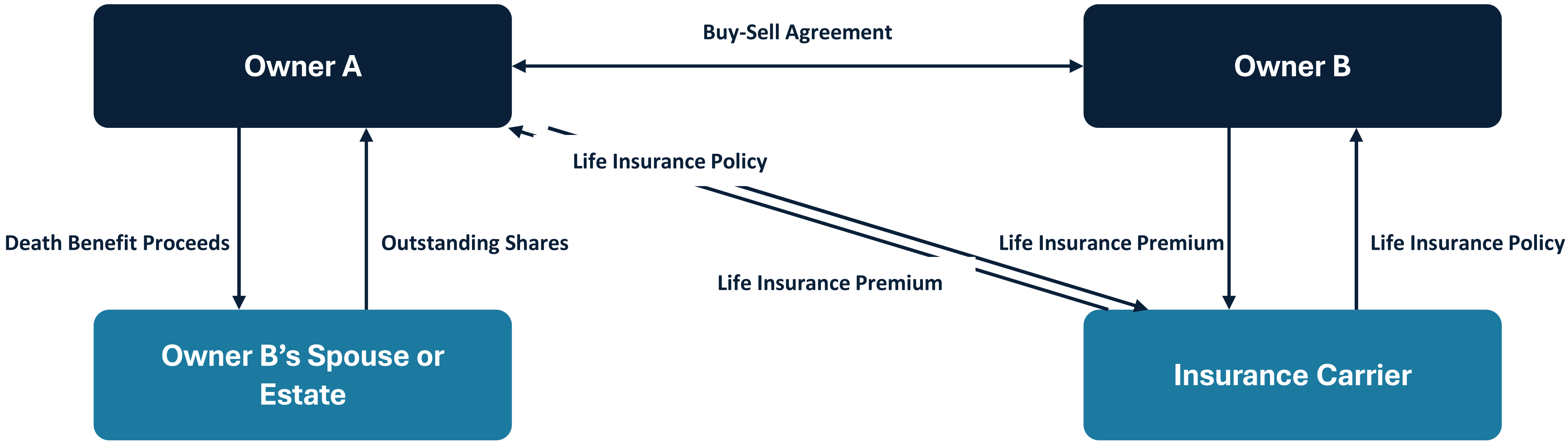
Funding an Owner's Buyout with a Cross-Purchase Buy-Sell



Cross-Purchase vs. Entity-Owned — Which Buy-Sell Fits?

- **How a cross-purchase works:** each owner personally buys, owns, and pays for a policy on every other owner; at a death the surviving owner uses the income-tax-free proceeds to buy the deceased's shares directly from the estate.
- **The key difference — cost basis & policy count:** survivors get a stepped-up basis on the shares they buy (less capital-gains tax later), but a cross-purchase needs one policy per owner pair — N×(N−1) policies — versus one per owner for an entity purchase.
- **Choose cross-purchase when:** there are 2–3 owners, the basis step-up matters, or owners want the proceeds and policies held personally, outside the reach of the company's creditors.
- **Choose entity-owned when:** there are four or more owners, premiums need to be centralized and equalized, or there are large age and health differences that make many individual policies impractical.