CROSS PURCHASE BUY/SELL

HOW IT WORKS

The surviving owner(s) purchase the deceased owner's stock directly from the heirs. Life insurance is typically bought to fund the buyout. Each partner owns and is the beneficiary of a life insurance policy on every other owner.

PROS

- Surviving partner's basis in the business increases, because their number of shares increase, but their price per share does not.

CONS

- Can be cumbersome, when there are more than two owners. Two owners require two policies, three owners require six and four owners require twelve.
- Because of age and health differences, the partners will likely have to pay disproportional premiums.

SUMMARY

It's the best option for tax purposes, due to the increase in basis. However, the possible disproportional premium requirements on a large number of insurance policies, can make it the least favorable option, unless used in conjunction with a "trusteed" arrangement (explained on page 14).