

Three Ways to fund a Section 303 Stock Redemption Plan

There are **THREE** ways a corporation can fund a Section 303 stock redemption plan:

1. **Cash Method**

The corporation could accumulate sufficient cash to redeem the stock at the owner's death. Unfortunately, it could take many years to save the necessary funds, while the full amount may be needed in just a few months or years. In addition, accumulated earnings tax problems might arise.

2. **Loan Method**

Assuming that the corporation could obtain a business loan at a time when corporate credit is likely to be impaired, borrowing the purchase price requires that future business income be used to repay the loan PLUS interest. Alternatively, the surviving spouse or an adult child could lend the money to the corporation to fund the redemption, assuming a source of funds for this purpose is available. Future corporate earnings would then need to be paid out as repayment of corporate debt.

3. **Insured Method**

Only life insurance can guarantee that the cash needed to redeem the stock will be available exactly when needed. A life insurance policy on the owner in an amount equal to the expected partial redemption is the most efficient and effective source of funds for Section 303 stock redemption purposes.