



## The Concept Exchange

# BUSINESS PLANNING

## Wait-and-See Buy-Sell Agreement

These materials contain statements regarding the tax treatment of certain financial assets and transactions. These statements represent only our current understanding of the law in general and are not to be considered legal or tax advice by purchasers. Business tax rules and the tax treatment of life insurance are subject to change at any time. Neither West Coast Life nor its representatives offer legal or tax advice. Purchasers should consult with their legal or tax adviser regarding their individual situations before making any tax-related decisions.

**Situation.** Small business owners may wish to enter into agreements with each other—called **buy-sell agreements**—for the orderly sale of their business interests upon retirement, disability, or death. The two basic agreements are Cross Purchase Buy-Sell (the owners serve as buyers) and Entity Purchase Buy-Sell (the business serves as buyer). Choosing between a Cross-Purchase and Entity Purchase Buy-Sell Agreement may be difficult due to uncertainties about the owners, their business, or future tax laws.

**Strategy.** One possible solution may be the **Wait-and-See Buy-Sell Agreement**, which combines features of both Cross-Purchase and Entity Purchase Buy-Sell Agreements. Depending upon how the agreement is funded—and whether the entity or surviving owners ultimately purchase the deceased owner's interest—the arrangement can function as either an **Entity Purchase or Cross-Purchase Buy-Sell Arrangement, or combination of both.**

**How it Works.** Typically, the business entity is given a first option to buy all or any portion of the deceased owner's business interest within a specified time after the death. If the entity does not fully exercise its purchase option, the surviving owners may buy the rest. But if they fail to do so, the entity must then redeem the balance. Wait-and-See Buy-Sell Arrangements are often funded with life insurance policies, which can be owned by a Trustee on behalf of the entity or individual business owners.

### Advantages of Wait-And-See Buy-Sell Arrangement

- **Provides maximum flexibility.** Rather than commit to a particular approach, the owners can adopt a strategy to wait until after an owner's death before determining and implementing the strategy that may be most advantageous for them and their business.
- **Provides all the benefits of conventional buy-sell agreements.** The owners agree to sell their business interests upon a triggering event, such as death. Each owner and their representatives are committed to sell their business interests at a pre-determined price and time, whether the transaction is structured as a redemption, cross-purchase, or a combination of the two.

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No Bank Guarantee	Not FDIC Insured	May Lose Value

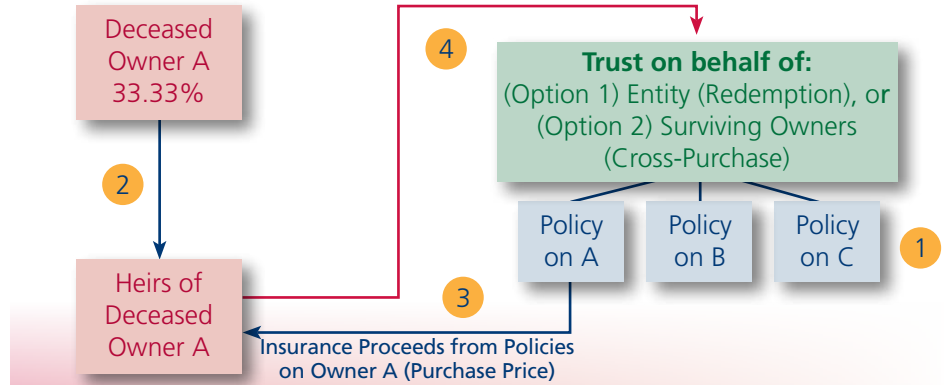


**West Coast Life  
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## WAIT-AND-SEE BUY-SELL ARRANGEMENT

Death of Owner A



Special considerations are involved to preserve the tax-free nature of the life insurance death proceeds when using a trust as owner of the policies in conjunction with a buy-sell agreement, particularly as it relates to corporations. The customer should consult with his or her tax advisors to fully address such considerations.

### Disadvantages of Wait-And-See Buy-Sell Arrangement

- When life insurance is used to fund the Wait-And-See Buy-Sell Agreement, the policies can be owned by the business entity or the individual owners. Deciding which is best can be a challenge.
- Care must be taken to avoid dividend treatment where a C corporation is given the right of first refusal. In some instances, the redemption may be taxable as a dividend to the surviving owners.

**For more information, contact your Financial Representative.**

Life insurance is issued by West Coast Life Insurance Company (WCL), 2801 Highway 280 South, Birmingham, AL 35223.



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