Keeping the Business in the Family

You have built a successful business that you now manage with one of your three children.

As the sole owner, you have realized for some time that in order to pass the business onto the next generation you will need to do some careful planning. While the business is one of the most valuable assets in your estate, the planning needed to keep it in the family may be more complex than you realize. You can use the flexible features of life insurance to help keep the business in the family and equalize the overall inheritance for all your children.

What are some of the planning issues?

- *How do you make sure that your spouse does not become an unwilling owner of the business at your death, but receives a fair value at your death to assure her financial security?*
- *How do you make sure that the business is passed on to the child or children who are truly interested in its continued success?*
- *How do you value the business that is transferred to the child active in the business?*
- *How do make sure that the children who are not pursuing careers inside the family business will receive a fair inheritance?*

These are issues that can often be addressed with a buy-sell agreement between the owner and the child who plans to remain active in the family business. Frequently, the family and its advisors recognize that a life insurance policy is an effective funding vehicle for the buy-sell agreement. This is especially true when the family prefers the purchase price for the business be made in a lump-sum, rather than installments, or does not want to fund the payments with distributions from business operations.

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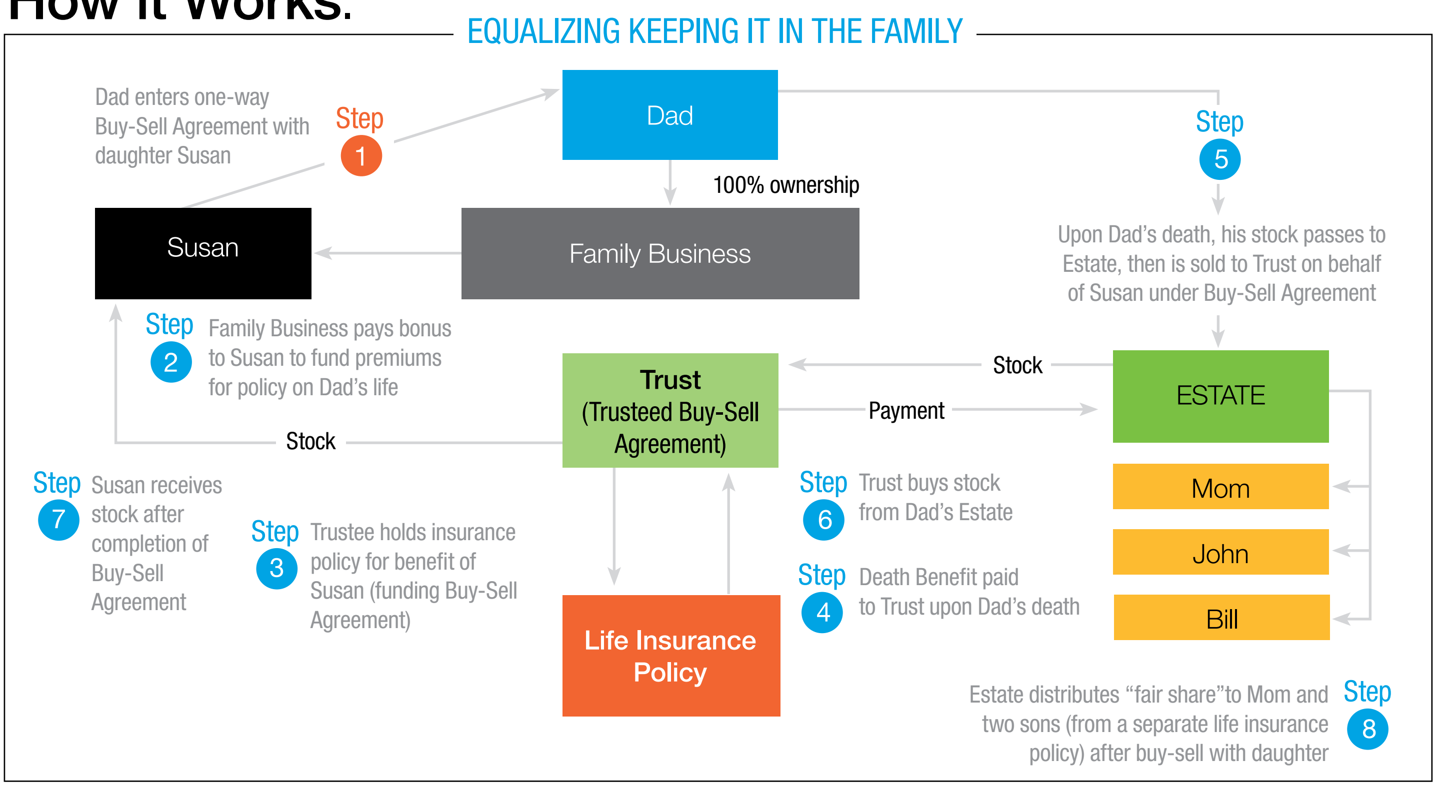
Here are the main points in using a buy-sell agreement while equalizing the inheritance for all the children.

1. *In a written buy-sell agreement, the parent (sole owner) agrees to sell the business and the "business-active" child agrees to buy the business, upon the death, disability or retirement of the owner. The agreement is in the form of a "trusteed one-way buy-sell agreement".*
2. *A definite price and manner of payment is specified in the agreement (or calculated based on an agreed formula or appraisal method). The price may be adjusted from time to time.*
3. *A trust is created as owner and beneficiary of a life insurance policy on the parent's life, for the benefit of the active child. The trust is a helpful title-owning vehicle to give the parent greater assurance that the sale to his daughter will occur as planned. The parent would also buy a second life insurance policy to provide the other heirs (spouse and children) a "fair share" of the inheritance, since the business is passing to only one child.*
4. *The owner and his spouse can establish the value of a "fair inheritance" for each child not active in the business. A "fair inheritance" does not need to be an "equal inheritance".*
5. *Policy premiums may be funded through salary, bonus, family gift, out-of-pocket cash, or a combination. The bonus may be tax deductible to the business—and reported by the child as ordinary taxable income.*
6. *Upon the owner's death, the business interests pass to his estate. The trust receives the insurance proceeds, which are used to buy the deceased parent's business interests from the estate. The estate uses these funds to pay any taxes, debts and expenses of the deceased owner.*

How it Works.



For more information, contact **your Financial Representative.**

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