

# Transfer a Business and Leave a Legacy

Using a Buy-Sell Strategy with Life Insurance as a Wealth Transfer Tool



**Goal:** Protect the family business and transfer it to family members who are active in the business—without disinheriting those who are not.

## Profile

### Diaz Family | \$8M Estate

- Alejandro, age 70, widower and business owner
- Daughters Alexa, age 50, and Carmina, age 48
- Grandson Chad, age 30

## Scenario

Alejandro has built up his residential renovation construction business and wants to ensure the business stays in the family. His daughters are not interested or involved in the business, but his grandson is. Chad studied construction management in college and interned with his grandfather's company. Now 30 years old, he is involved in the day-to-day management and business development. Upon his death, Alejandro wants to transfer the business to Chad, and provide for his daughters when he's gone.

## Approach

Alejandro enters into a buy-sell agreement that obligates Chad to buy the business at Alejandro's death. In order to fund the buy-sell, Chad purchases a \$5M life insurance policy on Alejandro's life, equal to the value of the business. Chad is the owner and beneficiary of the policy; the business provides Chad with a bonus each year, to pay the insurance premiums. The business is included in Alejandro's estate, and when he passes, the life insurance proceeds will be paid income tax-free<sup>1</sup> to Chad, providing him liquidity to purchase the family business from his grandfather's estate, as outlined in the buy-sell agreement.

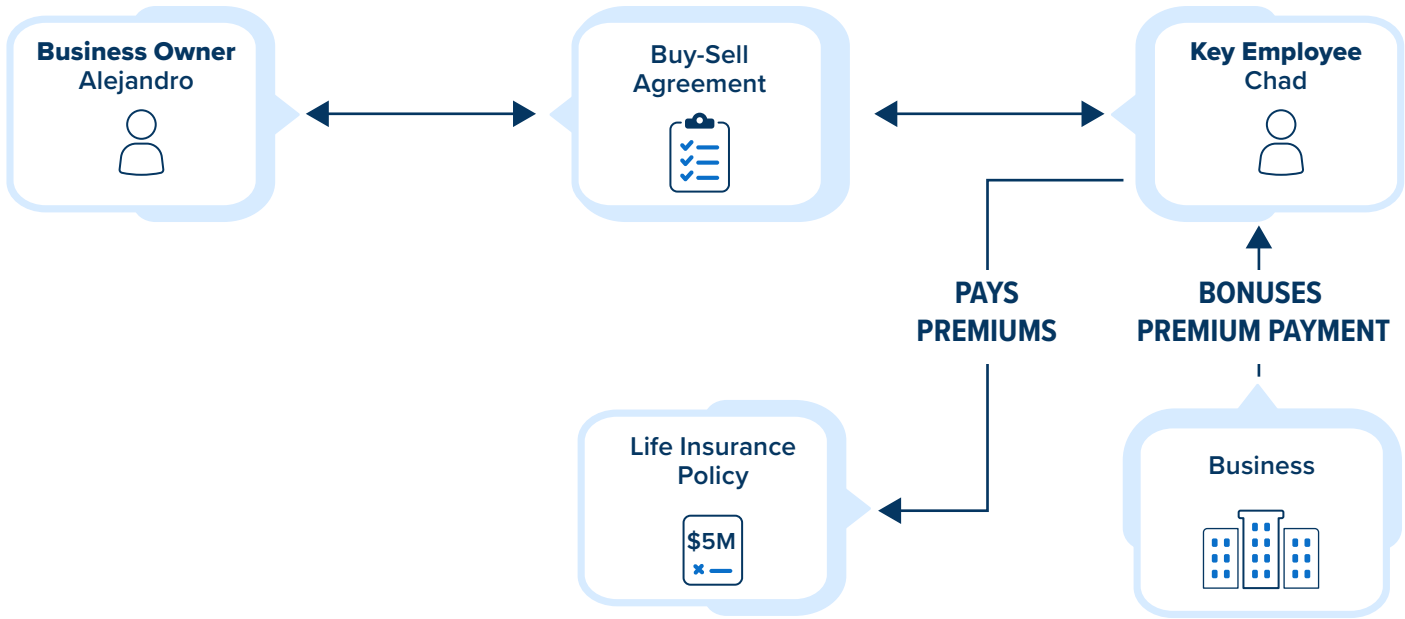


## What is a Buy-Sell Agreement?

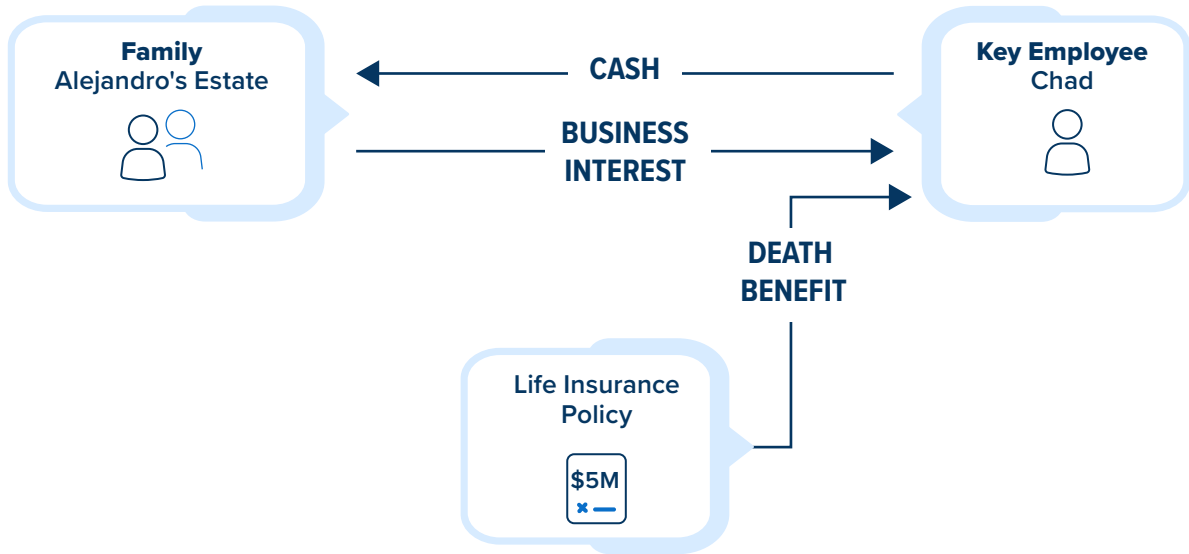
A buy-sell agreement is a document that lays out exactly how a business will divide its assets and ownership in the event the owner passes away or wants to get out of the business. It spells out who will take over the business, how they will purchase it, and details about how and when the owner's interest in the business will be transferred to the person taking over.

<sup>1</sup> For federal income tax purposes, life insurance death benefits are generally paid income tax-free to beneficiaries pursuant to IRC Sec. 101(a)(1). In certain situations, however, life insurance death benefits may be partially or wholly taxable. Situations like these include, but are not limited to the following: the transfer of a life insurance policy for valuable consideration unless the transfer qualified for an exception under IRC Sec. 101(1)(2), i.e.: the transfer-for-value rule; arrangements that lack an insurable interest based on state law; and an employer-owned policy unless the policy qualifies for an exception under IRC Sec. 101(j).

DURING LIFETIME



AT DEATH OF OWNER



**Result:** Alejandro now knows that when he passes, his business will be in good hands and under the control of his grandson, Chad. He also knows that his daughters will be provided for after he's gone.

**A life insurance policy can help you achieve your wealth transfer, business succession, and estate planning goals more efficiently. For more information, talk to your financial professional.**

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