

Who Should Own the Policy?

Improper ownership of insurance policies which are used to fund buy-sell agreements can cause serious problems for the survivors.

The following hypothetical situation illustrates the proper ownership of policies:

Assumptions:

- Owners: A, B and C
- Ownership: Equal
- Business value: \$600,000
- Funding vehicle: Life insurance

Cross-Purchase Plan			Entity Plan		
Insured	Owner, Beneficiary and Premium Payer	Amount and Number of Policies	Insured	Owner, Beneficiary and Premium Payer	Amount and Number of Policies
A	B	\$100,000	A	Entity corporation or partnership	\$200,000
	C	\$100,000			
B	A	\$100,000			
	C	\$100,000			
C	A	\$100,000	B	Entity corporation or partnership	\$200,000
	B	\$100,000			
			C	Entity corporation or partnership	\$200,000

Note: Premiums for life insurance (or disability insurance to fund a buyout) are not deductible to the individuals or to the business entity. However, the policy proceeds are generally received income-tax-free by the beneficiary.¹

¹ If the corporation pays the premiums on policies used by the stockholders to fund a cross-purchase plan, there will likely be constructive dividend problems. For a C corporation, policy values payable to the corporation may be subject to the corporate alternative minimum tax.