



Help to protect the future of your business

Discover how a Cross Purchase Buy-Sell Arrangement can help

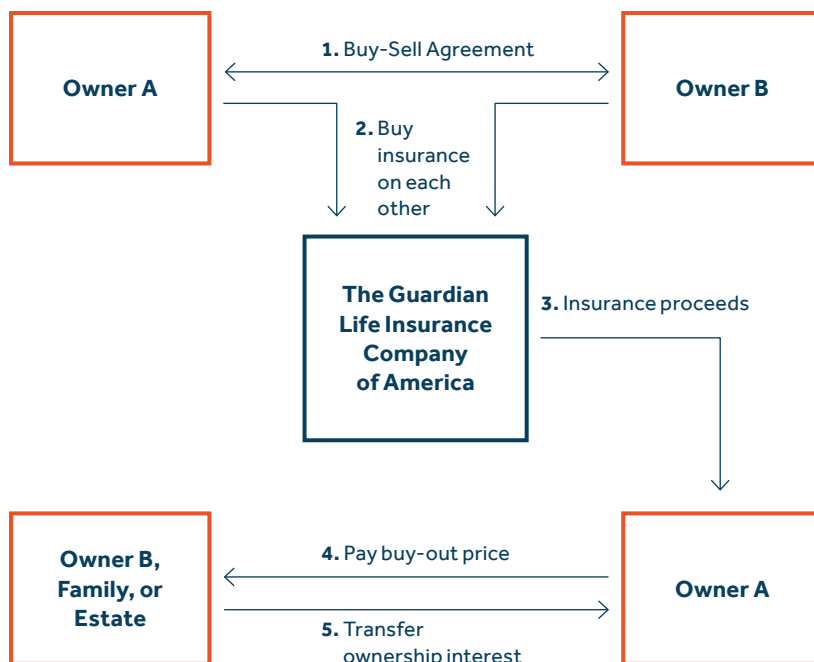
When you're running a business — particularly a successful one — it's easy to get caught up in ensuring that things are done right today. But it's also important to give some thought to the future, and special consideration to what would happen to your business if you or one of your co-owners were to die. For example, would you and your other co-owners be in a position to buy out the business share of the owner who passed away?

Business continuation planning can help you ensure that your company will continue on, with or without the co-owners you are in business with today. And one valuable business continuation planning tool you may wish to consider is the Cross Purchase Buy-Sell Arrangement.

What is a Cross Purchase Buy-Sell Arrangement?

The Cross Purchase Buy-Sell Arrangement anticipates that a business owner will be the buyer of a departing co-owner's business interest. The agreement, which is solely between the co-owners of the business, obligates the remaining owner(s) to buy out the interest of the deceased or departing owner. The departing owner, or estate of the deceased owner, is obligated to sell that ownership interest. The business itself is not a party to this agreement. The typical method of funding the buy-out provisions of this agreement is through the use of permanent life insurance.

The illustration below shows how a Cross Purchase Buy-Sell Arrangement works when funded with life insurance.



How it works

- 1 Owners A and B work with their financial professional and attorney to create the Cross Purchase Buy-Sell Agreement. It stipulates that each owner agrees that the remaining owner would be obligated to purchase the ownership interest of the departing owner for a pre-determined value, and the departing owner or deceased owner's estate would be obligated to sell.
- 2 Owner A purchases and is the owner and beneficiary of a life insurance policy on Owner B's life. Owner B would do the same with respect to Owner A.
- 3 Upon the death of Owner B, Owner A would receive income tax-free¹ life insurance proceeds.
- 4 Owner A uses the insurance proceeds to purchase the business interest from Owner B or Owner B's estate.
- 5 Owner B or Owner B's estate transfers the business interest to Owner A to complete the transaction.

Advantages of the Cross Purchase Buy-Sell Arrangement:

- The Cross Purchase Buy-Sell Arrangement sets the terms of the buyout during a time when both owners can make reasoned decisions that aren't based on emotion.
- The agreement provides for a mechanism to determine the fair value of each stockholder's business interest.
- The departing or deceased owner's business interest would be purchased for its fair value and the departing owner or deceased owner's estate would no longer own an illiquid business interest, but instead would have cash to meet financial needs.
- The purchasing owner's "cost basis" in the ownership interest purchased from the departing owner or deceased owner's estate is the purchase price paid. The resulting "step up in basis" may help to lower the capital gains tax bill if the purchasing owner were to decide to sell the business at some point in the future.

When the arrangement is funded with life insurance:

- The necessary cash to execute the buyout is available in the event that one of the owners should die¹ (without having to rely upon personal resources, credit, or cash flow).
- The cash values can accumulate and act as a reserve so that one owner can use the money to help fund a lifetime sale from the other owner's departure, disability, or retirement.^{2, 3, 4}

The typical Cross Purchase Buy-Sell Arrangement works with any business entity **except** sole proprietorships, single member LLCs, or single stockholder corporations, since there is only one owner in those situations and no other owner to sell to.

Your business may be protected today, but be sure to learn how a Cross Purchase Buy-Sell Arrangement can help to protect it for years to come.

Learn more today.

Contact a Guardian financial professional to discover how a Cross Purchase Buy-Sell Arrangement can help protect your business — and your loved ones — for the long term.

**The Guardian Life Insurance
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New York, NY

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- 1 Guardian, its subsidiaries, agents, and employees do not provide tax, legal, or accounting advice. Consult your tax, legal, or accounting professional regarding your individual situation.
- 2 Some whole life policies do not have cash values in the first two years of the policy and don't pay a dividend until the policy's third year. Talk to your financial professional and refer to your individual whole life policy illustration for more information.
- 3 Disability provisions, including disability buy-out insurance, should also be considered to fund the buy-sell arrangement in the event that it is triggered by the disability of one of the participating owners.
- 4 Policy benefits are reduced by any outstanding loan or loan interest and/or withdrawals. Dividends, if any, are affected by policy loans and loan interest. Withdrawals above the cost basis may result in taxable ordinary income. If the policy lapses, or is surrendered, any outstanding loans considered gain in the policy may be subject to ordinary income taxes. If the policy is a Modified Endowment Contract (MEC), loans are treated like withdrawals, but as gain first, subject to ordinary income taxes. If the policy owner is under age 59½, any taxable withdrawal may also be subject to a 10% federal tax penalty.

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