

ADVANCED MARKETS INSIGHT

Buy-Sell Plans

What Is a Buy-Sell Plan?

In a buy-sell plan, one party agrees to sell and the other agrees to buy a business interest as the result of a “triggering event,” defined as the death, disability, or retirement of an owner.

Cross Purchase Plans

In situations involving a business with less than five owners, a cross purchase design is typically used. When a triggering event occurs, the departing owner’s shares are purchased by the remaining owners. Disability and life insurance are perfectly suited to provide the amounts necessary to fund the sale of the shares. Cross purchase plans are so called because each of the business owners purchases insurance on each of the other owners.

Entity Purchase Plans

When a business has multiple partners, an entity purchase plan is more appropriate. In this arrangement, the business owners enter into an agreement in which the business will redeem the interest of a business owner upon a triggering event. This is accomplished by having the business purchase the stock of the owner at a predetermined price, or following a pre-established formula. The stock is retired and the remaining owners continue the business.

Benefits of a Buy-Sell Plan

- **“Pegs” the Value of the Business.** When a buy-sell plan is entered into and utilizes an arm’s length valuation method, the value of the business is set for estate tax purposes. For this reason, an independent third party is usually used to determine the value or valuation formula for the business.
- **Guarantees a Known Buyer.** Buy-sell plans ensure that a business interest is not sold to an unknown third party and guarantees that the interest will be sold at fair value.
- **Ensures Liquidity.** The event that triggers a buy-sell plan is often unexpected. A properly funded buy-sell plan guarantees that funds will be available to purchase the shares when needed.

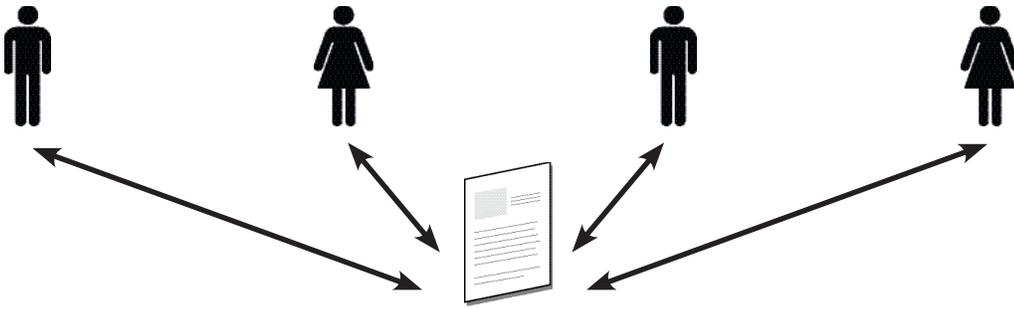
*M Financial Group’s
Advanced Markets Insights
are designed to help clients
understand sophisticated
planning strategies and
their applications.*

*M Financial Group
continues to lead the
industry in insurance due
care and client advocacy,
providing valuable insight
and analysis that delivers
significant value to clients.*

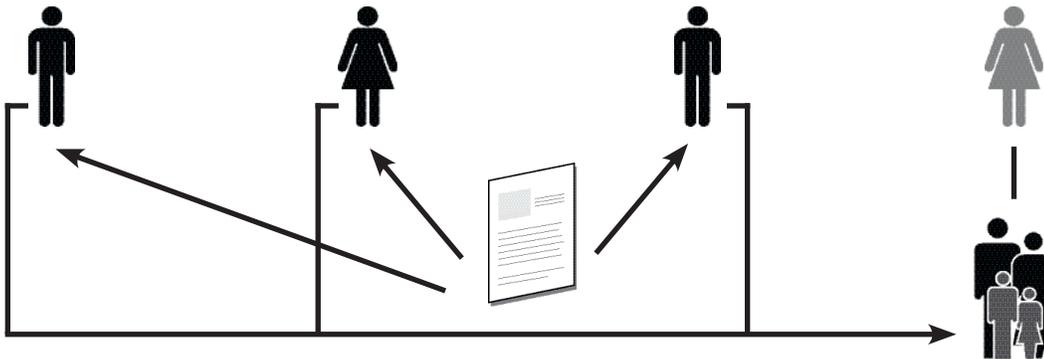


Cross-Purchase Plans

Each owner purchases a life insurance policy on each of the other owners.



At death, the surviving owners use the insurance proceeds to purchase the deceased owner's interest in the business from his/her heirs.

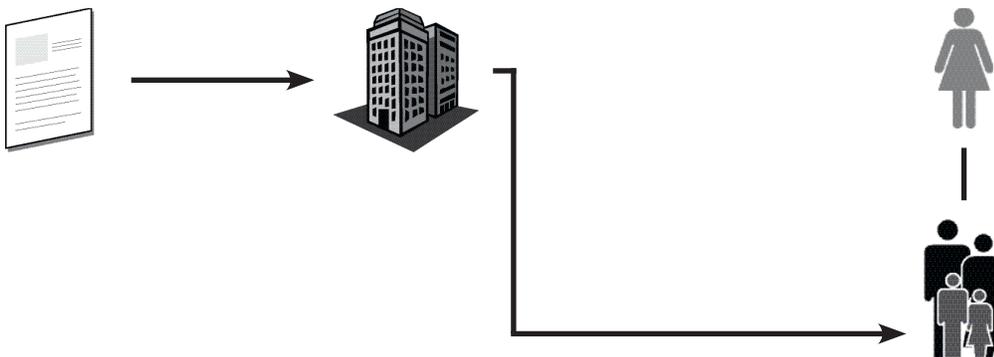


Entity Purchase Plans

The business buys a policy on the life of each owner.



At death, the business uses the insurance proceeds to purchase the deceased owner's interest in the business from his/her heirs.



For More Information

To learn more,
please contact:

Mullin Barens Sanford Financial
2242 Purdue Avenue
Los Angeles, CA 90064
Tel: 310.473.0060
www.mbsfn.com

This material is not intended to provide tax, legal, or accounting advice. This information should not be used by any taxpayer for the purpose of avoiding or circumventing IRS rules and regulations. Clients should seek the advice of their professional advisors.