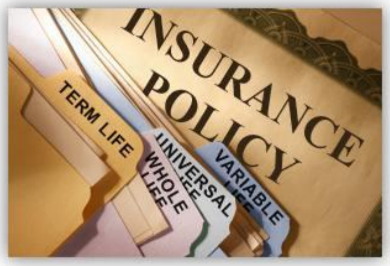
Methods of Funding a Buy-Sell Agreement

In the event of a business owner's death, there are several options to consider for funding a Buy-Sell agreement.



- **Personal funds of buyers:** Most successful business people do not keep large sums of liquid assets on hand. They have their money working in their businesses.
- **Sinking fund in the business:** Such a fund will be inadequate if death is premature and the time of need is uncertain. A corporation may develop an accumulated earnings tax problem.
- **Borrowed funds:** Loss of key person (an owner) may impair the credit worthiness of the business and other partners or shareholders. Interest costs may be excessive, and interest expense of shareholders or partners may not be deductible.
- **Installment payments to heirs by buyer:** The business may fail and the payments stop. The principal and interest payments may be too burdensome.
- **Life insurance owned by the buyer:**

    - Complete financing guaranteed from the beginning.
    - Proceeds may be free from income tax; see IRC Sec. 101(j).
    - Cash values can be used for a buyout due to retirement or disability.
    - It is generally the most economical method.
    - Credit position is strengthened.