



Business Planning

ENTITY PURCHASE BUY-SELL ARRANGEMENT

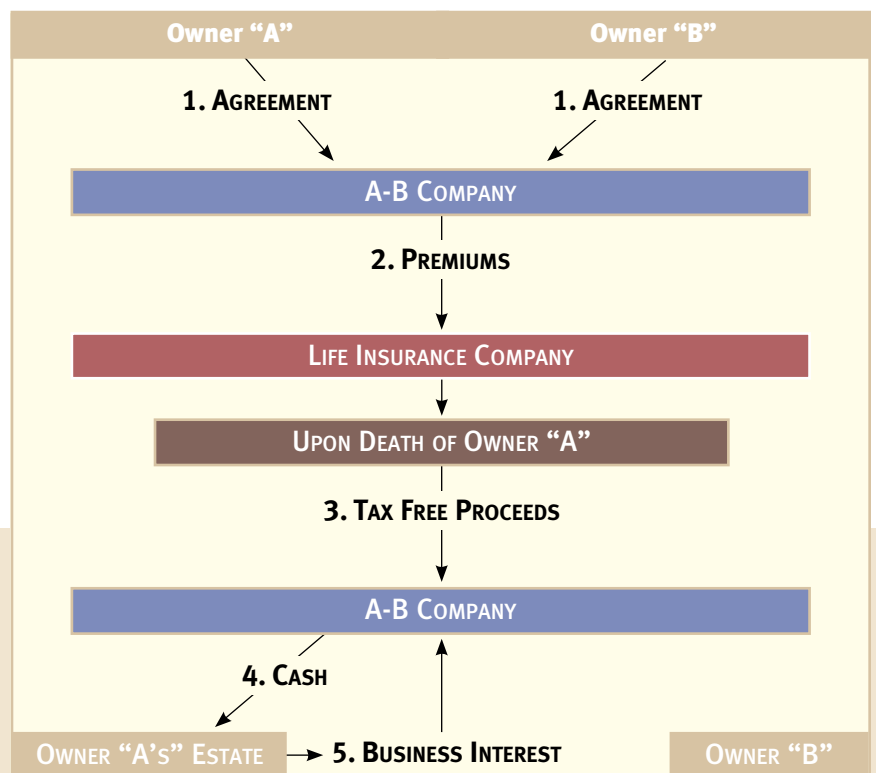


An entity purchase buy-sell arrangement assures a business entity will be able to orderly purchase a deceased business owner's interest. The owner's attorney draws up an agreement. The agreement spells out when and how the ownership transfer is to take place. It also specifies a fair price for the business or a method to determine its value, along with where the funds to carry out the purchase are to come from.

How it Works

1. The owners and the company enter into an agreement that upon the death of an owner, the company will purchase that owner's entire interest.
2. The company purchases life insurance on each of the owners. The company is the owner and beneficiary of the policy.
3. Upon an owner's death, the company receives income tax-free* life insurance proceeds. This cash is added to the company's surplus.
4. The company now has the cash to purchase the deceased owner's interest in the business.
5. The deceased owner's family transfers the business interest to the company in exchange for cash. The surviving owners now own 100 percent of the company.

*Under current federal tax law



What happens to the successful business you've built can best be determined by the plans you make today.

Entity Purchase Buy-Sell Arrangement Advantages and Tax Considerations

Advantages to the Business

- The business is assured of continuing with the surviving owners in control.
- With sufficient life insurance, there is no need to use working capital or borrow money to secure control.
- Employees, creditors, suppliers and customers feel more secure knowing that the business will continue.
- Cash value policies help accumulate funds, improve the business' balance sheet and are available as a source of credit at guaranteed interest rates.

Tax Considerations for the Business*

- Life insurance death proceeds are income tax-free and are used to purchase the deceased's interest from their heirs.
- Life insurance premiums are not deductible for income tax purposes.
- The use of cash to purchase the business interest of the deceased is a tax-free exchange.

Advantages to Heirs

- An agreement creates a guaranteed market for the business interest and establishes a fair price.
- Cash that the business exchanges for the deceased's interest is now available to the family for estate taxes and other family needs.
- The heirs do not need to worry about managing the business or receiving an income from the business.

Tax Considerations for Heirs*

- Life insurance premiums are not taxable as income, nor are they deductible.
- No capital gains or ordinary income tax is incurred on the exchange, if it takes place at the death of an owner, unless death occurs in 2010 under EGTRRA (2001).
- The value of the deceased's business interest steps up to current market value in their estate at death, before the exchange takes place.
- The value of the business could be established for federal estate tax purposes.

*Under current federal tax law

Additional Lifetime Entity Buy-Sell Needs

Consider added security for your business with protection for a critical illness. Critical illness insurance provides a lump-sum of cash in the event of a covered illness such as heart attack, cancer or stroke.

Key Questions:

- Would you mind having the family of your deceased business partner be your new business partner?
- Have you considered where the money will come from to buy out your new business partners?

Information Needed to Develop a Recommendation:

Name of Business _____

Form of Business Sole Proprietorship Partnership Corporation C S Limited Liability Company

Business Owner _____ Age _____ Ownership _____ %

Business Owner _____ Age _____ Ownership _____ %

Business Owner _____ Age _____ Ownership _____ %

Business Owner _____ Age _____ Ownership _____ %

Value of Business \$ _____ Is there current life insurance in-force to fund? Yes No

Life insurance underwritten by United of Omaha Life Insurance Company, Mutual of Omaha Plaza, Omaha, NE 68175. United of Omaha is not licensed in New York. In New York, Companion Life Insurance Company, Hauppauge, NY 11788 underwrites life insurance.

mutualofomaha.com



OFFICIAL SPONSOR

This material illustrates a concept. Direct specific tax or legal questions to your tax or legal counsel.