
Buy-Sell Agreements

Weekly Educational Update – February 12, 2020

For most, creating an estate strategy is important to make sure your loved ones are taken care of after you're gone. But it may be just as important to have an estate strategy for your business. Whether you're a sole proprietor who will be passing on your business to your heirs or your business partners will take over for you, having an agreement in place might ensure that your business legacy continues to live on.

One approach is to create a buy-sell agreement. A buy-sell agreement is a contract between different entities within a corporation to buy out the interests of a deceased or disabled partner. A buy-sell agreement can also protect the business from loss of revenue and cover the expenses of finding and training a replacement.

When is the right time to implement a buy-sell agreement? While a buy-sell agreement can be put into place at any time, it often makes sense to set one up at a critical point in your business, such as bringing in a new partner.¹

Types of Buy-Sell Agreements

There are two main types of buy-sell agreements:

Cross-Purchase Agreement. In a cross-purchase agreement, key employees have the opportunity to buy the ownership interest of a deceased or disabled key employee. Each key employee takes out a policy on each of the other key employees. Cross-purchase agreements tend to be used in smaller companies where there are not too many key employees to cover.

For example, if your business has 3 partners, each partner will take out two (2) cross-purchase agreements to cover the other partners, for a total of 6 cross-purchase agreements.

Stock-Redemption Agreement. Stock-redemption agreements are formal agreements between each of the key employees — and the business, itself — under which the business agrees to purchase the stock of the deceased or disabled key employees. Key employees agree to sell their shares to the company, often in exchange for a cash value.

These agreements establish a market value for a key employee's share of the company.²

Funding a Buy-Sell Agreement

There are several options for funding a buy-sell agreement:

Set aside funds. Money for a buy-sell agreement can be set aside, as long as it is easily accessible. These funds must be kept up for the life of the company and may present a temptation during fiscally tough times. The business owners must determine the appropriate amount needed to cover the cost of a buyout.

Borrow the needed amount. A company can borrow enough to buy out a withdrawing key employee at the time of their death. However, the loss of the employee can often affect a company's ability to secure a loan, and the payments become an added stress on the business during an already difficult time.

Life Insurance. Purchasing a life or disability policy in order to fund a buy-sell agreement is an option when preparing for the future. Using life insurance enables a buy-sell agreement to be funded with premium payments and attempts to ensure that funds will be available when they are needed.³

Several factors will affect the cost and availability of life insurance, including age, health, and the type and amount of insurance purchased. Life insurance policies have expenses, such as mortality and other charges. If a policy is surrendered prematurely, the policyholder also may pay surrender charges and have income tax implications. You should consider determining whether you are insurable before implementing a strategy involving life insurance. Any guarantees associated with a policy are dependent on the ability of the issuing insurance company to continue making claim payments.

A horizontal banner with a light beige background. On the left, the text "QUOTE OF THE WEEK" is written in a dark, serif font. On the right, there is a black silhouette of a fountain pen nib pointing towards the left. The background of the banner features faint, handwritten-style text in a cursive script.

QUOTE OF THE WEEK

"What you do makes a difference, and you have to decide what kind of difference you want to make."

– Jane Goodall

A horizontal banner with a light beige background. On the left, the text "RECIPE OF THE WEEK" is written in a dark, serif font. On the right, there is a black silhouette of a fork and knife. The background of the banner features faint, handwritten-style text in a cursive script.

RECIPE OF THE WEEK

Pesto Perfecto Sauce



Makes 16 servings

Ingredients:

- 3 cups fresh basil leaves
- 1½ cups pinenuts
- 4 peeled cloves garlic
- ¼ cup grated Parmesan
- 1 cup extra virgin olive oil
- Salt and pepper

Directions:

1. Add basil leaves, nuts, garlic, and cheese to food processor. Blend thoroughly.
2. Add oil slowly as you pulse the food processor
3. Add salt and pepper.
4. Great on pasta or as a pizza sauce. Use wherever you might use marinara or alfredo sauce.

Recipe adapted from allrecipes.com⁴



Be On Alert for IRS Scams

This tax season, the IRS expects an uptick in tax-related scams. In most cases, IRS “phishing” scams are bogus phone calls and emails that claim to come from the IRS. Fraudsters use fake refunds or threats of a tax bill or audit to convince recipients to give

up their personal and financial information. They then use it to steal a victim's money or identity. The IRS has the following tips:

- Fraudsters may know a lot about you when they call and may be able to spoof your caller ID to show that they are calling from an official number. Don't be fooled.
- If you don't answer the phone, they may leave an urgent callback request.
- If you receive a call that you think might be from the IRS, take down the agent's information and call them back at the official IRS hotline: 1-800-829-1040.

Remember, the IRS will never:

- Call you without mailing an official notice first.
- Demand that you immediately pay your taxes over the phone.
- Take a debit or credit card number over the phone.
- Threaten to call law enforcement or immigration services to arrest you for failure to pay.

* This information is not intended to be a substitute for specific individualized tax advice. We suggest that you discuss your specific tax issues with a qualified tax professional.

Tip adapted from IRS.gov⁵



Reading the Grain on a Green

What is one of the subtlest factors that can affect a putt? The grain on a putting green - in other words, the direction in which the grass grows. Grain can influence how a putt starts, proceeds, and ends. Three factors determine grain: the direction of the sunset, the direction of the prevailing wind, and the direction in which water drains off the putting surface. Putts hit against the grain roll a little slower and may finish a little shorter.

The kind of grass used also plays a part. Putting greens, with rare exceptions, are grown with bermuda grass or bent grass. Bermuda is common in the South, Hawaii, and other relatively warm areas. Bent grass is common in the West and the North. Bermuda has a bumpier surface than bent, with more pronounced grain. To quickly find out the

grain on a green, look at the rim of the cup. The edge that shows a slight browning of grass is the direction the grain goes.

Tip adapted from Hawaii.com⁶



Falling in Love with Yourself

February is a month that many associate with love. Romance, in particular. The rise of self-care over the past decade has brought attention to the concept of loving oneself – the basic philosophy behind it being that if we love and take care of ourselves, with intention, the happier and healthier we'll be, and all the people in our lives will benefit, including our romantic partners.

Loving ourselves isn't always easy. And it doesn't mean always being overly indulgent, but rather making choices that help support our overall well-being. For some people, that may look like taking time to relax if they have a lot of stress in their lives. For others, it can be making a to-do list to organize and accomplish tasks if they tend toward procrastination. Being more self-aware and cheering ourselves on more if we're often overly harsh or being more introspective and searching for ways to improve if we are myopic to our own shortcomings. All these things and many more not mentioned are intentional actions we can take to be our best selves.

This February, take some time to reflect on the ones you love. Just make sure you don't forget about the one you should love the most.

Tip adapted from PsychCentral⁷



Upcoming Special Event? Rent or Borrow

Finding eco-friendly clothing is difficult, especially when most clothing isn't designed to last for more than a year. This is especially true for special occasion items that you can only expect to wear one time before it collects dust in your closet.

Instead of buying a suit or dress you'll only wear once, rent or borrow. There are many online companies that will let you rent high-end fashion items for a fraction of their cost. Have friends that are the same size? Get together and go shopping in each other's closets.

For items like wedding dresses, there are several online and retail second-hand shops that specialize in dresses for your big day.

Tip adapted from RealSimple.com⁸

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¹ <https://www.score.org/resource/covering-your-back-buy-sell-agreement>

² <https://fitsmallbusiness.com/buy-sell-agreement/>

³ <https://www.forbes.com/sites/forbesnycouncil/2019/05/13/why-business-partners-should-always-have-buysell-agreements/#34af2d1877f4>

⁴ <https://www.allrecipes.com/recipe/23134/pesto-sauce/>

⁵ <https://www.irs.gov/newsroom/tax-scams-consumer-alerts>

⁶ <https://www.hawaii.com/discover/hawaii-golf-tips/>

⁷ <https://psychcentral.com/blog/learn-to-love-yourself-first/>

⁸ <https://www.realsimple.com/beauty-fashion/clothing/cleaning-out-my-closet>