



Simple buy-sell for two business owners

Case study

Consider a cross purchase buy-sell agreement when two people own a business together and want to make sure that the business continues if something happens to one of them.

How does this strategy work?

A buy-sell agreement is a contract that provides for the future sale of a business interest between business owners. In a cross purchase buy-sell agreement, each co-owner buys a life insurance policy on the life of the other co-owner, pays the annual premium and is the beneficiary of the policy they own. While this strategy can be used with more than two owners, it is generally only used with businesses that have two owners.

When one owner dies, the life insurance benefit received by the surviving owner allows them to buy the business interest from the deceased owner's estate.

Benefits of this strategy

- The policies and cash values are not subject to creditors of the business.
- The surviving shareholder will receive full basis credit for the purchase of the stock. This will reduce any capital gains tax when the surviving owner eventually sells the business.

Meet Joe and Bob

Joe and Bob each own 50% of Acme Manufacturing



- Joe is 50 years old
- Bob is 45 years old
- Each is an equal owner of Acme Manufacturing, a company that has been appraised at \$6,000,000.

Bob and Joe are looking for a plan that will provide:

- Business continuation.
- Potential tax advantages.
- A generational business transfer.

Considerations to keep in mind

- The owners need to use their own after-tax funds to purchase the life insurance policies.
- If the owners are different ages or would be rated differently, one may have to pay a disproportionate amount of premiums.
- The company cannot record the cash value in the policy as a business asset.

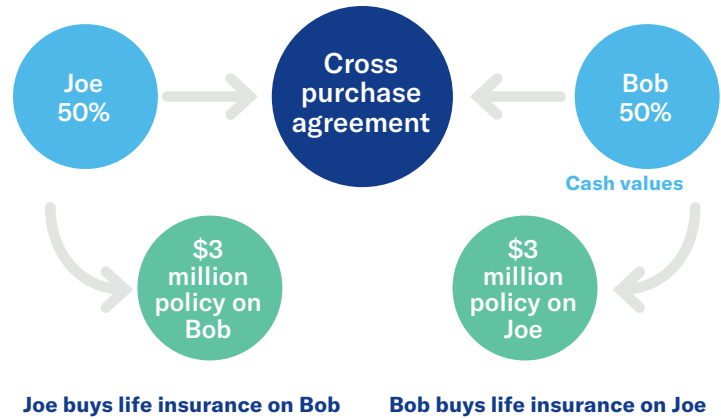
Strategy in action

Joe and Bob want to establish a buy-sell agreement so the other owner could continue the \$6,000,000 business if one passes away.

- **Joe buys a \$3,000,000 life insurance policy on Bob.**
Joe is the owner of the policy, will make the premium payments and will be the beneficiary.
- **Bob buys a \$3,000,000 life insurance policy on Joe.**
Bob is the owner of the policy, will make the premium payments and will be the beneficiary.

Considerations to keep in mind

- The owners need to use their own after-tax funds to purchase the life insurance policies.
- If the owners are different ages or would be rated differently, one may have to pay a disproportionate amount of premiums.
- The company cannot record the cash value in the policy as a business asset.



Bob unexpectedly passes away a few years later

- Joe receives the tax-free life insurance benefit of \$3,000,000.
- He uses that money to purchase Bob's share of the business from Bob's estate.

Prospective client:

- Business with two owners.
- Wants a simple way to ensure the business will continue if one owner passes away.

**For more information, please call
Equitable Advanced Markets at (860) 409-1290.**

Please be advised that this document is not intended as legal or tax advice. Accordingly, any tax information provided in this document is not intended or written to be used, and cannot be used, by any taxpayer for the purpose of avoiding penalties that may be imposed on the taxpayer. The tax information was written to support the promotion or marketing of the transaction(s) or matter(s) addressed and your clients should seek advice based on their particular circumstances from their own tax and legal advisors.

Life insurance products are issued by Equitable Financial Life Insurance Company (Equitable Financial) (NY, NY) or Equitable Financial Life Insurance Company of America (Equitable America), an Arizona stock company with an administrative office located in Charlotte, NC, and co-distributed by affiliates Equitable Network, LLC (Equitable Network Insurance Agency of California in CA; Equitable Network Insurance Agency of Utah in UT; Equitable Network of Puerto Rico, Inc. in PR) and Equitable Distributors, LLC. Variable life insurance products are co-distributed by Equitable Advisors, LLC (member

FINRA, SIPC) (Equitable Financial Advisors in MI & TN) and Equitable Distributors, LLC. When sold by New York state-based (i.e., domiciled) Equitable Advisors Financial Professionals, life insurance is issued by Equitable Financial Life Insurance Company (NY, NY).

Equitable Financial, Equitable America, Equitable Advisors, and Equitable Distributors do not provide tax or legal advice.

Equitable is the brand name of the retirement and protection subsidiaries of Equitable Holdings, Inc., including Equitable Financial Life Insurance Company (NY, NY); Equitable Financial Life Insurance Company of America, an AZ stock company with an administrative office located in Charlotte, NC; and Equitable Distributors, LLC. Equitable Advisors is the brand name of Equitable Advisors, LLC (member FINRA, SIPC) (Equitable Financial Advisors in MI & TN). The obligations of Equitable Financial and Equitable America are backed solely by their claims-paying abilities.

Annuities and Life Insurance: • Are Not a Deposit of Any Bank • Are Not FDIC Insured
• Are Not Insured by Any Federal Government Agency • Are Not Guaranteed by Any Bank or Savings Association • May Go Down in Value

For financial professional use only. Not for use with, or distribution to, the general public.

© 2024 Equitable Holdings, Inc. All rights reserved. IU-6462788.1 (3/24) (Exp. 3/28) | G2522694 | Cat. #155877 (3/24)



EQUITABLE