The Cross Purchase Buy-Sell Agreement Using Life Insurance

Perfect for Small Businesses

What is a Cross Purchase Buy-Sell Agreement?

A Buy-Sell agreement is designed to protect a business, the owners and their heirs if one of the owners dies unexpectedly. The agreement protects the continuity of the business for the remaining owners by buying out the deceased owner’s share from their heirs.

A Cross Purchase Buy-Sell Agreement is the most popular buy-sell life insurance structure for small business owners with up to four owners. A cross purchase buy-sell agreement requires each owner of a business to buy an individual policy on each of their partners. The amount of life insurance is equal to their respective share of the net worth of the business. For example, a corporation with just four owners would need a total of 12 life insurance policies, each owner would buy a policy on the other three. You can implement a cross purchase agreement if your company has more than four owners but it can become complicated and labor intensive.

How it Works

Each owner will be beneficiary, payor, and owner of each policy they purchase on the lives of the other business owners. It provides a clear outline of how the deceased owner’s heirs will sell their interest to the remaining owner(s) with the insurance proceeds. One of the benefits of this type of buy/sell agreement, is the family of the deceased owner’s tax basis will be equal to the fair market value at time date of death, making for favorable tax treatment on the death proceeds.

Putting a Cross Purchase Buy-Sell Agreement in place ensures that the business that you have helped build will continue on after your death.

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