

Insured Buy-Sell Plans Comparison for Partnerships

	Cross Purchase	Entity Purchase
Description	Depending on the number of partners, each partner agrees to buy all or part of a deceased partner's interest in the partnership, and each partner agrees to sell at a predetermined price. The purchase of the partnership interest at a partner's disability or retirement can also be made part of the buy-sell agreement.	At a partner's death, the partnership agrees to buy and each partner agrees to sell the partnership interest at a predetermined price. The purchase of the partnership interest at a partner's disability or retirement can also be made part of the buy-sell agreement.
Number of Life Insurance Policies	Each partner purchases a life insurance policy on each of the other partners in an amount equal to the purchasing partner's share of the purchase price. Total number of policies needed is equal to: $N \times (N - 1)$ N = number of partners	The partnership purchases one policy on the life of each partner in an amount equal to the value of that partner's partnership interest. Total number of policies needed is equal to the number of partners.
Premium Payments	Each partner pays the nondeductible premiums for the policy(ies) he/she purchases on the other partner(s).	The partnership pays the nondeductible premiums for all policies, which has the effect of leveling premiums payments among partners according to their ownership interest.
Policy Owner and Beneficiary	Each partner should be the owner and beneficiary of the policy(ies) he/she purchases on the other partners.	The partnership should be the owner and beneficiary of the life insurance policies.

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Taxation of Death Benefits	<p>Death benefits are received income tax free by the surviving partners.</p> <p>When policy ownership is properly arranged, the death benefits will not be included in the deceased partner's estate.</p>	<p>Death benefits are received income tax free by the partnership.</p> <p>When policy ownership is properly arranged, the death benefits will not be included in the deceased partner's estate.</p>
Taxation of the Sale (prior to 2010)	<p>If the amount received by the deceased partner's estate equals the fair market value of the partnership interest at the partner's death, there will be no taxable gain for federal income tax purposes.</p> <p>If certain requirements are met, the purchase price defined in the buy-sell agreement may fix the value of the partnership for federal estate tax purposes.</p>	<p>If the amount received by the deceased partner's estate equals the fair market value of the partnership interest at the partner's death, there will be no taxable gain for federal income tax purposes.</p> <p>If certain requirements are met, the purchase price defined in the buy-sell agreement may fix the value of the partnership for federal estate tax purposes.</p>
Surviving Partner's Tax Basis	Increases to the extent of their purchase price.	Does not increase.