OVERVIEW | Multi-owner buy-sell strategy

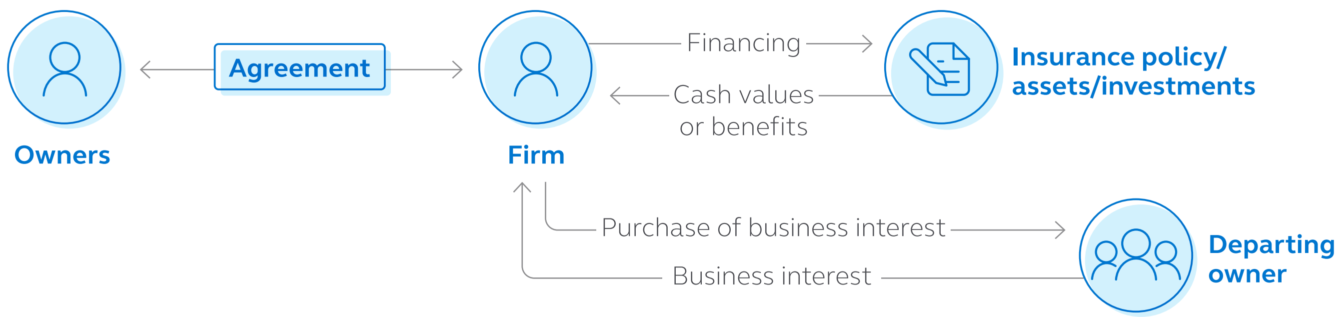
Prepare today for the **future of your business.**

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? A multi-owner buy-sell agreement can help protect the future of your firm.

This type of arrangement typically works well for multi-owner professional service firms, which often have substantial liquidity needs. This strategy avoids the pitfalls of unfunded or underfunded buy-sell agreements by establishing a funding program well before an exit occurs. The key is to carefully construct a plan that matches cash flow needs and takes into consideration triggering events that happen both at death and during the owners' lifetimes.

Here's how it works.

Once the agreement is in place, the firm purchases a life and/or disability insurance policy on each of the owners to supplement other assets/investments intended for buy-sell purposes. The firm is the owner and beneficiary of those policies. Upon any triggering event (death, disability, retirement, etc.), the firm purchases the departing owner's interest using available assets, which may include the policy death benefit (if applicable) and policy cash values.



What you need to know

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

Provides liquidity. Professional service firms have dissolved or been forced to restructure, in part due to their inability to meet the liquidity needs triggered by a departing owner.

Incentive to stay with the firm. Owners can feel more confident about the future of the firm knowing there's adequate funding to buy out a departing owner's interest.

Remaining owners may pay higher taxes later. Since the remaining owners don't purchase the departing owner's shares directly, they might not receive a full increase in basis, depending on the structure of the firm.

Tax implications can vary by triggering event. Family members generally are allowed a step-up in basis following the selling owner's death. For disability or other lifetime triggering events, the selling owner may recognize capital gain.

Family-owned businesses may require additional planning. If the departing owner's family members remain owners, special planning may be necessary.

Possible impact on value of business. The U.S. Supreme Court in *Connelly v. US* (2024) held that if the buy-sell agreement does not successfully lock-in a value for estate tax purposes, life insurance paid to a company generally increases the value of the company for estate tax purposes, with no offset for the redemption obligation. If any owner anticipates being subject to the estate tax, the owners might wish to reconsider the buy-sell design. Alternatively, additional life insurance (likely owned in an irrevocable trust) may be needed to provide liquidity to pay any estate tax that may be due.

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