

# CROSS PURCHASE BUY-SELL AGREEMENT

Will the business survive should one of the co-owners die?

As successful business partners, you've worked hard to develop systems to handle daily operations and attract customers to your business. But will the business survive if one co-owner dies? Consider developing an agreement that allows a smooth transition in ownership and provides your family with the proceeds of the sale of your interest. The new owner(s) can then get on with running the business instead of allowing for the potential of the business to languish in probate court or become dismantled by lawsuits.

### What is a Cross Purchase Buy-Sell Agreement?

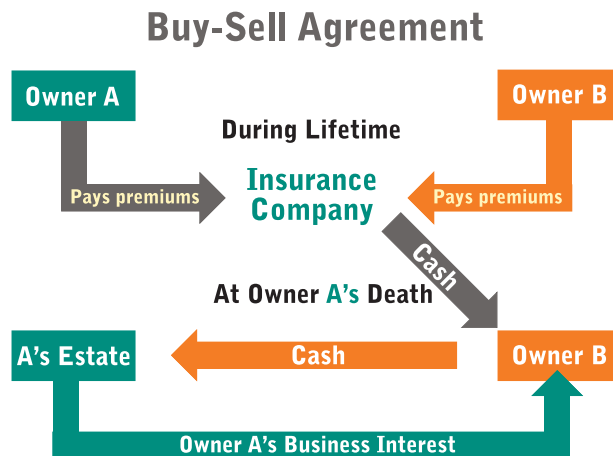
A Cross Purchase Buy-Sell Agreement provides for an orderly buy out of a business partner's interest, and is most commonly used when there are a small number of owners. It lets owners establish a reasonable price at which the parties will purchase the business. A funded buy-sell agreement then provides the purchase money.

### How does it work?

- The business owners enter into a Cross Purchase Buy-Sell Agreement. Each owner purchases a life insurance policy on the life of the other owner(s), pays the premiums to the insurance company and is named beneficiary to the policy.
- If one owner dies, the insurance company pays the death benefit to the surviving owner(s)
- The deceased owner's share of the business is purchased at the previously agreed upon price from his or her estate with the proceeds of the insurance policy
- The deceased's estate sells the business interest to the surviving owner(s). This provides liquidity for the estate and increases the cost basis for the surviving owner(s).

### What role does life insurance play?

A Buy-Sell Agreement without funding is only a partial plan. To complete the plan, each surviving owner is obligated to buy the respective interests of their co-owners and must have the funds to do so. Life insurance is an excellent tool for providing those funds. It is cost effective, easy to fund and easy to understand. Life insurance proceeds are paid exactly when the funds are needed.



If cash is not available to pay the family, the deceased owner’s family will be paid over time and will be dependent on the success of the business for the length of the term.

**Benefits of Cross Purchase Buy-Sell Agreement funded with life insurance.**

A properly funded agreement will address potential problems before they arise. It will:

- Pre-determine who will receive the business
- Set the purchase price and terms of payment
- Create a smooth transition for management and control
- Establish a price for estate tax purposes
- Guarantee financing – whenever it is needed
- Free the deceased owner’s family from business worries
- Provide the cash needed to pay personal estate taxes

TAX FACTS SUMMARY	
Buy-Sell Agreement funded with Life Insurance	
Policyowner	Individual business owners
Beneficiary	Individual business owners
Payor	Individual business owners
Premium payments	Not deductible
Death benefit	Received income tax-free
Estate tax value of business interest	Value of business as defined in buy-sell agreement
Estate’s (seller’s) tax basis in business at death	Increases to fair market value at death
Surviving owner’s tax basis	“Step-up” for the interest purchased from the estate

**What about taxes?**

There are several tax considerations to keep in mind with a Cross Purchase Buy-Sell Agreement funded with life insurance.

- Life insurance premiums paid by the individual owners are not deductible
- Death proceeds received by the surviving owners are received income-tax-free
- When the sale is complete, the remaining owners’ cost basis in the business is increased for tax purposes by the amount of the payment (“step-up” in basis)

- Generally, the estate tax value of the business is the value of the business as defined in the buy-sell agreement

Ensuring the continuation of your business with a properly drafted Cross Purchase Buy-Sell Agreement may provide more than just a mechanism for transferring the business. It may save unnecessary frustration, thousands of dollars and many hours, by eliminating the costs and delays of potential IRS contests, litigation and challenges from other internal and external business parties.

Not FDIC, NCUA/NCUSIF insured	Not insured by any federal government agency	Not a deposit	No bank or credit union guarantee	May lose value
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