## Insured Buy-Sell Plans Comparison for Partnerships

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

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### **Cross Purchase**

### **Entity Purchase**

Taxation of Death Benefits Death benefits are received income tax free by the surviving partners.

When policy ownership is properly arranged, the death benefits will not be included in the deceased partner's estate.

Death benefits are received income tax free by the partnership.

When policy ownership is properly arranged, the death benefits will not be included in the deceased partner's estate.

**Taxation of the Sale** 

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.

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.

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Surviving Partner's Tax Basis

Increases to the extent of their purchase price.

Does not increase.

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