

# Buy-Sell Agreements to Protect Businesses with Multiple Owners



By Steven WERYHA, CFP  
Financial Advisor

**WHEN A BUSINESS OWNER UNEXPECTEDLY PASSES AWAY**, selling the business or their interest in the business can become complex. Selling a business interest is not like selling most types of property; it presents a unique set of challenges, including identifying a suitable buyer.

## BUY-SELL AGREEMENTS

If there are multiple owners, the surviving owner or owners might want to purchase the deceased owner's interest, but might not have the capital to do so. Yet they would want to protect that share of the business from passing on to someone unsuitable as a business partner. One potential solution is a buy-sell agreement funded with life insurance.

Buy-sell agreements provide for the sale of a business interest at the death of an owner. The future buyer or buyers are determined in the arrangement, also referred to as a "business continuation plan." Funding the agreement with life insurance can ensure buyers have the capital they need to purchase a business interest when an owner dies. The amount of the life insurance death benefit is the purchase price of the business interest as stated in the buy-sell agreement.

The agreement can be structured under an entity purchase plan — or stock redemption — or a cross-purchase plan. While ownership of the policy, taxation, and functionality will depend on which strategy is implemented, the overall goal is the same: to ensure that the business interest passes to the remaining owners or other designated purchaser, and that capital is available.

## ENTITY PURCHASE PLAN (STOCK REDEMPTION)

Each partner or shareholder enters into an agreement with the business that their interest will be sold if they pass away. The purchaser is the business entity itself, which buys a life insurance policy on the life of each owner. The business pays the premiums

Selling a  
business  
interest  
presents a  
unique set of  
challenges.

Whether entity purchase or cross purchase is more appropriate depends on the structure of the underlying business.

and exists as the owner and beneficiary of the policy. When an owner dies, their interest in the business passes to the heirs of their estate. According to the agreement, the business entity then uses the life insurance proceeds to purchase the interest from the deceased owner's estate. Each of the remaining owners thereby owns a greater share of the business.

### CROSS-PURCHASE PLAN

With a cross-purchase plan, each partner or shareholder purchases a life insurance policy on each of the other partners' lives. When an owner dies, the remaining owners buy the deceased owner's share of the business from his or her estate with the proceeds from the policies they purchased on the deceased owner's life. For businesses with multiple partners or shareholders, this strategy requires multiple insurance policies in contrast to a single policy required under the entity plan structure.

### OTHER APPLICATIONS

Both types of buy-sell agreements have its own advantages. Whether entity purchase or cross purchase is more appropriate depends on the structure of the underlying business. Buy-sell agreements can also be used if a business owner were to become disabled and is no longer able to run the business.

Each type of buy-sell agreement has its advantages. Whether an entity purchase or a cross-purchase is more appropriate depends on the structure of the underlying business. For more information on implementing a buy-sell strategy for your business, contact us at (814) 836-5776, or email me at [sweryha@hbkswealth.com](mailto:sweryha@hbkswealth.com).

#### IMPORTANT DISCLOSURES

The information included in this document is for general, informational purposes only. It does not contain any investment advice and does not address any individual facts and circumstances. As such, it cannot be relied on as providing any investment advice. If you would like investment advice regarding your specific facts and circumstances, please contact a qualified financial advisor.

Any investment involves some degree of risk, and different types of investments involve varying degrees of risk, including loss of principal. It should not be assumed that future performance of any specific investment, strategy or allocation (including those recommended by HBKS® Wealth Advisors) will be profitable or equal the corresponding indicated or intended results or performance level(s).

Past performance of any security, indices, strategy or allocation may not be indicative of future results.

The historical and current information as to rules, laws, guidelines or benefits contained in this document is a summary of information obtained from or prepared by other sources. It has not been independently verified, but was obtained from sources believed to be reliable. HBKS® Wealth Advisors does not guarantee the accuracy of this information and does not assume liability for any errors in information obtained from or prepared by these other sources.

HBKS® Wealth Advisors is not a legal or accounting firm, and does not render legal, accounting or tax advice. You should contact an attorney or CPA if you wish to receive legal, accounting or tax advice.



### Stephen Weryha, CFP

Financial Advisor, HBKS® Wealth Advisors

Steven Weryha serves as a specialist in the HBKS® Asset Management Unit in Erie, Pa. In his position, he manages day-to-day trading operations.

Investment advisory services are offered through HBK Sorce Advisory LLC, doing business as HBKS® Wealth Advisors. NOT FDIC INSURED - NOT BANK GUARANTEED - MAY LOSE VALUE, INCLUDING LOSS OF PRINCIPAL - NOT INSURED BY ANY STATE OR FEDERAL AGENCY