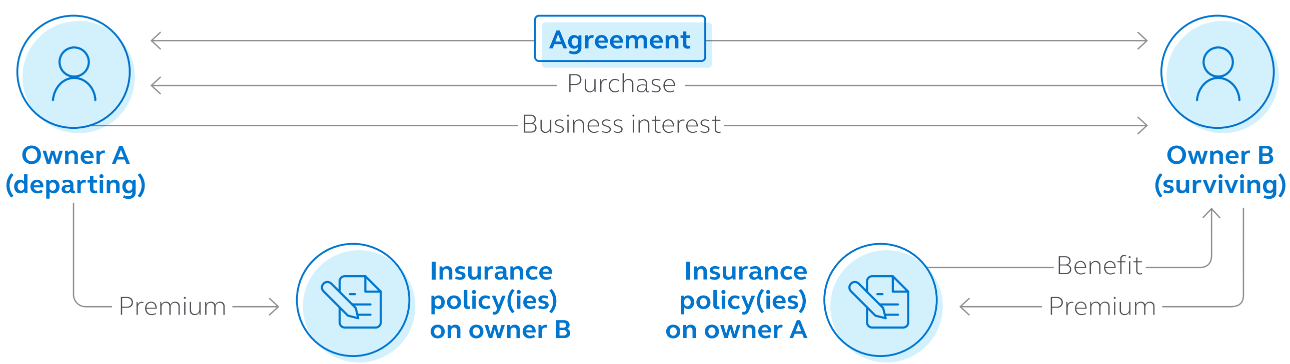
Overview | Cross purchase buy-sell agreement

Prepare today for the unknown future of your business.

Do you and your co-owners have a strategy in place to transfer your business to the right people, at the right time, for the right amount of money? Transitions are more successful when you have established a plan for your departure—whether expected or unexpected. You can protect your business by putting a buy-sell agreement in place. A **cross purchase buy-sell agreement** arranges for the remaining owners (rather than the business) to purchase a departing owner's interest. The purchase can be triggered by death, disability, divorce, retirement, or other events.

Here's how it works.

Once the agreement is in place, each owner purchases a life and/or disability buyout insurance policy on each of the other owners. Each owner is the premium payer and beneficiary of a policy on each other owner. Upon the triggering event, the remaining owners purchase the departing owner's business interest using policy cash values or benefits from the policy.



What you need to know

There are advantages to this sort of an agreement, just as there are some other things to consider.

Taxes could be minimized upon a subsequent sale. Insurance proceeds are received income tax-free.* Remaining owners receive an increased cost basis as a result of the purchase price paid to the departing owner.

Business may pay premiums. If the business pays the premiums, those dollars are taxable as a bonus to the policy owner and are generally deductible to the business.

Multiple policies may be necessary on each owner. If there are more than two business owners, multiple policies on each are required. Each business owner is the owner, premium payer, and beneficiary of policies on each of the other owners. So, if there are multiple business owners, this may become cumbersome.

Tax implications can vary by triggering event. Family members inheriting a business generally receive an adjusted basis following an owner's death. For disability or other lifetime triggering events, the selling owner may recognize capital gain.

Learn more

Contact your financial professional today.

* Based on current federal income tax laws, if insurance premiums are paid with after-tax dollars, the benefits are received income tax-free.

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