# **Insured Buy-Sell Plans Comparison for Corporations**

### **Cross Purchase**

### **Stock Redemption**

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|   |    |     |     |    |

Depending on the number of shareholders, each shareholder agrees to buy all or part of a deceased shareholder's stock, and each shareholder agrees to sell at predetermined price. The а deceased shareholder's stock is thus split among the surviving shareholders. Purchase of the stock at a shareholder's disability or retirement can also be made part of the buy-sell agreement.

Ata shareholder's death, the corporation agrees to buy and each shareholder agrees to sell the stock at a predetermined price. The stock is then retired, having the effect of increasing each surviving shareholder's percentage of ownership. Purchase of the stock at а shareholder's disability or retirement can also be made part of the buy-sell agreement.

Number of Life Insurance Policies Each shareholder purchases a life insurance policy on each of the other shareholders in an amount equal to the purchasing shareholder's share of the purchase price. The total number of policies needed is equal to: N x (N - 1), with N = number of shareholders The corporation purchases one policy on the life of each shareholder in an amount equal to the value of that shareholder's stock. The total number of policies needed is equal to the number of shareholders.

#### **Premium Payments**

Each shareholder pays the nondeductible premiums for the policy(ies) he/she purchases on the other shareholder(s).

The corporation pays the nondeductible premiums for all policies.

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# **Insured Buy-Sell Plans Comparison for Corporations**

**Cross Purchase** 

#### Each shareholder should be the The corporation should be the owner **Policy Owner and** and beneficiary of the life insurance owner and beneficiary of the **Beneficiary** policy(ies) he/she purchases on the policies. other shareholders. Death benefits are received income Death benefits are received income tax free by the surviving tax free by the corporation, but may **Taxation of Death** shareholders. When subject the policy he to **Benefits** ownership is properly arranged, alternative minimum tax. the death benefits will not be policy ownership is arranged, the death benefits will not included in the deceased shareholder's estate. included the he in shareholder's estate.

Taxation of the Sale

If the amount received by the deceased shareholder's estate equals the fair market value of the stock at the shareholder's death, there will be no taxable gain for federal income tax purposes. If certain requirements are met, the purchase price defined in the buysell agreement may fix the value of the stock for federal estate tax purposes.

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corporate

properly

deceased

When

**Stock Redemption** 

## Surviving Shareholder's **Tax Basis**

Increases to the extent of their purchase price.

Does not increase.

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