



## No-Sell Buy-Sell Arrangement

If you work with business clients helping to structure and fund buy-sell arrangements, you've probably met business owners who have yet to realize the rewards of the work they put into building their business. While they project substantial appreciation in the future, they worry that if they die too soon their heirs might lose the right to share in this potential bonanza. If the business owners have a desire to equalize the benefits between the first and last to die and all agree that a deceased owner's heirs should share in the anticipated future appreciation, the "no-sell buy-sell" may be a solution.

**Facts:** ABC Corporation has been in business for seven years. Its two owners, Abbott (age 45) and George (age 40), each contributed \$500,000 to start the company. The company just introduced a new product that is expected to stimulate substantial growth in the company especially in the international market. The company's current fair market value (FMV) of \$5 million is expected to double over the next decade.

**Solution:** Recognizing that the business is on the verge of rapid growth, a no-sell buy-sell arrangement may be the right choice. Here are the necessary steps:

- ABC common stock is recapitalized so that each owner has 10 voting shares and 90 nonvoting shares.
- Each owner sets up an irrevocable life insurance trust (ILIT) and makes gifts to that ILIT to provide funds to pay life insurance premiums. The ILIT then purchases \$2.5 million of life insurance on its respective donor and is the owner, beneficiary, and premium payer of the policy. The death proceeds will replace the cash that would be received by heirs under a more traditional buy-sell agreement.
- The owners enter into a cross purchase agreement where the survivor agrees to buy only the voting stock at the other's death. The nonvoting stock will pass directly to family heirs or to a trust for their benefit. Each owner is the owner and beneficiary of a policy

on the life of the other owner to help fund the buyout of the voting interest.

### Here's What Happens at Abbott's Death.

- A \$2.5 million death benefit is paid to Abbott's ILIT. This money can be used to support the heirs or provide liquidity for estate taxes.
- George buys ABC Corporation voting stock from Abbott's estate. The value of the voting shares is \$250,000.
- Abbott's heirs retain the nonvoting shares. The value of the nonvoting stock may be discounted for lack of control, resulting in estate tax savings.

**Product Selection for Buy-Sell:** While the ILITs for both Abbott and George purchased a single life product providing a death benefit guarantee; to help fund the buyout of the voting stock, Abbott and George selected the PruLife® Universal Plus because:

- **If Either Dies Before Retirement:** The Death Benefit Option C with Interest feature provides growth in the total death benefit, which may help meet growth in voting stock value.
- **If They Live to Retirement:** The competitive long-term cash value accumulation can be accessed to help supplement retirement. Of course, withdrawals and loans reduce policy cash values and death benefits, may affect any guarantees against lapse, and may have tax consequences.
- **Plus:** Prudential's underwriting criteria with international travel and experience in financial underwriting of relatively new businesses resulted in Abbott and George receiving the face amount and underwriting rating desired.

### CHART IS ATTACHED

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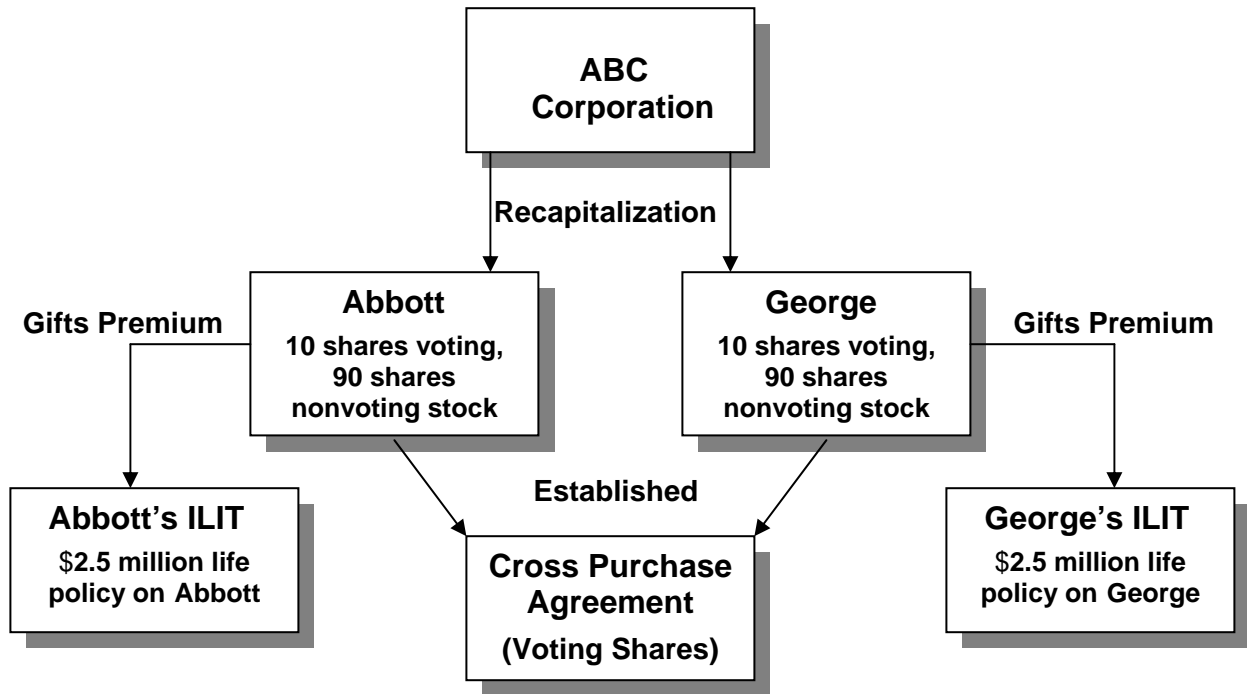
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**QUESTIONS? CALL ADVANCED MARKETING**

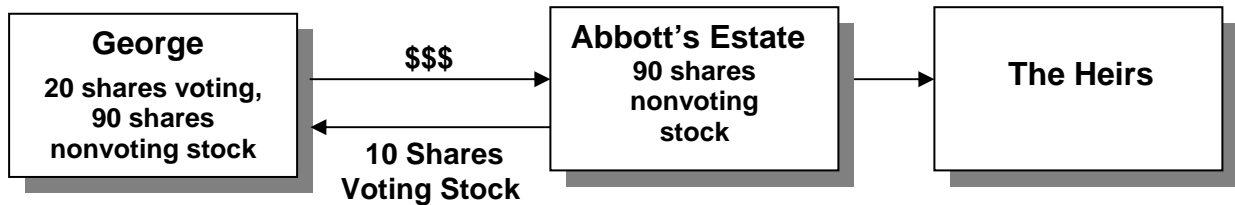
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## Structure of the No-Sell Buy-Sell Arrangement



**AT ABBOTT'S DEATH, the cross purchase arrangement is honored**



### The Results ...

- George owns 100% of the voting and 50% of the nonvoting stock and retains control of the business.
- Abbott's heirs own 50% of the nonvoting stock and continue to share in the upside potential of the business.
- Abbott's ILIT has access to \$2.5 million cash for estate liquidity purposes or to purchase the nonvoting shares.
- Abbott's estate may be able to value the nonvoting stock at a discount, thereby reducing the estate tax due.