

Information for the Consideration of
Valued Business

Presented by:

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LifeSource

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Assisting a Key Employee to Fund an Insured Buy-Sell Plan

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How Can a Sole Owner Assist a Key Employee with the Premiums Needed to Fund an Insured Buy-Sell Plan?

A key employee who plans to purchase the business at a sole owner's death guarantees personal job security without the risks associated with launching a new business venture.

If, however, payment of the life insurance premiums required to fund an insured buy-sell plan imposes a financial hardship on the key employee, it may be to the owner's advantage to help the key employee with the premium payments. In this way, the owner assures his or her family of receiving the full value of the business at the owner's death.

There are three ways a sole owner can assist a key employee with the premiums required to fund an insured buy-sell plan:

Salary Increase

The owner could increase the key employee's compensation to cover at least a portion of the insurance premiums.

Personal Loan

The owner could make a personal loan to the key employee for at least a portion of the insurance premium. A schedule for the repayment of these loans could then be included in the buy-sell agreement.

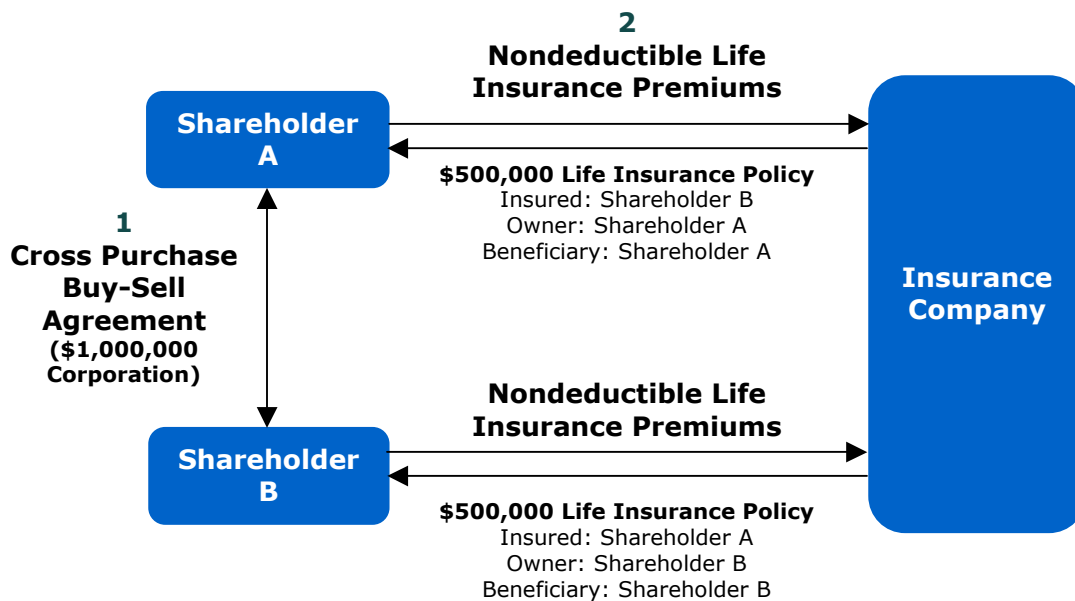
Split-Dollar Plan

The owner could loan the key employee all or part of the insurance premium, with the loans secured by a collateral assignment of the insurance policy. Unless the key employee pays the employer market-rate interest on the loans, however, the key employee is taxed each year on the difference between market-rate interest and the actual interest paid, if any.

Insured Cross Purchase Buy-Sell Plan for Corporations in Action

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Here's how an insured cross purchase buy-sell plan could work for your corporation *today...*

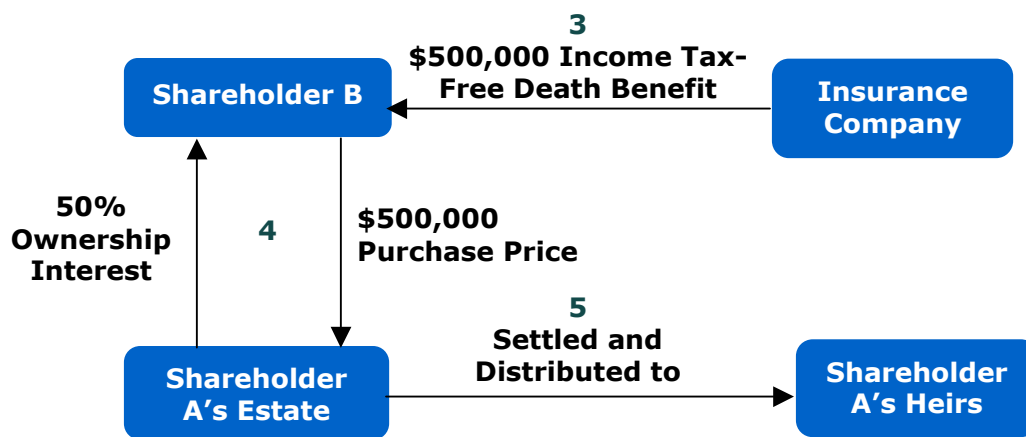


1. The shareholders enter into a cross purchase buy-sell agreement under which they agree to buy a deceased shareholder's stock and the deceased shareholder's executor is directed to sell that stock to the surviving shareholder(s) for an agreed-upon price. The corporation itself is not part of the agreement.
2. Each shareholder owns, is the beneficiary of and pays the nondeductible premiums for life insurance on the other shareholder(s) in an amount equal to that shareholder's portion of the purchase price.

Insured Cross Purchase Buy-Sell Plan for Corporations in Action

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Here's how an insured cross purchase buy-sell plan could work *at Shareholder A's death...*

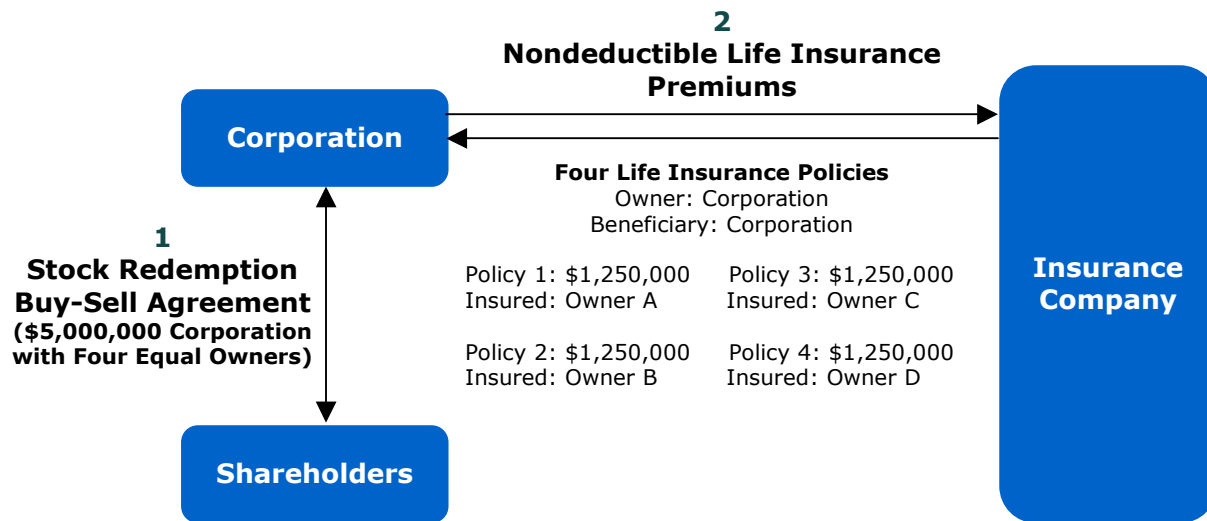


3. At a shareholder's death, each surviving shareholder receives the income-tax-free death benefit from the life insurance policy owned on the deceased shareholder.
4. The surviving shareholder(s) then use the proceeds of the life insurance to buy the stock from the deceased shareholder's estate for the purchase price agreed upon in the buy-sell agreement.
5. After settling the estate, the executor distributes the balance of the estate to the deceased shareholder's heirs.

Insured Stock Redemption Buy-Sell Plan for Corporations in Action

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Here's how an insured stock redemption buy-sell plan could work for your corporation *today*...

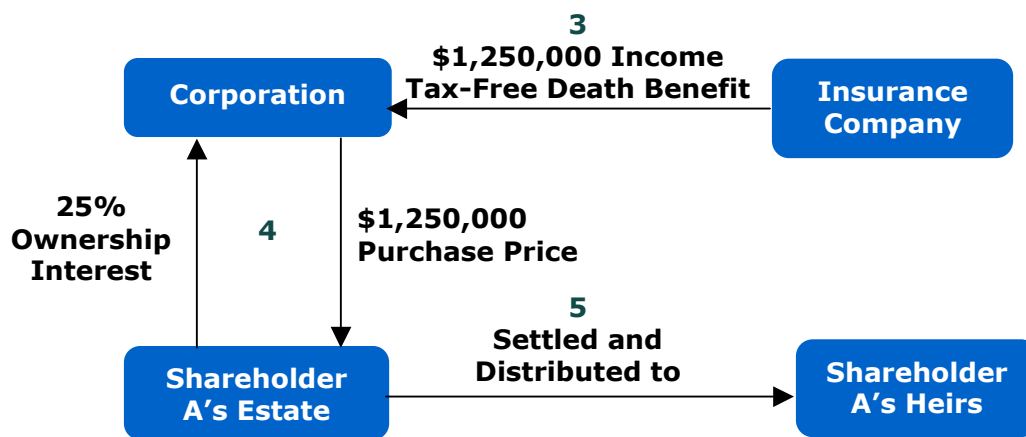


1. The corporation and its owners enter into a stock redemption buy-sell agreement under which the corporation agrees to buy a deceased shareholder's stock and the deceased shareholder's executor is directed to sell that stock to the corporation for an agreed-upon price.
2. The corporation owns, is the beneficiary of and pays the nondeductible premiums for insurance on each shareholder's life in an amount approximately equal to each shareholder's interest in the business.

Insured Stock Redemption Buy-Sell Plan for Corporations in Action

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Here's how an insured stock redemption buy-sell plan could work *at Shareholder A's death...*



3. At a shareholder's death, the corporation receives the income-tax-free death benefit from the life insurance policy it owns on the deceased shareholder.
4. The corporation uses the proceeds of the life insurance to buy the stock from the deceased shareholder's estate for the purchase price agreed upon in the buy-sell agreement.
5. After settling the estate, the executor distributes the balance of the estate to the deceased shareholder's heirs.

Insured Buy-Sell Plans Comparison for Corporations

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	Cross Purchase	Stock Redemption
Description	Depending on the number of shareholders, each shareholder agrees to buy all or part of a deceased shareholder's stock, and each shareholder agrees to sell at a predetermined price. The deceased shareholder's stock is thus split among the surviving shareholders. Purchase of the stock at a shareholder's disability or retirement can also be made part of the buy-sell agreement.	At a shareholder's death, the corporation agrees to buy and each shareholder agrees to sell the stock at a predetermined price. The stock is then retired, having the effect of increasing each surviving shareholder's percentage of ownership. Purchase of the stock at a shareholder's disability or retirement can also be made part of the buy-sell agreement.
Number of Life Insurance Policies	Each shareholder purchases a life insurance policy on each of the other shareholders in an amount equal to the purchasing shareholder's share of the purchase price. The total number of policies needed is equal to: $N \times (N - 1)$, with $N =$ number of shareholders	The corporation purchases one policy on the life of each shareholder in an amount equal to the value of that shareholder's stock. The total number of policies needed is equal to the number of shareholders.
Premium Payments	Each shareholder pays the nondeductible premiums for the policy(ies) he/she purchases on the other shareholder(s).	The corporation pays the nondeductible premiums for all policies.
Policy Owner and Beneficiary	Each shareholder should be the owner and beneficiary of the policy(ies) he/she purchases on the other shareholders.	The corporation should be the owner and beneficiary of the life insurance policies.

Insured Buy-Sell Plans Comparison for Corporations

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	Cross Purchase	Stock Redemption
Taxation of Death Benefits	Death benefits are received income tax free by the surviving shareholders. When policy ownership is properly arranged, the death benefits will not be included in the deceased shareholder's estate.	Death benefits are received income tax free by the corporation, but may be subject to the corporate alternative minimum tax. When policy ownership is properly arranged, the death benefits will not be included in the deceased shareholder's estate.
Taxation of the Sale (prior to 2010)	If the amount received by the deceased shareholder's estate equals the fair market value of the stock at the shareholder's death, there will be no taxable gain for federal income tax purposes. If certain requirements are met, the purchase price defined in the buy-sell agreement may fix the value of the stock for federal estate tax purposes.	If the amount received by the deceased shareholder's estate equals the fair market value of the stock at the shareholder's death, there will be no taxable gain for federal income tax purposes. If certain requirements are met, the purchase price defined in the buy-sell agreement may fix the value of the stock for federal estate tax purposes.
Surviving Shareholder's Tax Basis	Increases to the extent of their purchase price.	Does not increase.

Four Ways to Fund a Buy-Sell Plan

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There are **FOUR** ways to fund a buy-sell plan at an owner's death:

1. **Cash Method**

The purchaser(s) could accumulate sufficient cash to buy the business interest at the owner's death. Unfortunately, it could take many years to save the necessary funds, while the full amount may be needed in just a few months or years.

2. **Installment Method**

The purchase price could be paid in installments after the owner's death. For the purchaser(s), this could mean a drain on business income for years. In addition, payments to the surviving family would be dependent on future business performance after the owner's death.

3. **Loan Method**

Assuming that the new owner(s) could obtain a business loan, borrowing the purchase price requires that future business income be used to repay the loan PLUS interest.

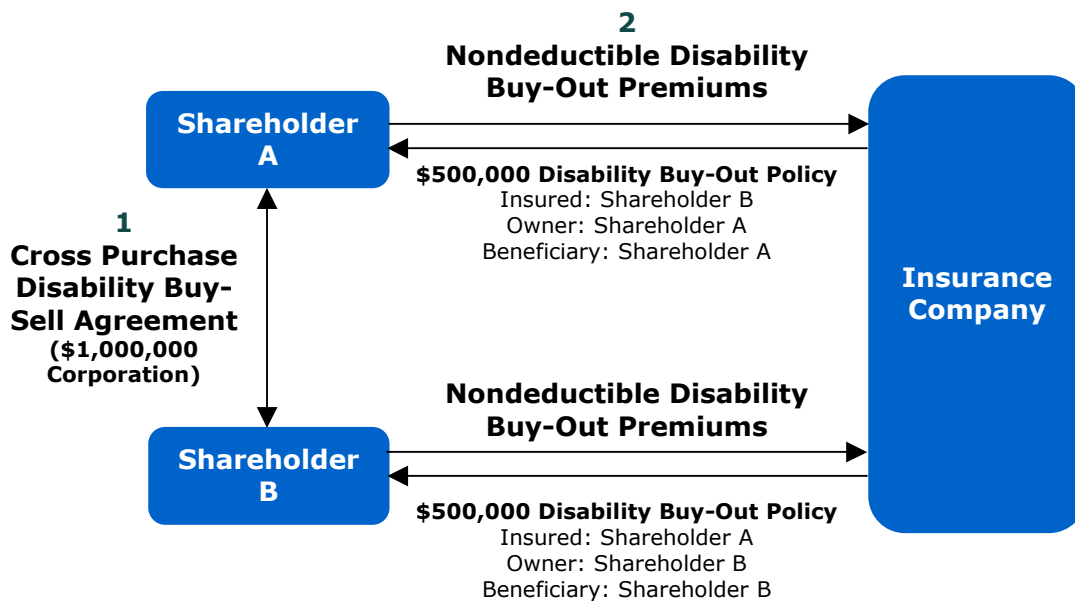
4. **Insured Method**

Only life insurance can guarantee that the cash needed to complete the sale will be available exactly when needed at the owner's death, assuming that the business has been accurately valued.

Insured Cross Purchase Disability Buy-Sell Plan for Corporations in Action

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Here's how an insured cross purchase disability buy-sell plan
could work for your corporation *today...*

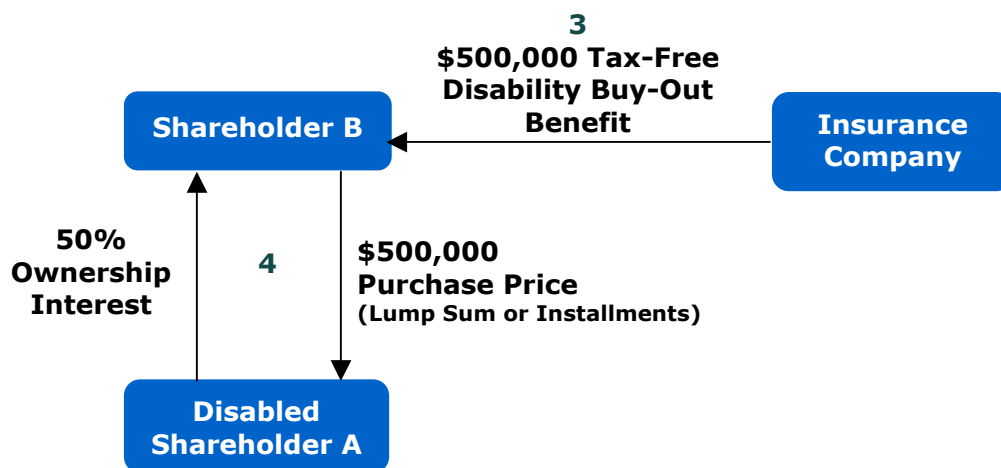


1. The shareholders enter into a disability cross purchase buy-sell agreement under which they agree to buy a totally and permanently disabled shareholder's stock and the disabled shareholder agrees to sell that stock to the healthy shareholder(s) for an agreed-upon price. The corporation itself is not part of the agreement.
2. Each shareholder owns, is the beneficiary of and pays the nondeductible premiums for disability buy-out insurance on the other shareholder(s) in an amount approximately equal to that shareholder's portion of the purchase price.

Insured Cross Purchase Disability Buy-Sell Plan for Corporations in Action

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Here's how an insured cross purchase disability buy-sell plan could work *if Shareholder A is totally and permanently disabled...*

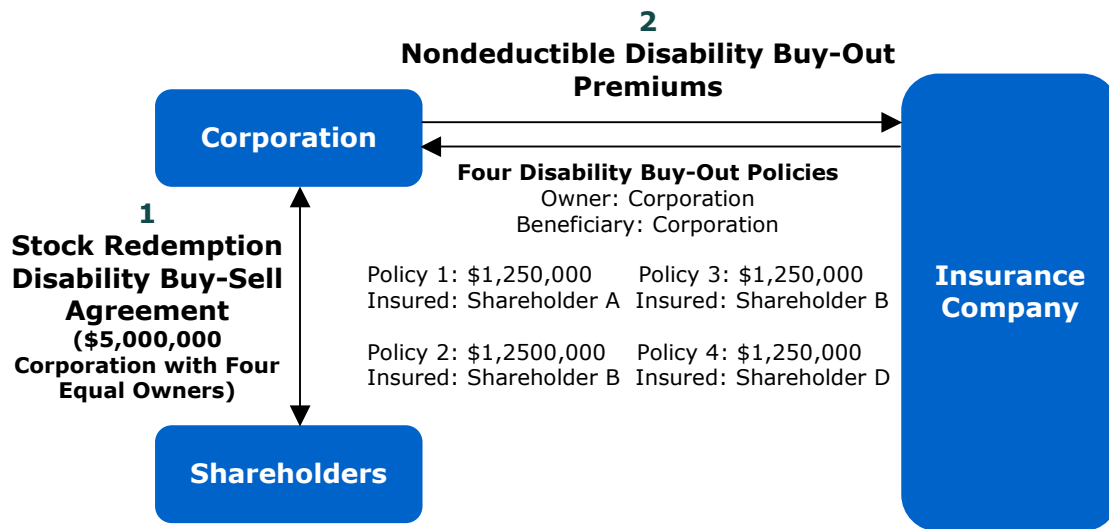


3. If a shareholder becomes totally and permanently disabled, each remaining shareholder receives the income-tax-free disability buy-out benefit from the policy owned on the disabled shareholder.
4. The healthy shareholder(s) then use the proceeds to purchase, in a lump sum or installments, the stock from the disabled shareholder for the purchase price agreed upon in the buy-sell agreement.

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Here's how an insured stock redemption disability buy-sell plan could work for your corporation *today...*

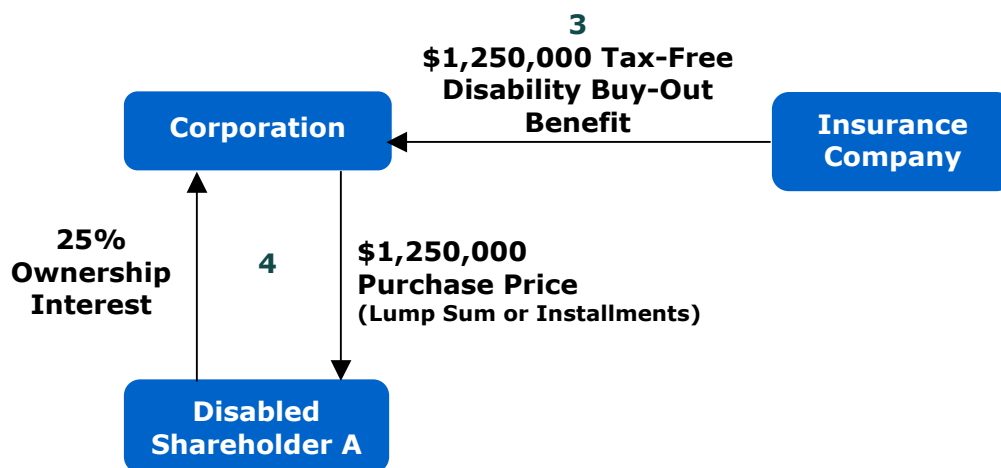


- 1.** The corporation and its owners enter into a disability stock redemption buy-sell agreement under which the corporation agrees to buy a totally and permanently disabled shareholder's stock and the disabled shareholder agrees to sell that stock to the corporation for an agreed-upon price.
- 2.** The corporation owns, is the beneficiary of and pays the nondeductible premiums for disability buy-out insurance on each shareholder in an amount approximately equal to each shareholder's interest in the business.

Insured Stock Redemption Disability Buy-Sell Plan for Corporations in Action

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Here's how an insured stock redemption disability buy-sell plan could work *if Shareholder A is totally and permanently disabled...*



3. If a shareholder becomes totally and permanently disabled, the corporation receives the income-tax-free disability buy-out benefit from the policy it owns on the disabled shareholder.
4. The corporation uses the proceeds of the disability buy-out policy to purchase, in a lump sum or installments, the stock from the disabled shareholder for the purchase price agreed upon in the buy-sell agreement.

Four Ways to Fund a Disability Buy-Sell Plan

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There are **FOUR** ways a disability buy-out plan can be funded:

1. **Cash Method**

The business or its owners could accumulate sufficient cash to buy the business interest at an owner's disability. Unfortunately, it could take many years to save the necessary funds, while the full amount may be needed in just a few months or years.

2. **Installments from Current Earnings Method**

The purchase price could be paid in installments after an owner's disability. For the remaining active owners, this could mean a drain on business income for years. In addition, payments to the disabled owner would be dependent on future business performance after the owner's disability.

3. **Loan Method**

Assuming that the business could obtain a business loan after an owner's disability, borrowing the purchase price requires that future business income be used to repay the loan PLUS interest.

4. **Insured Method**

Only disability buy-out insurance can guarantee that the cash needed to complete the sale, through either a single sum or installment purchase, will be available exactly when needed, assuming that the business has been accurately valued.