John Hancock

LIFE INSURANCE

*Sales Strategy*

# Buy-Sell Planning



## PROTECTING BUSINESS OWNERS AND PRESERVING BUSINESSES FOR FUTURE GENERATIONS

### BASICS OF BUY-SELL PLANNING

A buy-sell arrangement (or "business continuation agreement") is an arrangement for the disposition of a business interest upon a specific triggering event such as a business owner's death, disability, retirement, or other termination. Buy-sell arrangements should be considered in every closely held business. A well-drafted and properly funded buy-sell arrangement can protect the interests of the business owners and help facilitate the continuation of the business after the death, disability, or retirement of its current owners. Buy-sell arrangements can take different forms including: (1) entity purchase or stock redemption, (2) cross-purchase, and (3) wait and see. The "best" type of arrangement depends upon several factors, including the type of business structure and the number of owners. This Sales Strategy will describe the primary types of arrangements, popular methods of funding arrangements, and other important considerations when contemplating a business succession plan.[1]

### BENEFITS OF BUY-SELL ARRANGEMENTS

**Guarantee a Buyer.** A buy-sell arrangement benefits the selling owner's family by providing a guaranteed buyer(s). The remaining owners are protected against the sale of a significant (or, worse yet, majority) interest to an outside investor.

**Create Liquidity.** Upon a business owner's death, retirement, or disability, his or her family has a continuing need for cash to pay ordinary living expenses as well as any estate tax liability. Estate taxes are typically due nine months after the date of death. Selling a business under these circumstances can often result in the family receiving less than the fair market value.

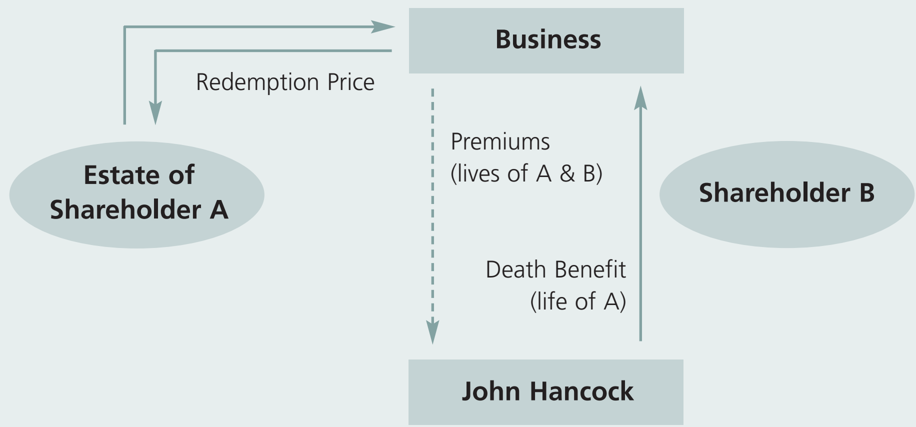
**Set a Fair Selling Price.** A business valuation strategy that is determined while all owners are active can usually be negotiated on an arm's-length basis. Once a business owner has left the business, negotiating a fair sales price is much more difficult for the owner (or the owner's estate) because the remaining owners hold most of the cards.

**Fix Value.** A buy-sell arrangement negotiated at arm's length ordinarily determines the valuation for estate tax purposes. This allows the owners to plan their estates and can reduce the risk of costly valuation disputes among business owners or upon estate tax audit.

**Maintain Harmony.** Because of the pressures of business ownership and everyday life, it is often difficult for owners of a closely held business to maintain friendships and camaraderie. Maintaining harmony becomes more difficult after the family (spouse and/or children) of a deceased owner enters the business. A buy-sell arrangement can protect the owners and the business from problems that arise when a deceased owner's family joins the business.

## GENERAL TYPES OF BUY-SELL ARRANGEMENTS

### ENTITY PURCHASE BUY-SELL ARRANGEMENTS




This diagram reflects a standard entity purchase buy-sell arrangement among a corporation and its two shareholders. The solid lines demonstrate the payment of life insurance premiums on policies used to fund the arrangement. Upon the death of Shareholder A, the corporation will redeem the stock owned by Shareholder A's estate and will continue to own a policy on the life of Shareholder B.

An **ENTITY PURCHASE BUY-SELL ARRANGEMENT** (or "stock redemption arrangement") is an arrangement among the owners and the entity. The entity agrees to purchase (or redeem) all of the interest of a deceased owner and the owners agree to sell their interests to the entity.

### SHAREHOLDER CONSEQUENCES

**No Basis Increase.** An entity purchase buy-sell arrangement with a C corporation does not increase the basis of the remaining shareholders' stock. However, life insurance proceeds received by an S corporation will increase the basis of its shareholders' stock.[2]

**Possible Ordinary Income Treatment.** Ordinarily, amounts received in a stock redemption are treated as a dividend to the shareholder that is having his or her stock redeemed. If treated as a dividend, the entire redemption amount (not just the gain) is taxed as ordinary income. However, if certain requirements are met, the redemption can be taxed as a sale. Taxation as a sale is usually beneficial because only the gain (i.e., the redemption price reduced by basis) is subject to tax at capital gain rates. When a redemption occurs at death, there is generally no gain to report because the deceased shareholder's estate received a basis step-up.[3]

**Risk of Corporate Creditors.** Life insurance purchased by a corporation to fund a buy-sell arrangement will be subject to claims of the corporation's creditors. Moreover, state law may prohibit a redemption if the corporation is insolvent or lacks adequate capital.[4]

### CORPORATE CONSEQUENCES[5]

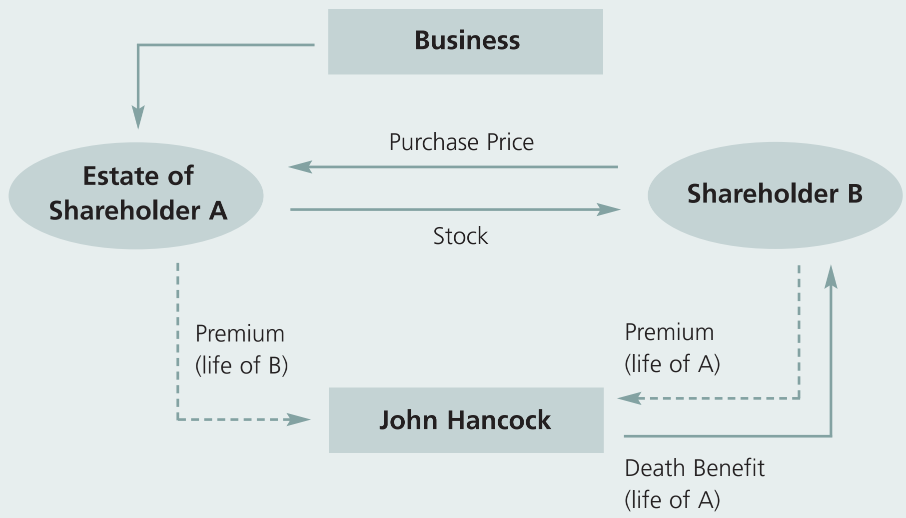
**Premiums are Non-Deductible.** Life insurance is a common means of funding a buy-sell arrangement. Life insurance premiums paid by a corporation are not deductible.

**Alternative Minimum Tax (AMT).** Life insurance proceeds are ordinarily received income tax free. However, in some instances, life insurance proceeds received by a C corporation can cause an alternative minimum tax liability. The possible application of the AMT is often cited as a primary reason not to use a entity purchase buy-sell arrangement. In reality, the AMT will not be applicable in many instances or may be nominal in amount. Therefore, the possible application of the AMT should be considered on a case-by-case basis.

**Increased Value of Corporation.** Any assets held by an entity to fund a buy-sell arrangement increase the value of the entity. This increase in the entity's value (including the amount of life insurance proceeds received upon an owner's death) should be considered when determining the selling price under an entity purchase buy-sell arrangement.

**Accumulated Earnings Tax.** When earnings are accumulated to fund an entity purchase buy-sell arrangement (including the cash value of a life insurance policy), the corporation can become subject to the accumulated earnings tax. However, a reasonable accumulation of cash to fund a buy-sell arrangement may be considered an exception to the prohibition on excess accumulations.[6]

## CROSS-PURCHASE BUY-SELL ARRANGEMENTS




This diagram reflects a standard cross-purchase buy-sell arrangement between two shareholders. The solid lines demonstrate the events upon the death of Shareholder A. The dotted lines demonstrate the payment of life insurance premiums on the policies used to fund the arrangement. Upon the death of Shareholder A, Shareholder B will buy out Shareholder A's stock. Shareholder A's estate will continue to own a policy on the life of Shareholder B. This policy can be sold to the corporation or to Shareholder B.

In a **CROSS-PURCHASE BUY-SELL ARRANGEMENT** the owners (or their estates) are obligated to sell their interests to each other. The entity is not a party to the arrangement.

### SHAREHOLDER CONSEQUENCES

**Basis Increase.** The surviving owners receive a step-up in basis in the purchased shares. This cost basis increase is the primary advantage of a cross-purchase buy-sell arrangement.

**Capital Gain Treatment.** With a lifetime sale, the selling owner recognizes capital gain to the extent the purchase price exceeds his or her basis.[7] Upon an owner's death, there is ordinarily no capital gain because the value of the shares receive a basis step-up to reflect fair market value — hopefully the same price received under the buy-sell arrangement.

**Transfer for Value.** Ordinarily, in a cross-purchase buy-sell arrangement, each shareholder owns a life insurance policy on the life of each of the other shareholders. Upon the death of the first shareholder, each of the remaining shareholders will use the proceeds of the policy they own on the life of the deceased shareholder to carry out their obligation to purchase a pro rata share of the deceased shareholder's stock.

After this, the remaining shareholders will need to acquire additional insurance to fully fund their continuing obligations under the arrangement because each remaining shareholder will now own an increased portion of the business. If the remaining shareholders purchase the policies held by the estate of the deceased shareholder, the purchase will be a transfer for value.[8] Sometimes the transfer-for-value rule can be avoided after the death of the first shareholder by allowing the deceased shareholder's estate to sell policies (on the other shareholders) to the corporation and then converting the arrangement to an entity purchase buy-sell arrangement.[9]

**Complications.** Where there are more than two or three owners, a cross-purchase buy-sell arrangement funded with life insurance can be complicated. The number of policies needed to fund the arrangement is typically equal to [(n-1)*n] when "n" is the number of owners. Because of the necessity of purchasing multiple policies, the entity purchase buy-sell arrangement is commonly used in situations where there are more than two or three owners. However, because of (1) the tax disadvantages of entity purchase buy-sell arrangements (primarily the lack of basis increase to the remaining shareholders), (2) the desire to avoid the purchase of multiple life policies, and (3) concerns regarding the consequences of the transfer-for-value rule, attorneys have created alternatives to the standard cross-purchase buy-sell arrangement. Two such alternatives, the "trusteed arrangement" and the "partnership arrangement," are discussed in more detail below.

## CORPORATE CONSEQUENCES

**No Alternative Minimum Tax (AMT) or Accumulated Earnings Taxes.** Because the corporation does not own the policy, there are no potential AMT and accumulated earnings tax problems.

**No Increase in Corporate Value.** Life insurance (or other assets) used to fund the arrangement will not increase the value of the corporation. The value of life insurance policies (or other assets) will not be reflected on the corporation's balance sheet. Although a cross-purchase buy-sell arrangement has no impact on the value of the corporation, the deceased shareholder's estate will be increased by "funding" assets (such as the cash value of life insurance on the other shareholders) owned by the deceased shareholder.

## VARIATIONS IN CROSS-PURCHASE DESIGNS

### Trusteed Cross-Purchase Arrangements

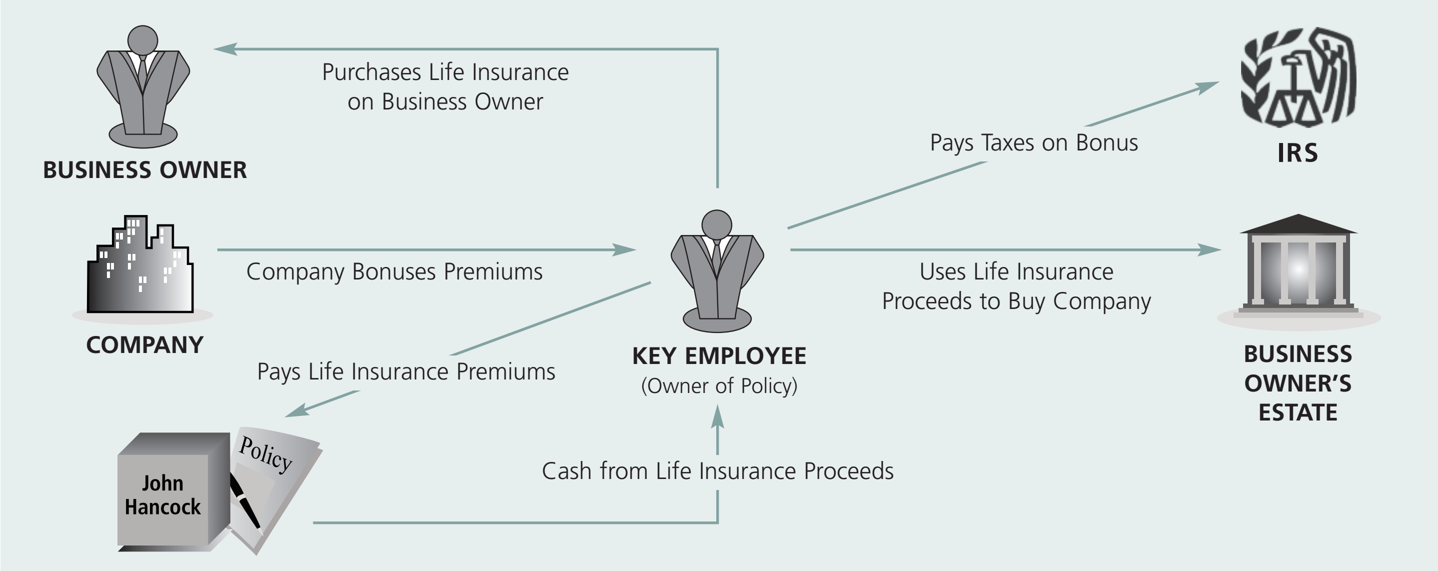
In a trusteed arrangement, a trustee purchases life insurance on the life of each shareholder who is a party to the arrangement. Upon the death of a shareholder, the trustee (1) collects the life insurance proceeds, (2) purchases stock from the estate of the deceased shareholder, and (3) distributes the shares to the surviving shareholders. The trustee may facilitate the transfer by holding the shares of each shareholder subject to the arrangement. It is uncertain whether the use of a trusteed arrangement avoids the transfer-for-value problem. The death of a shareholder could be construed as causing a transfer of the deceased shareholder's beneficial interest in the policies on the lives of the survivors to the surviving shareholders for value.

### Partnership Cross-Purchase Arrangements

Because the transfer-for-value rule may apply to a trusteed arrangement, the "partnership" arrangement has become popular. This arrangement is similar to the trusteed arrangement. However, instead of creating a trust, the shareholders form a partnership. The partnership then purchases a single life insurance policy on each shareholder. The partnership arrangement should avoid transfer-for-value problems because the transfer of a life insurance policy to a partnership in which the insured is a partner is an exception to the transfer-for-value rule. However, if the partnership is created exclusively (or primarily) to facilitate the buy-sell arrangement, the IRS may not respect the validity of the partnership. Although the IRS approved of a partnership structured solely for the purpose of funding a buy-sell arrangement in PLR 9309021, the IRS subsequently adopted a no-ruling position on the use of partnerships to fund buy-sell arrangements in Rev. Proc. 96-12.

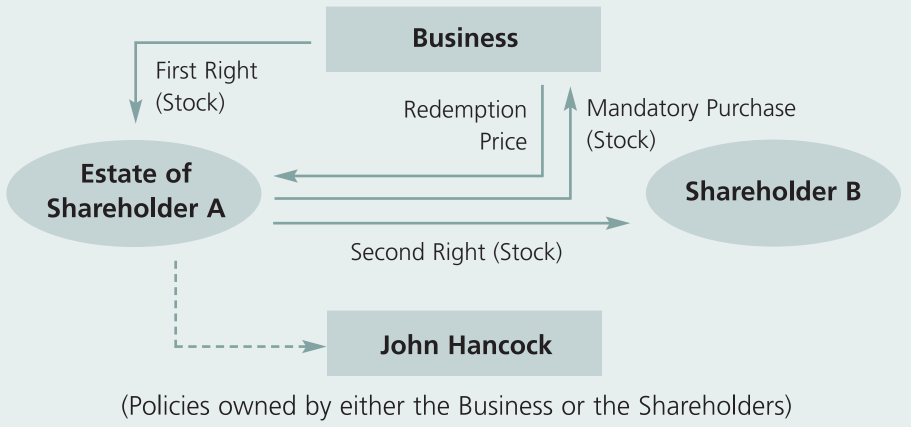
In PLR 200747002, three business owners established an "Insurance LLC" (Limited Liability Company) to own life insurance policies on the lives of the business owners with management of the policies by an independent manager. The IRS ruled that the business owners would not have any incidents of ownership in the life insurance policies. Using an LLC with a cross-purchase buy-sell agreement can also help the shareholders avoid a transfer-for-value problem, assure that the parties comply with the buy-sell agreement and keep the policy proceeds from the reach of the insured's creditors.[10]

## ONE-WAY BUY-SELL ARRANGEMENTS




A **ONE-WAY BUY-SELL ARRANGEMENT** is a type of a buy-sell arrangement in which a valued employee, who may be a family member or a key person in the business, will purchase and own a life insurance policy on the life of the business owner. In this situation, because there is generally only one business owner and one designated successor, only one life insurance policy is required to fund the arrangement. The valued employee, who may be a family member or a colleague, will also be the beneficiary of the life insurance policy. The company will pay a bonus to the successor/policy owner in the amount of the premium payments annually to minimize the out-of pocket expense of the arrangement. The bonus payments may be tax-deductible to the corporation when they are paid, but the payment will also be taxable to the recipient.[11]

## WAIT AND SEE BUY-SELL ARRANGEMENTS




This diagram reflects a standard cross-purchase buy-sell arrangement between two shareholders. The solid lines demonstrate the events upon the death of Shareholder A. The dotted lines demonstrate the payment of life insurance premiums on the policies used to fund the arrangement. Upon the death of Shareholder A, his or her estate will continue to own a policy on the life of Shareholder B. This policy can be sold to the corporation or to Shareholder B.

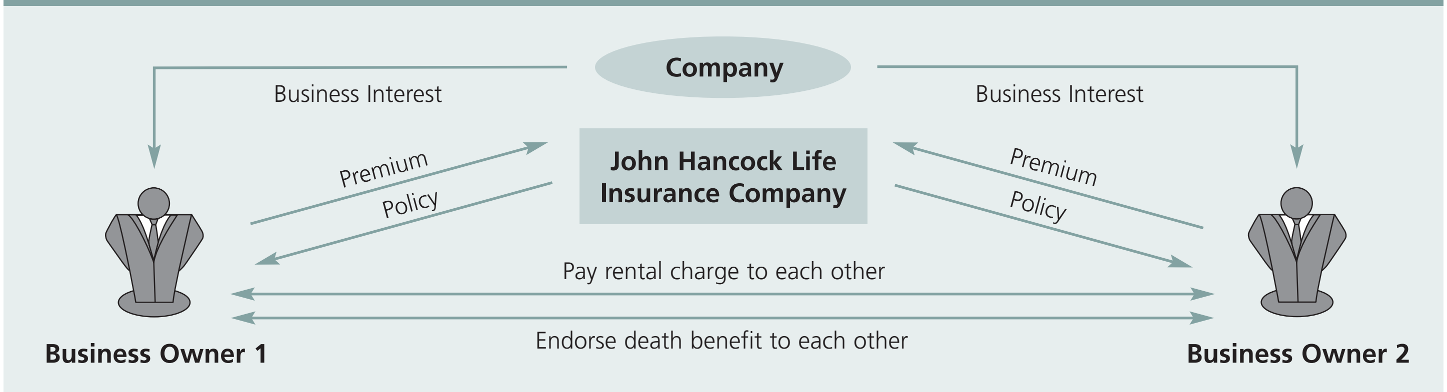
A **WAIT AND SEE BUY-SELL ARRANGEMENT** is a hybrid arrangement combining the features of both the entity purchase buy-sell arrangement and the cross-purchase buy-sell arrangement. A wait and see buy-sell arrangement generally gives the entity the option (or "right of refusal") to buy any portion of the deceased owner's interest within a certain time period after the owner's death. If the entity does not fully exercise the option, the remaining owners have the second right of refusal. Finally, if the remaining owners do not exercise their right of refusal, then the entity must redeem the balance of the deceased owner's interest. Depending upon how the arrangement is funded and whether the entity or the surviving owners acquire the deceased owner's interest, the arrangement will function as either an entity redemption or a cross-purchase arrangement.

**Maximum Flexibility.** The primary advantage of the wait and see buy-sell arrangement is that it offers maximum flexibility. Rather than committing to an arrangement, the business owners can adopt the most advantageous strategy after the death of an owner.

**Difficult to Fund.** One disadvantage of a wait and see buy-sell arrangement is that it can be difficult to fund. Ordinarily, the arrangement is funded as if it were a traditional cross-purchase arrangement. If it later appears likely that the entity will exercise its option, the policies can usually be sold to the entity.

**Possible Dividend Treatment.** Care must be taken to avoid dividend treatment to the purchasing shareholders. If the corporation is given the right of first refusal and the shareholders are required to purchase the stock if the corporation does not exercise its right, a corporate redemption will be treated as a dividend to the remaining shareholders. In addition, such arrangements must also be carefully structured to avoid possible dividend treatment to selling shareholders (as with an ordinary entity purchase arrangement).

**CROSS ENDORSEMENT BUY-SELL ARRANGEMENTS**




In a **CROSS ENDORSEMENT BUY-SELL ARRANGEMENT**, each business owner will purchase and own a life insurance policy on his or her life. The value of each policy will be based on the projected value of the business and each business owner's proportional interest in the business.[12] The arrangement is structured as an endorsement split-dollar plan so that a portion or all of the death benefit can be endorsed for a "rental charge" to the other business owners[13] to satisfy the obligation under the buy-sell agreement.[14]

Each business owner will recognize rental income on what they charge on their policy. To minimize the cash outlay needed to pay premiums, the company may make annual bonus payments to each business owner in the amount of the premium. Each business owner, as owner of his or her own policy, will continue to have access to the policy's potential cash values.[15]

## POSSIBLE TRANSFER FOR VALUE

Clients should consult their legal and tax advisors to avoid any transfer-for-value issues arising from cross endorsements of the policy death benefits.

Under Internal Revenue Code ("IRC") section 101(a)(2), the transfer of a life insurance contract or any interest in the contract for valuable consideration can result in a portion of the death benefit being subject to income tax, unless an exception to the transfer-for-value rule applies. The statutory exceptions in IRC section 101(a)(2)(B) are often used to avoid this issue.

Statutory exceptions to the transfer-for-value rule under IRC section 101(a)(2)(B) include (1) a transfer to the insured, or (2) a partner of the insured, or (3) a partnership in which the insured is a partner, or (4) to a corporation in which the insured is a shareholder or officer. Exceptions (2) and (3) require partnerships, and these two exceptions do not extend to S or C corporations. Although the IRS treated a limited liability company as a partnership for purposes of the transfer-for-value exceptions in PLRs 9625013 and 9625019, PLRs are only binding authority for the taxpayer to whom they are issued. Some commentators have questioned whether the IRS will challenge the business purpose of a newly formed partnership, particularly if it appears that its only purpose is to avoid the transfer-for-value rule.

## FUNDING A BUY-SELL ARRANGEMENT

**Life Insurance.** Purchasing life insurance on the lives of the business owners is one of the most common methods of funding a buy-sell arrangement. In addition to being cost-effective, a primary advantage of life insurance is that it makes cash available upon the death of an owner. Note that it is generally advisable for the insured not to have any incidents of ownership over a policy on the insured's life to avoid estate tax inclusion under IRC §2042. Where an entity is used in the planning process, the client should discuss with their legal and tax advisors how to structure the entity to avoid giving the insured incidents of ownership over the policy.[16] Moreover, if the arrangement is funded with permanent life insurance, the policy's cash value may be sufficient to fund a buyout at retirement. In a cross-purchase arrangement, life insurance is sometimes purchased on a split-dollar basis or with a bonus to mitigate the cost to the shareholder. It is also important to note that when a corporation purchases life insurance on the majority shareholder to fund an entity purchase buy-sell agreement, the proceeds of the life insurance can increase the value of the corporation for estate tax purposes.[17]

**Borrow Funds.** If the business or its owners plan to fund a buy-sell arrangement by borrowing funds after the death or retirement of an owner, several problems can occur. The business or the remaining owners may have difficulty obtaining a loan after the death or retirement of a key owner. Even if the business (or its remaining owner(s)) is able to get a loan to fund the buy-sell arrangement, the ability to get additional loans, for expansion or working capital, may be dramatically diminished.

**Sinking Funds.** A buy-sell arrangement can be funded with a sinking fund in which earnings of the business are retained to fund the arrangement. If an owner dies soon after the arrangement is executed, this strategy will not enable the business to accumulate the necessary funds to fulfill its redemption obligation. Retention of assets in a C corporation can trigger accumulated earnings tax.

**Installment Purchase.** A buy-sell arrangement can be funded by structuring the purchase as an installment purchase. However, this strategy puts a strain on cash flow that can be especially dramatic when the interest being purchased belonged to a majority or key owner. Although the business may be pushed into a transition period during which profitability may be reduced, increased cash flow is needed to fund the buy-sell arrangement. Such a cash flow strain can result in business failure.

## VALUATION METHODOLOGY

An important consideration when structuring a buy-sell arrangement is the method by which the business will be valued (i.e., the "valuation methodology"). The following are several common methods of business valuation:

**Specific Fixed Price.** Shareholders fix the price periodically by arrangement. The primary disadvantage of this approach is that shareholders often fail to adjust the price for changes in value. If the price is not adjusted regularly, the purchase price may prove to be wholly unfair to the selling shareholder. Moreover, the IRS may disregard the actual selling price and attribute a higher value to the business interest. The primary advantage to this approach is that it is simple.

**Book Value.** Value is determined by book value on the date of death or on the close of the last fiscal year preceding the date of death. The primary disadvantage of this approach is that book value is seldom an accurate reflection of value because it (1) reflects depreciated historic (and not current) values and (2) ignores the entity's earnings potential. The primary advantage to this approach is that it is simple.

**Capitalization of Earnings.** Value is determined by multiplying earnings by a capitalization factor. The capitalization factor is generally obtained by analyzing the price-earnings ratio of comparable businesses in the same industry. If this method is utilized, earnings over several years should be examined to alleviate the consequences of economic cycles. The primary disadvantage to this approach is that earnings of closely held businesses are often manipulated (through salaries) for personal tax planning purposes instead of the business needs of the entity.

**Formula.** Value can be determined by a combination of factors. It is not unusual for a sales price to be based upon both book value and capitalization of earnings. Sometimes, a combination of these approaches is incorporated into a formula to mitigate the disadvantages of each approach.

**Appraisal.** Value is determined by an independent appraisal at the time of sale. Sometimes an appraiser is agreed to in the arrangement. In other instances, both the selling shareholder and the remaining shareholders are allowed to pick an appraiser with the value being an average of the appraisals. This approach probably provides the value that most approximates fair market value. The primary disadvantages of obtaining an appraisal are that it can be expensive and that it can delay the settlement process.

**Cut Throat.** The purchase price is determined by the shareholders at the time of sale. A shareholder contemplating a sale will offer his or her shares to the other shareholders at a price determined by the offering shareholder. If the other shareholders do not purchase the shares at this price, the shareholder who made the offer must buy the shares of the other shareholders at this price. This approach sets a theoretically fair price. However, it favors the shareholder with the "deepest pockets." It is primarily used for lifetime sales and usually in businesses owned equally (or nearly equally) by two individuals.

## CONCLUSION

A well-drafted and adequately funded buy-sell arrangement is an important piece of a business owner's succession and estate plan. Without a well-drafted buy-sell arrangement, a business owner (or his or her family) can lose much (or all) of the equity that the owner worked a lifetime to create. Not only is a buy-sell arrangement important to the family of a deceased shareholder, a buy-sell arrangement protects the interests of surviving shareholders by providing them with an opportunity to control ownership of the business after the death of an existing shareholder. An important aspect of buy-sell planning, which is sometimes overlooked, is funding. Without adequate funding, implementation of a buy-sell arrangement may not be possible. Because life insurance provides advantages not available with other methods of funding, it is a common method of funding a buy-sell arrangement.

**For additional information please contact your local John Hancock Representative or call the Advanced Markets Group at (888) 266-7498, option 3.**

1. For simplicity, this Sales Strategy will ordinarily refer to business entities as corporations. However, buy-sell arrangements can be used in any type of business arrangement. Tax consequences differ depending upon the entity involved. The triggering event for the buy-sell arrangement is typically the death of a shareholder. However, triggering events in a well drafted buy-sell arrangement ordinarily include a shareholder's death, disability, retirement, or other termination of a shareholder's employment.
2. See IRC section 1367(a)(1). In many instances, a portion of the basis increase is "lost," as a pro-rata amount of the basis increase may be allocated to the shares of the deceased shareholder. The allocation of the basis increase will depend upon the corporation's accounting method and whether it makes a "short year" election under IRC section 1377(a)(2).
3. A redemption of stock under IRC section 302 is eligible for capital gain tax treatment if (1) the distribution is not essentially equivalent to a dividend, (2) the redemption is "substantially disproportionate" with respect to the shareholder (i.e., the shareholder's interest after the redemption is less than 80% of the interest before the redemption and the shareholder's interest is less than 50% of the total voting power), or (3) there is a complete termination of the shareholder's interest (including an interest as officer, director, or employee). The "family attribution" rules of IRC section 318(a) can complicate the application of IRC section 302. If the stock is more than 35% of the decedent's adjusted gross estate, IRC section 303 may provide an additional "safe harbor." The amount of the redemption that can be protected by section 303 is limited to the extent of the estate's federal and state estate taxes, administrative expenses, funeral expenses, and generation-skipping transfer taxes (to the extent that funeral and administrative expenses are allowed as deductions under section 2053.) For an S corporation, the estate receives a step-up in basis for the value of the shares. In addition, the basis of the shares in the hands of the estate will need to reflect its percentage of the income/loss items from the date of death to the date of purchase.
4. For a corporation, the estate receives a step-up in basis for the value of the shares. In addition, the basis of the shares in the hands of the estate will need to reflect its percentage share of the income/loss items from the date of death to the date of purchase.
5. Section 101(j) of the Internal Revenue Code imposes income tax on the death benefit of life insurance contracts owned by the employer of the insured unless certain exceptions apply. All such exceptions include satisfaction of notice and consent requirements set forth in the section.
6. To avoid accumulated earnings taxes, the accumulation must meet a business (not shareholder) purpose. With a single majority shareholder, it is more likely that the IRS will find the accumulation is serving a shareholder purpose.
7. The buy-sell arrangement should require a sale at fair market value. Sale to a family member for less than fair value constitutes a gift to the extent that the fair market value exceeds the transfer price. See IRC §2703(b).
8. See IRC Section 101(a)(2). The death benefits of a life insurance policy obtained in a transfer for value will not be free of income taxes unless the transfer falls within an exception to the transfer-for-value rule.
9. See IRC section 101(a)(2)(B). The exceptions to the transfer-for-value rule include the transfer of a policy to (1) the insured, (2) a partner of the insured, (3) a partnership in which the insured is a partner, or (4) a corporation in which the insured is a shareholder or officer.
10. A Private Letter Ruling (PLR) is merely an IRS interpretation of law and is only binding upon the taxpayer to whom it is issued.
11. The use of a bonus arrangement creates additional compensation to the recipient and must fall within the reasonable compensation guidelines of the Internal Revenue Code Section 162 in order to be deductible by the corporation.
12. A qualified appraisal of the business should be completed.
13. Each owner may desire to endorse 100% of the death benefit to the other owners during the buy-sell period. The split-dollar final regulations are silent as to whether this is permissable. Clients should consult their tax advisors to discuss this issue.
14. Under the split-dollar final regulations, the economic benefit amounts received by each owner will be treated as rental income and taxed at ordinary income tax rates. In essence, the sum of all anticipated economic benefit amounts represents twice-taxed dollars. The present value of the combined income taxes on the sum of all anticipated economic benefits is essentially an option price that the parties have agreed to at the outset to purchase the flexibility provided by the cross endorsement buy-sell arrangement. Clients should consult their tax advisors to discuss this issue.
15. The parties to the cross endorsement buy-sell arrangement may wish to restrict access to the policy's cash values to the extent that access does not impair the death benefit being endorsed. Loans and withdrawals will reduce the death benefit and cash surrender value, and may cause the policy to lapse. Lapse or surrender of a policy with a loan may cause the recognition of taxable income. Policies classified as modified endowment contracts may be subject to tax when a loan or withdrawal is made. A federal tax penalty of 10% may also apply if the loan or withdrawal is taken prior to age 59½. Cash value available for loans and withdrawals may be more or less than originally invested.
16. See PLR 200747002, in which three business owners established an "Insurance LLC" (Limited Liability Company) to own life insurance policies on the lives of the business owners with management of the policies by an independent Manager. The IRS ruled that the business owners would not have any incidents of ownership in the life insurance policies. PLRs are binding authority only for the taxpayer to whom they are issued.
17. SeeTres.Reg.§20.2042-1(c)(6).