death of a shareholder

Business Asset Transfer with Life Insurance

CASE STUDY

What is it?

Planning for the death of a shareholder shouldn't be considered morbid – it makes smart business sense.

Proper provisions in a shareholders' agreement can help make the buy-out of the deceased's shares tax effective, lessen the tax burden on their family, and ensure a smooth transition of ownership.

Life insurance can be an effective means of funding a buy-sell agreement. It can help provide the liquidity required to fulfill the agreement, helping the remaining shareholders to purchase the deceased's shares.

How does it work?

There are three ways that buy/sell agreements at death can be structured. Or a hybrid of options two or three can be used.

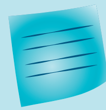
Option 1 (Individually owned policy): An agreement between shareholders.

1. Proceeds from the deceased's life insurance policy are paid to the remaining shareholders

2. Remaining shareholders use insurance proceeds to purchase share surplus

Option 2 (Business owned policy): An agreement between shareholders.

1. Proceeds from the deceased's life insurance policy are paid to the business



2. Remaining shareholders purchase share surplus using a promissory note

3. Remaining shareholders pay a dividend out of the business, using the cash to pay off the promissory note

Option 3 (Business owned policy): An agreement between shareholders and the business.

1. Proceeds from the deceased's life insurance policy are paid to the remaining shareholders

2. The business uses the insurance money to redeem all the shares from the estate

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