A resource for business owners

Guardian

Help lock in the future value of your business

With a One-Way Buy-Sell Agreement

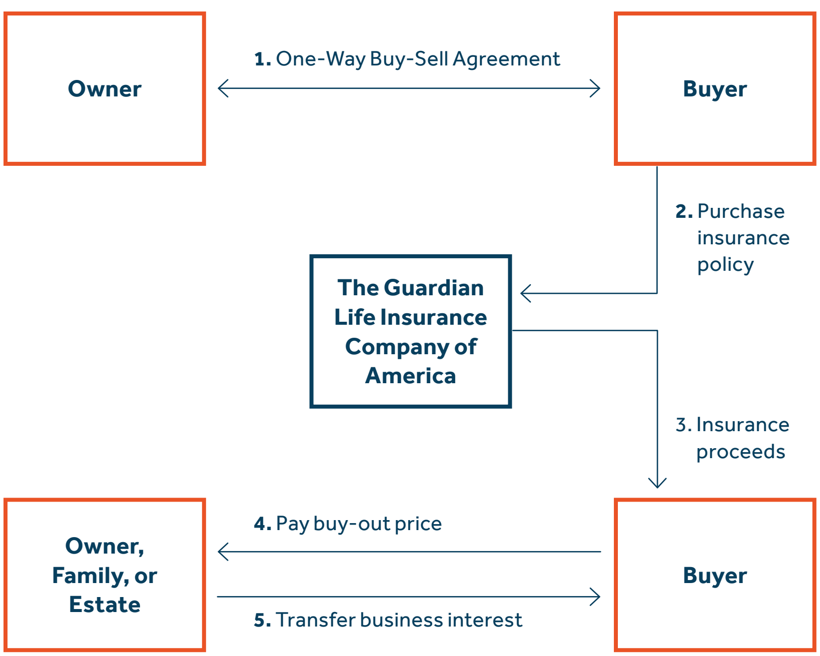
You've worked hard to get to where you are today. And while you may be in a position where you can enjoy the success you've achieved, it's important to consider what will happen to your company when you're no longer able or willing to run it. Perhaps a family member, key employee, or a competitor would be an interested buyer. In any case, you'd like to get a fair price for your business when you're no longer at the helm, even if you envision that time to be many years away.

One possible approach to make that happen is by implementing a one-way, or unilateral, buy-sell arrangement.

What is One-Way Buy-Sell Arrangement?

A One-Way, or unilateral,Buy-Sell Arrangement is a legal contract between the business owner and some third party addressing the disposition of the owner's business interest upon his/her death, disability, retirement, or other departure. It obligates the purchaser 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. Typically, a buyer in this situation may be a relative or key employee of the business owner — although some other third party, such as another business, could be a purchaser as well. And the One-Way Buy-Sell Arrangement can be funded with permanent life insurance.

The illustration below shows how a One-Way Buy-Sell Arrangement works when funded with life insurance.[1]



1 The owner and the buyer (e.g., key employee, child, or third party) work with their financial professional and legal advisors to create the One-Way Buy-Sell Agreement. It stipulates that the buyer would be obligated to purchase the business interest of the deceased, disabled, or departing owner for a pre-determined value or a value based upon a formula, and that the owner or his/her estate would be obligated to sell.

2 The buyer purchases, and is the owner and beneficiary of, a life insurance policy on the owner's life.

3 Upon the death or disability of the owner, the buyer would receive the life insurance policy's death benefit, income tax-free.

4 The buyer uses the insurance proceeds to purchase the business interest from the owner or his/her estate at the buy-out price.

5 The owner or his/her estate transfers the business interest to the buyer to complete the transaction.

Advantages of the One-Way Buy-Sell Arrangement:

- The owner may wish to assist the buyer, particularly if the buyer is a key employee, with life insurance premium payments using deductible bonuses or other arrangements. A program such as this may also be a means to establish the "golden handcuffs" that can help to keep a key employee loyal to the company for the long term.
- The plan provides the owner and his/her family with the certainty that a fair price will ultimately be paid for the business.
- Upon the owner's death, the plan may establish a fixed value for the business for federal estate tax purposes.
- The buyer's "cost basis" in the business interest purchased from the owner would equal the amount paid for the business, which may lower the buyer's capital gains tax bill if the buyer decides to sell the business at some point in the future.[2]

When the arrangement is funded with life insurance:

- The cash value can accumulate a reserve so that the buyer has a source of funding for a lifetime purchase due to the owner's disability or retirement.[3, 4]
- The plan creates a sense of stability for customers, suppliers, bankers, and employees of the company.
- The insurance funding provides the necessary cash to execute on the buy-out without having to rely upon personal resources, credit, or cash flow.

Learn more today.

Contact a Guardian financial professional to discover if a One-Way Buy-Sell Arrangement can help you plan for a better tomorrow.

The Guardian Life Insurance Company of America

guardianlife.com

New York, NY

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1 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.

2 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.

3 Cash values in a whole life policy may accumulate from dividends. Dividends are not guaranteed. They are declared annually by Guardian's Board of Directors.

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.