# STOCK REDEMPTION BUY/SELL

## HOW IT WORKS

The business owns, pays for and is the beneficiary of a life insurance policy on each owner, equal to each owner's ownership interest. Upon an owner's death, the death benefit is used to purchase the deceased owner's stock from the heirs.

## PROS

- Much less cumbersome, when there are more than two owners, as only one policy is required on each owner.
- Age and health differences don't cause owner's to pay disproportional premiums.

## CONS

- Surviving owner's basis in the business does not increase, because their number of shares don't increase, however each owner's price per share does. This makes he full value of the buyout capital gains taxable, upon the future sale of the business to each other or outside interests.

## SUMMARY

It's the best option for simplicity, but the worst option for tax purposes, due to there being no increase in basis. However, the proportional premiums and the requiring of only one policy per owner, often makes it the default choice, especially in businesses with three or more owners.