

Insured Buy-Sell Plans Comparison for Corporations

Cross Purchase

Stock Redemption

Description

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 a predetermined price. The 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.

At a 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 a 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: $N \times (N - 1)$, 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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Policy Owner and Beneficiary

Each shareholder should be the owner and beneficiary of the policy(ies) he/she purchases on the other shareholders.

The corporation should be the owner and beneficiary of the life insurance policies.

Taxation of Death Benefits

Death benefits are received income tax free by the surviving shareholders. When policy ownership is properly arranged, the death benefits will not be included in the deceased shareholder's estate.

Death benefits are received income tax free by the corporation, but may be subject to the corporate alternative minimum tax. When policy ownership is properly arranged, the death benefits will not be included in the deceased 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 buy-sell agreement may fix the value of the stock for federal estate tax purposes.

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Surviving Shareholder's Tax Basis

Increases to the extent of their purchase price.

Does not increase.