# An entity purchase buy-sell for businesses with multiple owners

**When there are multiple owners of a business, an entity purchase buy-sell may make sense, especially if the owners are different ages and in different health.**

## Meet Emily, Kate, Marc and George

- **25% owners in Acme Operations**
- **Business appraised at $8,000,000**
- **Want to establish a buy-sell agreement so the other owners can continue the business if one of them passes away**

### How does this strategy work?

A buy-sell agreement is a contract that provides for the future sale of a business interest, typically between the existing owners of the business. In an entity purchase buy-sell agreement, the business purchases life insurance policies on the lives of each of the co-owners. The business pays the annual premiums and is the owner and beneficiary of the policies. Because the business owns the policies, the policy cash values can be shown as an asset on its books.

When one owner dies, the business uses the life insurance proceeds to purchase the business interest from the deceased owner's estate, thus giving each surviving owner a larger share of the business.

### Benefits of this strategy:

- **Easy to administer**
  Only one policy per person needs to be purchased.
- **Equalization of payments**
  Since the business pays the insurance premiums, each owner (in essence) pays the same amount for each policy.
- **Cash value is a business asset**
  The policy's cash value will show up on the business's balance sheet as an asset.

### Considerations to keep in mind:

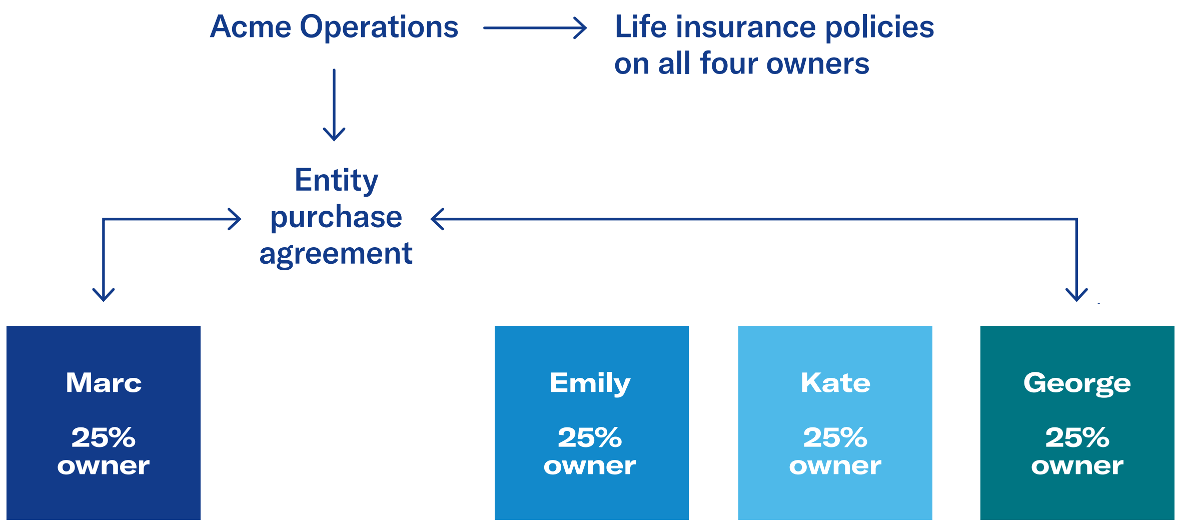
- The policies and cash value are subject to creditors of the business.
- Life insurance premiums are not tax-deductible for the business.
- The life insurance proceeds may increase the value of the business for estate tax purposes. Given the 2024 Supreme Court *Connelly* decision, business owners may want to consider alternative buy-sell strategies before an entity purchase plan. *Connelly* held a corporation's obligation to redeem a deceased shareholder's shares is not a liability that reduces the corporation's value for estate tax purposes, and therefore, the life insurance proceeds used to redeem the decedent's shares were included in the value of those shares for estate tax purposes.

# How does this strategy work?

- Emily, Kate, Marc and George are all 25% owners in Acme Operations. Their business has been appraised at $8,000,000. They want to establish a buy-sell agreement so the other owners could continue the business if one of them passes away.
- Acme Operations buys a $2,000,000 life insurance policy on each owner. The business owns the policy, pays the premiums and is the named beneficiary.

## What if Marc unexpectedly passes away a few years later?

- Acme Operations receives the tax-free life insurance benefit of $2,000,000.[1]
- Acme Operations uses the life insurance proceeds to redeem Marc's shares of the business from his estate. Now Emily, Kate and George each own one-third of the business.




### Prospective client:

- Business with multiple owners
- Wants a way to ensure the business will continue if one of the owners passes away; wants to keep business ownership among the current owners
- Wants to keep the administration of the buy-sell agreement easy, despite having multiple owners
- Would like additional business assets on the books
- Have considered if the life insurance proceeds will increase the estate tax value of a decedent's shares and that an entity purchase plan is still a better option than alternative buy-sell arrangements.

1 Under IRC § 101(j), death benefits of life insurance owned by an employer on the life of an employee may be subject to income tax, unless certain notice, consent and reporting requirements are met.

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