



Modern Buy/Sell Agreement

Using the LLC Buy/Sell Agreement Method

A Limited Liability Company (LLC) offers business owners the protection of a corporation and the flexible tax characteristics of a partnership. Planners are now using LLCs to help their clients address everything from asset protection to estate planning. LLCs have shown themselves to be particularly useful in buy/sell agreements for business owners in a way that not only addresses the potential death of an owner, but retirement, as well, in a tax efficient manner.

Two of the most common buy/sell formats are Entity Purchase Buy/Sell and Cross-Purchase Buy/Sell. Both types are frequently funded with life insurance and assures that in the event of an owner's death that the remaining owners remain control of the business and the deceased owner's family can be paid for their share of the business. Some of the limitations which arise in traditional buy/sell agreements such as Entity Purchase Buy/Sell and Cross-Purchase Buy/Sell are tax consequences depending on business entity structure, policy design limitations, and administrative complexity.

An alternative to these types of buy/sell agreements is for the business owners to use an LLC Buy/Sell agreement. The business owners would utilize an LLC taxed as a partnership to own one policy on the life of each owner. Although conceptually similar to a trustee cross purchase plan, the key difference arises from the fact that partnership taxation, which is not available for trusts, can result in greater flexibility and potentially favorable economics.

This type of buy/sell agreement would be a great fit for any business partnership which would enjoy the greater flexibility and tax efficiency that this type of plan may be able to provide them. Please make sure to meet with you financial, tax, and legal experts before putting a plan in place.



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