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**S CORPORATION STOCK REDEMPTION BUY-SELL  
(INCLUDING DISABILITY)  
(INCORPORATING THE SHORT TAX YEAR TECHNIQUE)**

**DOCUMENT SUMMARY LETTER**

[DATE]

[NAME OF ATTORNEY]

[NAME OF FIRM]

[ADDRESS]

[CITY, STATE, ZIP]

[NAME OF CLIENT]

[ADDRESS]

[CITY, STATE, ZIP]

Re: [NAME OF TRUST] Summary

Dear [NAME OF CLIENT],

As part of your business plan, I have drafted for you a Buy-Sell Agreement entitled [NAME OF AGREEMENT].

A buy-sell agreement is a legal instrument that allows business owners to provide for the sale or continuation of their business upon the occurrence of certain events, such as death, disability, retirement, or other events that result in their leaving the business. A buy-sell agreement establishes the terms of purchase, including the purchase price. Such an agreement protects the interests of both the buyer and the seller and is enforceable by law. In most instances, a buy-sell agreement can establish the value of the business for estate tax purposes.

There are two basic types of buy-sell arrangements: cross-purchase or stock redemption. A stock redemption-type buy-sell arrangement for a partnership or limited liability company is called an entity purchase. Variations of these two main buy-sell arrangements include: combination or “wait-and-see” buy-sell, trustee cross-purchase, one-way buy-out, and management team buy-out arrangements.

A Cross-Purchase Buy-Sell Agreement contemplates two or more stockholders or business owners, each agreeing to purchase the business interests of a deceased, disabled, or otherwise departing owner. The Agreement is generally funded with life insurance and individual disability insurance for amounts that correspond to the owner's respective purchase obligations under the Agreement. For this type of Agreement, the insurance is generally cross-owned. For example, Owner A will own a policy on the life of Owner B, and Owner B will own a policy on the life of Owner A.

A Stock Redemption or Entity Purchase Agreement requires the business to purchase the business interests of a deceased, disabled, or otherwise departing owner. For this type of Agreement, the life insurance on each owner is owned by and payable to the business.

In a Section 303 Stock Redemption, a Stockholder and Corporation enter into a binding buy-sell agreement that requires, upon the Stockholder's death, the Corporation to redeem, and the Stockholder's Executor to sell, that portion of the deceased Stockholder's stock equal to amounts permitted under Internal Revenue Code Section 303. These permissible amounts are based upon the deceased Stockholder's estate taxes and administration expenses. To qualify for the favorable Section 303 tax treatment, the decedent's stock must comprise at least 35% of the Stockholder's Adjusted Gross Estate. The Corporation purchases Key Employee Insurance on the Stockholder in the amount needed to fund the anticipated stock redemption.

A Combination or "Wait-and-See" Buy-Sell Agreement incorporate elements of both a Cross-Purchase and Stock Redemption or Entity Purchase arrangement by giving the parties a choice when the time comes to do the buy-out. Life insurance for such an Agreement can be cross-owned or owned by the business, or both.

A One-Way Buy-Out Agreement is used when there is only one owner, and a key employee or competitor owns the insurance and promises to buy the owner's business interests at death, disability, retirement, or other time when the owner wants to sell the business.

A Management Team Buy-Out is similar to a One-Way buy-Out, except a team of the business' non-owner executives agree to buy-out the owner's interests instead of a key employee or competitor.

Your Agreement is an S Corporation Stock Redemption Buy-Sell Agreement that uses a short tax year technique at the death of a Stockholder and offers the following advantages:

- I. By providing the Corporation with the full cash for the redemption or supplemental retirement funding, your Agreement funded with life insurance creates certainty in the terms of the purchase arrangement.
- II. The plan provides the S Corporation with money for death or retirement funding, and it guarantees at least partial funding in the event of a Stockholder's

disability.

- III. For S corporations using cash basis accounting, there may be a way to provide a full step-up in basis for stock acquired by surviving Stockholders from a deceased Stockholder's estate.
- IV. Your redemption Agreement generates a sense of stability to you and your customers, suppliers, bankers, and employees.
- V. Due to the use of life insurance, corporate working capital is not impaired due to an untimely redemption.
- VI. With three or more Stockholders, a stock redemption buy-sell plan avoids the use of multiple policies required by a cross purchase plan.
- VII. Due to the use of life insurance, funding for the redemption is significantly discounted.
- VIII. Your plan also enhances the financial strength of the Corporation through the increasing cash values of the life insurance.
- IX. Your Agreement creates financial and psychological certainty for your heirs.
- X. At your death, the plan should establish, in most instances, a fixed price for the business interest for federal estate tax purposes, thereby avoiding costly legal battles with the IRS.
- XI. Your family does not have to rely upon the successful operation of the business after your death to obtain a fair price for your business interests.
- XII. The plan assures that your Executor will receive the cash necessary to fund estate liquidity costs.

[Here describe the details of the Client's business continuation plan, including names, dates, values and special terms of agreement.]

Your business continuation plan is an important ingredient in your overall estate and business plan. If your circumstances change, please contact me so that I can help you review your plan and make any changes that may be necessary.

Thank you for the opportunity to work with you on your business plan. Please contact me with any questions you may have regarding your Buy-Sell Agreement.

Sincerely,

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[NAME OF ATTORNEY]

## **IRS Circular 230 Disclosure**

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