



# Business Planning

## WAIT-AND-SEE BUY-SELL ARRANGEMENT



A wait-and-see buy-sell arrangement assures that the deceased owner's interest will be purchased. Deciding whether the purchaser will be the surviving shareholders or the business entity is delayed until the owner's death. The remaining owners can decide at that time whether it is more advantageous for the owners or the business to buy out the deceased owner's interest.

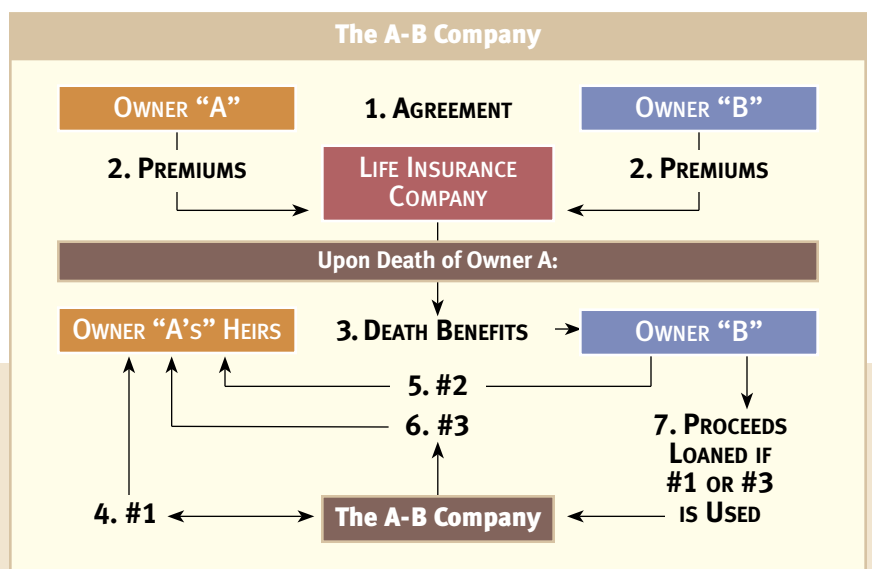
The owner's attorney draws up an agreement. The agreement spells out when and how the ownership transfer is to take place. It also specifies a fair price for the business or a method to determine its value, along with where the funds to carry out the purchase are to come from.

### How it Works

1. The owners agree in writing that upon the death of an owner, the survivors will decide which one of the purchase plans will be most advantageous: an entity purchase or cross purchase buy-sell arrangement.
2. The owners purchase life insurance on each other, as in a cross purchase arrangement.
3. At the death of an owner, income tax-free\* life insurance proceeds are paid to the surviving owners.
4. #1 is for the business to purchase some, all or none of the deceased's interest.
5. #2 is for the surviving owners to purchase some, all or none of the deceased's interest.
6. #3 is if there are any remaining shares of the deceased's interest, it is mandatory for the business to purchase them.
7. If #1 or #3 is elected, the surviving owners, who are owners and beneficiaries of the life insurance, lend the life insurance proceeds to the business.

\*Under current federal tax law

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



## Wait-and-See Buy-Sell Arrangement Advantages and Tax Considerations

### Advantages to Heirs

- An agreement creates a guaranteed market for the business interest at a fair price.
- The value of the business could be established for federal estate tax purposes.
- Cash that the business exchanges for the deceased's interest is now available to the family for estate taxes and other family needs.
- Heirs do not need to be concerned with managing the business or receiving an income from the business.

### Tax Considerations for Heirs\*

- No capital gains or ordinary income tax is incurred on the exchange.
- Life insurance premiums are not taxable as income, nor are they deductible.
- The value of the deceased's business interest steps up to a current market value in the deceased's 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

### Advantages to Surviving Owners

- Heirs are out of the picture and control is maintained by surviving owners.
- Avoids the need to borrow in order to purchase the deceased's interest.
- Employees, creditors, suppliers and customers feel secure in knowing that the business will continue.

### Tax Considerations for Surviving Owners\*

- New cost basis is established for the interest purchased by the surviving owners.
- Life insurance proceeds are received income tax free and are either loaned to the business to purchase or used directly to purchase the deceased's interest from the heirs.
- Annual life insurance cash value increases are tax deferred.

\*Under current federal tax law

### Advantages to the Business

- With sufficient life insurance, there is no need to use working capital or borrow money to secure control.

### Tax Considerations for the Business\*

- Life insurance premiums are not deductible for income tax purposes.

\*Under current federal tax law

### Additional Lifetime Wait-and-See 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, life insurance is underwritten by Companion Life Insurance Company, Hauppauge, NY 11788



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