



Entity purchase buy-sell plans for businesses

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

During Life



At Death



Why you should you consider a buy-sell agreement

Buy-sell planning helps preserve the control and value of a business at the death, disability, or retirement of an owner. These 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

An entity purchase agreement, sometimes referred to as a stock redemption agreement, typically provides for the complete disposition of a business interest. Under this plan, the owners agree to sell their respective interests in the business upon their death, disability, retirement, and other defined events. In turn, the business agrees to purchase their interest at that time.

To fund an entity purchase with life insurance, the business owns, pays for, and is beneficiary of a policy on each owner's life. At the death of an owner, the business receives the insurance proceeds and uses that cash to purchase the business interest from the deceased owner's estate.

While an entity purchase arrangement is the simplest type of buy-sell plan, depending on the type of entity involved, it has two potential disadvantages:

- The insurance proceeds paid to certain corporations may be subject to the corporate alternative minimum tax.
- The surviving owners might not get an increase in basis for interests purchased from the estate.

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.

Not a deposit
Not FDIC-insured
Not insured by any federal government agency
Not guaranteed by any bank or savings association
May go down in value

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