

## INSURANCE STRATEGIES

# Tax-Efficient Business Buy-Sell Agreements

A buy-sell agreement governs what happens to a shareholder's interest upon death, disability, departure, or disagreement. Life insurance is typically the most practical way to fund this obligation.

Why Life Insurance?

- Shareholders commit most resources to the business - insurance provides the right amount at the right time
- Unfunded buy-sells risk unwanted partners or compromising business continuity

### Two Structures:

Personally-Owned (Criss-Cross): Each shareholder owns a policy on the other(s). Premiums paid with personal after-tax dollars. Survivor receives proceeds tax-free and buys the deceased's shares from the estate. Best where the Lifetime Capital Gains Exemption is available.

Corporately-Owned: The corporation owns, pays premiums, and is beneficiary of policies on each shareholder. Effectively cheaper via lower corporate tax rates. Proceeds received tax-free; CDA is credited enabling a tax-free capital dividend to fund the buyout.

### The Agreement Should Address:

- Triggering conditions: death, disability, disagreement, departure
- Share valuation method | Funding source and procedures
- Integration with wills, powers of attorney, and trusts