



# Buy-Sell Planning Using Life Insurance

## Buy-Sell Arrangements Using a General Partnership

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# Buy-Sell Arrangements

## Using a General Partnership

Buy-sell arrangements using a general partnership is one way to help achieve your business succession goals without a complex arrangement

### **Simplify Your Solution**

Some business owners like the results of a cross purchase or wait-and-see buy-sell arrangement, but are discouraged by the complexity of these arrangements when there are multiple owners. With a buy-sell arrangement using a general partnership, the owners of a business form a general partnership separate from the business entity. This is similar to a trust arrangement; however, instead of creating a trust, the owners form a general partnership. The partnership arrangement can avoid the transfer-for-value problems inherent in a trust arrangement because the transfer of ownership interests among partners of the insured is an exception to the transfer-for-value rule.



Leaving my business to chance just isn't my style.

## Advantages

- The general partnership needs only one life insurance policy per owner.
- The funding of the premium payments is treated as capital contributions by the partners to the partnership. This capital contribution is also the basis for determining what portion of the total partnership value will be paid for by a partner's partnership interest at death or retirement.
- The partnership agreement can provide that any life insurance death benefit received by the partnership will be specially allocated to just the surviving partners.<sup>1</sup> Thus, when the life insurance death benefit proceeds are paid to the partnership, the proceeds are utilized to redeem the decedent's partnership interest and are paid to the surviving partners so that they can fulfill their obligation to purchase the decedent's business interest under the business's buy-sell agreement.
- A general partnership is not subject to the corporate Alternative Minimum Tax.
- Life insurance policies owned by the partnership are not a business asset, which means they are not subject to the claims of the business' creditors.
- Transfers of policies from the partnership to the individual partners generally will not trigger the transfer-for-value rule.
- One partnership can be used to fund the buy-sell needs of several business entities.
- The business can establish a Section 162 Bonus Plan or implement a Split Dollar Loan arrangement to fund the premiums.<sup>2</sup>

## Disadvantages

- Your advisors must evaluate your specific facts and circumstances to determine whether the entity formed is a partnership for federal income tax purposes and if it qualifies under state law.
- In those instances where the your advisors are concerned about whether the arrangement will be upheld as a valid partnership, consideration can be given to adding other property to the partnership to create additional business or investment purposes for the partnership.
- In those instances where a general partnership arrangement is not considered suitable because of the potential general partnership liability of the individual partners, an LLC formed under state law may be substituted.
- While there is support for the establishment of a general partnership for the sole purpose of owning life insurance to fund a buy-sell plan, the IRS has indicated that it will not issue an advance ruling on this issue.<sup>3</sup>

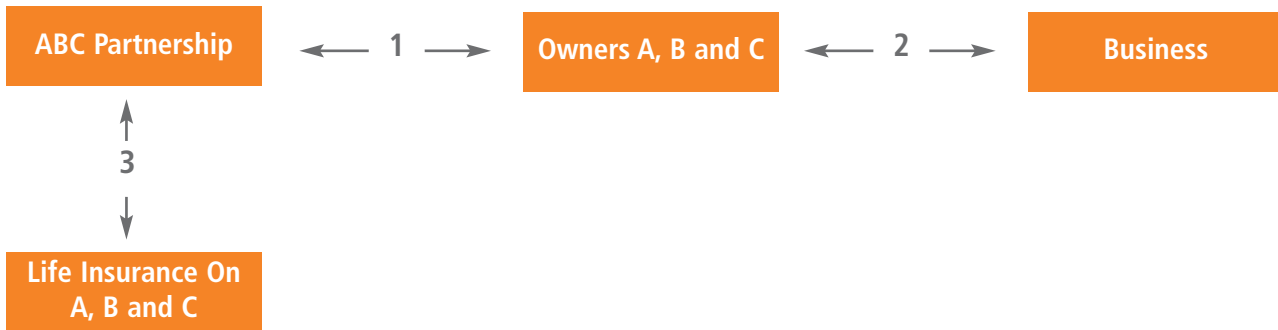
<sup>1</sup> IRC § 704(a).

<sup>2</sup> Split Dollar arrangements are subject to Split Dollar Final Regulations issued by the IRS and Treasury that apply for purposes of federal income, employment and gift taxes.

<sup>3</sup> Rev. Proc. 96-12, 1996-1 C.B. 616.

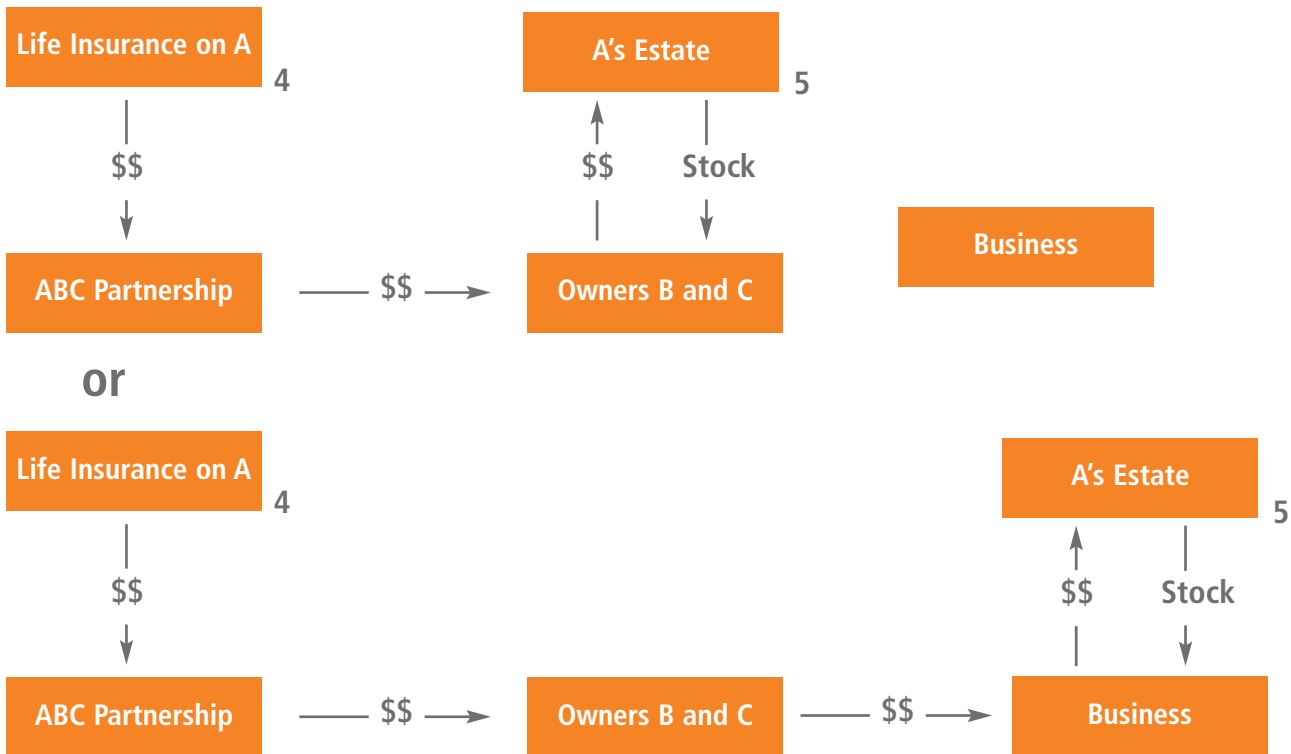
## How It Works

### Establishing and Funding the Plan



1. The general partnership is formed for the purpose of ensuring continuous operation and control of the business upon the death or retirement of an owner. The partnership agreement provides that upon death the decedent's partnership interest transfers to the surviving partners.
2. The business and the owners enter into a cross-purchase or wait-and-see buy-sell arrangement. The agreement provides that upon the death of an owner, the surviving owners may buy the ownership interest of the deceased owner. To the extent that the surviving owners do not purchase that ownership interest, the business must redeem the interest.
3. The general partnership purchases a life insurance policy on each owner with the partnership named as beneficiary.

### At Death:



4. At the death of an owner, the partnership receives the life insurance proceeds federal income tax free and distributes the proceeds to the surviving partners.
5. The proceeds can be used to purchase the ownership interest of the deceased owner directly or they may be contributed or loaned to the business so that the business can redeem the ownership interest of the deceased owner.

## Result

A general partnership arrangement combines the benefits of a cross purchase plan and a redemption plan without the potential transfer-for-value problems of a trusteed arrangement. It can offer the ability to custom design flexible partnership provisions to meet both the retirement and death buy-out needs of the business owners.

## Next Steps

Designing a business continuation plan is a crucial step to ensure your business remains in-tact at your retirement, death or other triggering event. Whether you leave your business by choice or by chance, you'll leave your business on track and help provide for your family's future. Buy-sell arrangements using a general partnership can help you protect the financial security of yourself, your business, co-owners and your family.

Talk to your ING Financial Professional to determine if a buy-sell arrangement using a general partnership may meet your specific needs.



For more information, please call your  
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