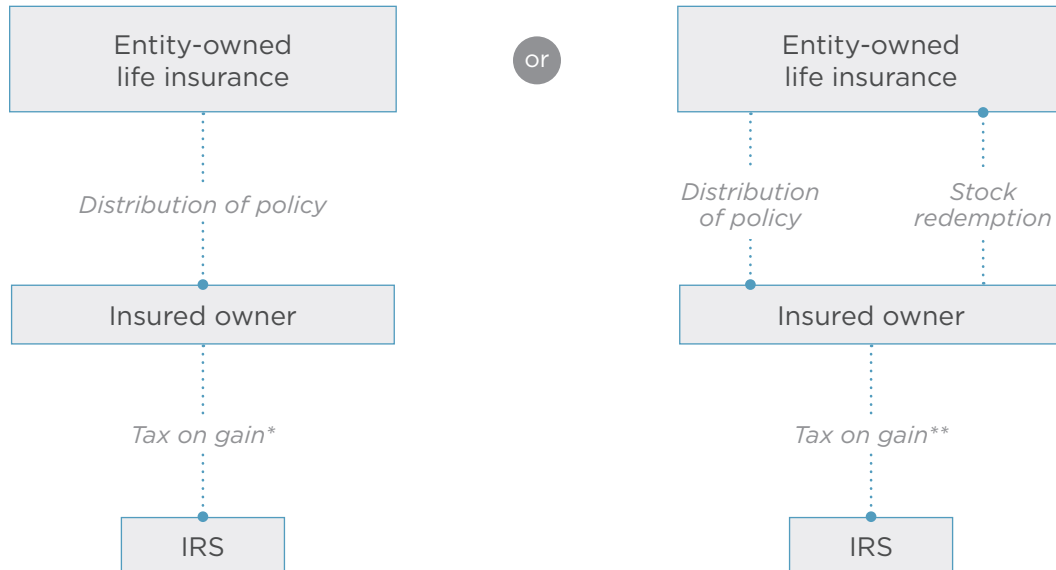


Upon death of owner/insured A



How it works upon retirement

(assuming parties wish to continue their own policies)



* If the life insurance policy is transferred to the business owner upon retirement, it is treated as additional income and is taxable as such at the owner's tax rate at the fair market value of the policy. The entity may be entitled to a deduction.

** If the life insurance is distributed to the owner as a redemption of the owner's interest/shares in the company, it is taxable as a capital gain based on the fair market value of the policy.