BORDEN HAMMAN

BUSINESS PLANNING STRATEGIES

RETIREMENT BUY-SELL

BUY-SELL PLANNING

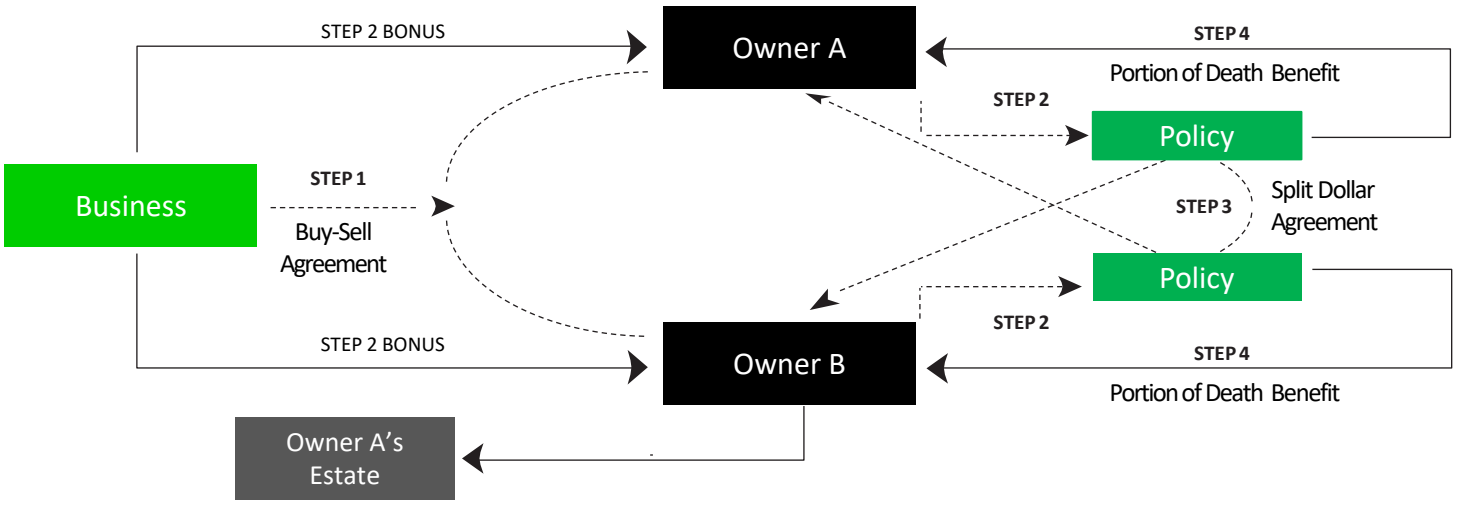
A vital component of proper planning for a business with 2+ owners.

5 STEPS TO ENSURE PROPER BUSINESS CONTINUATION BETWEEN PARTNERS

THE 5 STEPS TO PROPER BUY-SELL PLANNING

1. The business value is determined. A buy-sell agreement is entered between the two business owners which specifies when owners can sell their interest, who can buy an owner's interest and what price will be paid.
2. The business establishes an executive bonus program to provide the owners with the means to fund the buy-sell agreement. Each owner then purchases a permanent cash value life insurance policy insuring his own life for an amount sufficient to purchase his interest in the business.
3. The owners then enter into a private split dollar agreement with each other. Under the agreement, a predetermined amount of the policy's death benefit is endorsed to the surviving business owner in exchange for that owner contributing a portion of the total policy premium.[1]
4. Upon the death of an owner, the surviving owner receives the income tax free death benefit from the deceased's policy due to the private endorsement split-dollar arrangement. The surviving owner uses the funds to purchase the deceased's interest in the business, thus providing liquidity for deceased's survivors.[2]
5. If both owners survive until retirement or the business is sold, the buy sell and split dollar agreements are terminated and each owner may use their personally owned policy for retirement and/or personal death benefit needs.

STRATEGY: BUY-SELL PROCESS MAP



[1] *There are annual tax implications associated with a private split dollar agreement. As Owner A is receiving death benefits from Owner B, Owner A receives an economic benefit (the annual economic benefit is derived from a calculation based on the endorsed death benefit). Therefore, Owner A pays Owner B via personal check, the value of the economic benefit. Owner B reports the amount received from Owner B as taxable income.*

[2] *Distributions are generally treated first as a tax free recovery of basis and then as taxable income, assuming the policy is not a Modified Endowment Contract (MEC). Different rules apply in the first fifteen policy years, when distributions accompanied by benefit reductions may be taxable prior to basis recovery*

Most insurance policies contain exclusions, limitations, reductions of benefits, and terms for keeping them in force. Ask your financial professional to provide you with costs and complete details. Guarantees are based on the claims-paying ability of the issuing insurance company. This material is being provided for informational or educational purposes only and does not take into account theinvestment objectives or financial situation of any client or prospective clients. ***The information is not intended as investment advice***

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P: (800) 492-9190
E: marketing@bordenhamman.com
Bordenhamman.com

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