# Buy-Sell Agreement

In order to guarantee a buyer for the interest in a business (particularly a minority interest which may be of very little value to one's heirs), consideration should be given to a lifetime agreement among the business owners as to how to dispose of the business.

## Entity Plan

Under an entity plan the corporation (or partnership) buys the interest of the deceased business owner. This type of arrangement is often used when there are several owners.


## Cross-Purchase Plan

Under this plan each surviving owner agrees to buy the interest of any deceased owner.


An attorney should be consulted in deciding which plan is better.

## Advantages of Buy-Sell Agreements

- Guarantees a buyer for an asset that probably will not pay dividends to one's heirs.
- Can establish a value for federal estate tax purposes that is binding on the IRS. See IRC Sec. 2703.
- Spells out the terms of payment and is easily funded with life insurance and disability insurance, if desirable.[1]
- Provides a smooth transition of complete control and ownership to those who are going to keep the business going.

[1] Buy-sell agreements are frequently funded with life insurance. Under the provisions of IRC Sec. 101(j), added by the Pension Protection Act of 2006, death proceeds from a life insurance policy owned by an employer on the life of an employee are generally includable in income, unless certain requirements are met. State or local law may vary. Professional legal and tax guidance is strongly recommended.