

# STRUCTURING AN IRREVOCABLE LIFE INSURANCE TRUST TO PURCHASE YOUR CO-STOCKHOLDER'S BUSINESS INTEREST

## PERTINENT INFORMATION

- Mr. K and his co-stockholder are equal owners of a corporation with a fair market value of \$10,000,000.
- They are interested in creating a cross-purchase buy/sell, which will be funded with life insurance.
- Each has a very substantial estate.

## GOALS AND OBJECTIVES

- They are concerned that when a stockholder dies, the surviving stockholder's estate would be enhanced by \$5,000,000 (of stock), and his subsequent estate tax would be increased by a minimum of 45% of \$5,000,000.
- They would rather have a trust for the children of the surviving stockholder own half of the corporation should one stockholder die during the term of the buy/sell.
- The children are not active in the business.

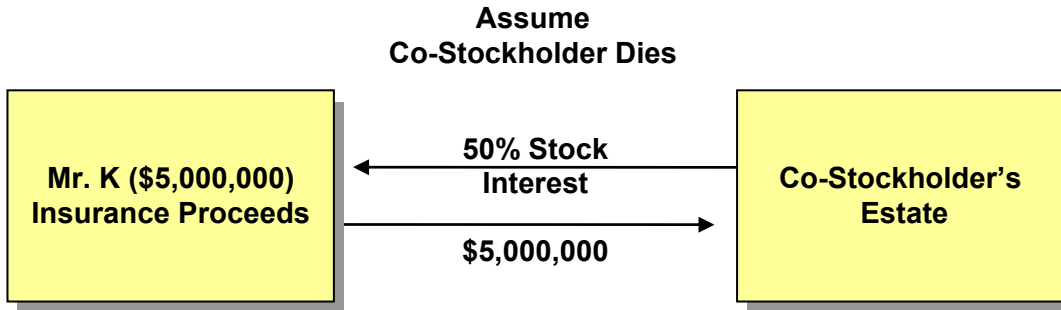
## PROPOSED ARRANGEMENT

- Mr. Kugler would establish an irrevocable life insurance trust (ILIT) for the benefit of his children.
- If desired, the ILIT could be structured as an "intentionally defective grantor trust".
- A cross purchase buy/sell for the corporation would then be structured between Mr. K's life insurance trust and his co-stockholder and vice versa (the co-stockholder would also set up a comparable ILIT).
  - Mr. K's life insurance trust would purchase a \$5,000,000 policy on the co-stockholder and vice versa.
  - Each stockholder would make annual exclusion or Unified Credit gifts to their respective life insurance trust.
  - The ILIT trustees would use the gifts to pay the premiums for the life insurance owned by the ILIT.

## RESULTS AND BENEFITS (Assume the Co-Stockholder Dies First)

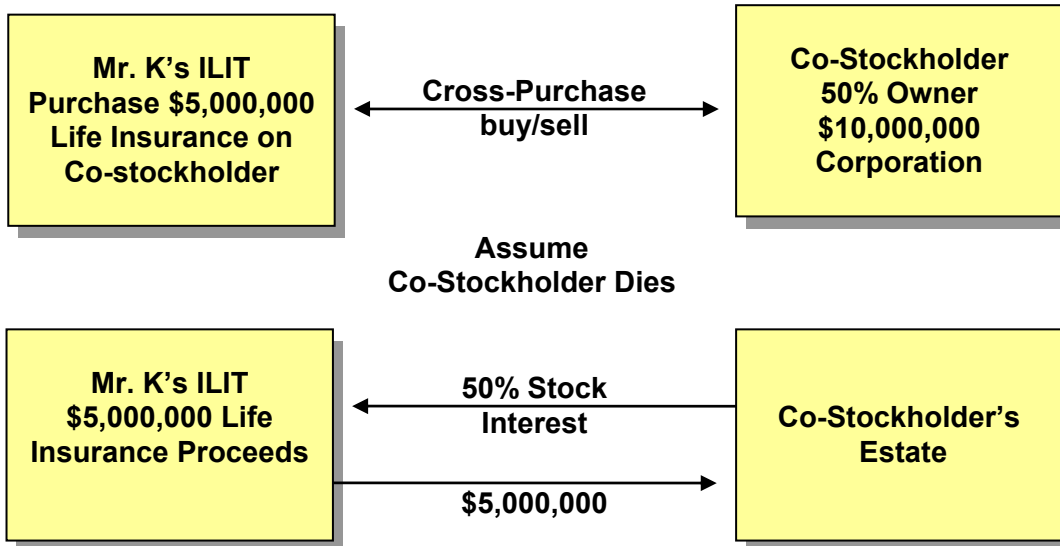
- Death of a co-stockholder causes the stock to be sold to Mr. Kugler's ILIT.
- Instead of Mr. K's estate being enhanced by \$5,000,000 and subject to a 45% estate tax at his subsequent death, his ILIT (children) would be enhanced by \$5,000,000.
- The deceased stockholder's insurance trust could then sell the policy it owns on Mr. K to Mr. K or to his ILIT.
- Note: Since Mr. K's ILIT is structured as a "grantor trust," the sale may be considered a sale to Mr. K (the insured) and thus exempt from the transfer for value rule.
- Note: One concern with having the life insurance trust own an interest in the corporation may be situations where financial institutions require the owners to personally guarantee a corporate note. This guarantee will generally go beyond the authority granted to the trustee of the life insurance trust.

**IF CROSS PURCHASE BUY/SELL WERE BETWEEN  
MR. K AND HIS CO-STOCKHOLDER**



At Mr. K's subsequent death his estate tax would be increased by  
45% x \$5,000,000 or \$2,250,000

**CROSS PURCHASE BUY/SELL BETWEEN MR. K'S ILIT  
AND HIS CO-STOCKHOLDER**



**RESULTS AFTER STOCK PURCHASE**

