

# Using Life Insurance In Business Succession Planning

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Life insurance can play an important role in a business succession plan. Following are some of the common ways in which life insurance can be integrated with many of the tools, techniques and strategies commonly used in business succession planning.

- **Estate Liquidity.** Some business owners will wait until death to transfer all or most of their business interests to one or more of their children. If the business owner has a taxable estate, life insurance can provide the children receiving the business the cash necessary for them to pay estate taxes. Using life insurance (owned by an irrevocable trust) to pay estate taxes is particularly useful to business owners because business interests cannot be readily liquidated. Life insurance is also a much easier (and less expensive) alternative to deferring estate taxes under IRC Section 6166. The children receiving the business may also need life insurance to pay estate taxes at their deaths. Typically, the insurance policy will be owned by an irrevocable life insurance trust so that the beneficiaries will receive the death proceeds both income and estate-tax free.
- **Estate Equalization.** A business owner can use life insurance to provide those children who are not involved in the business with equitable treatment. Leaving the business to the active children and life insurance (owned by an irrevocable trust) to the inactive children equalizes the inheritances among all of the children. It also avoids the need for the active children to purchase the interests of the inactive children – perhaps at a time when the business may be unable to afford it. Depending on the particular facts and circumstances, the insurance may be owned by an irrevocable trust for the benefit of the inactive children, and the insured(s) may be the business owner or the business owner and his spouse.
- **Buy-Sell Agreements.** A properly designed buy-sell agreement can guarantee a market and fair price for a deceased, disabled or withdrawing owner's business interest; ensure control over the business by the surviving or remaining owners; and set the value of the business interest for estate-tax purposes. Life insurance is the best way to provide the cash necessary for the business or the surviving owners to purchase a deceased owner's interest. In many instances, the cash surrender value in a life insurance policy can also be used tax free (by surrendering to basis and borrowing the excess) to help pay for a lifetime purchase of a business owner's interest.
- **Nonqualified Deferred Compensation Plans.** A nonqualified deferred compensation ("NQDC") plan can be used by a small business to provide members of the senior generation with death, disability and/or retirement benefits. An NQDC plan may be particularly useful in those situations where the senior members have transitioned the business to the junior members and are no longer receiving any compensation from the business. An NQDC plan is also useful to ensure that key employees remain with the business during the transition period – a so-called golden handcuff. Because life insurance offers tax-deferred cash value growth and tax-free death benefits, it is the most popular vehicle for "informally" funding NQDC plan liabilities.
- **Key Man Insurance.** Many family businesses depend on nonfamily employees

for the company's continued success. To guard against financial loss due to the absence of an indispensable key employee, many companies take out key person life insurance.

- **Section 303 Redemptions.** IRC Section 303 allows an estate a one-time opportunity to remove cash from a corporation (equal to the amount of estate taxes and administrative expenses), at little or no tax cost, through a partial redemption of stock. To ensure that the corporation has sufficient funds with which to accomplish the Section 303 redemption, the corporation can purchase a life insurance policy on the shareholder's life.
- **Hedge Strategy.** Life insurance can also be used to provide a "hedge" against the business owner's premature death in connection with a grantor retained annuity trust. For example, if the business owner established a GRAT and died before the end of the set term, the life insurance could be used to pay the estate taxes on the GRAT assets that would be included in the business owner's estate. In addition, if a sale with a private annuity is used, life insurance could provide funds for the business owner's spouse (and/or other family members) since the annuity payments would terminate on the business owner's death. Similarly, life insurance could provide funds for the business owner's spouse and other family members should the business owner die prematurely after using a self-canceling installment note to sell the business interest. In all of these situations, it is advisable to have the life insurance owned by an irrevocable trust so that the insurance proceeds will escape estate taxes.
- **Family Bank.** When the decision is made to leave the business to both active and inactive children, it is usually advisable to leave the active children with voting interests and the inactive children with nonvoting interests in the business. In addition, put and call options can be given. Generally, a put option given to the inactive children allows them to require the active children (or the business itself) to purchase all or a portion of their interest in the business at a set price and terms. Without a put option, there may be no practical way for an inactive child to benefit from owning the business interest unless and until the business is sold. Conversely, a call option given to the active children (or the business itself) allows them to purchase the business interests of the inactive children upon a set price and terms. Without a call option, there may be no effective way for the active children to avoid the potential conflicts that can occur between the active children who are receiving salaries and bonuses, and the inactive children who are not. By having the active children own life insurance on the business owner's life, a "bank" is created to provide the funds to satisfy any such puts and calls. Typically, the policy will be owned outside of the business entity, such as in a trust for the benefit of the active children or by a limited liability company owned by the active children.

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## To Twitter or Not to Twitter, That is the Question!

If you haven't heard the buzz going around about the micro-blogging site Twitter.com, you soon will. It is by far the hottest social and business networking application in the ever-evolving world of Internet marketing. Should you join the cyber-party?

Before answering, understand what Twitter is. In layman's terms, Twitter.com is a website where you can follow what people are saying and they can follow what you are saying. Twitter describes itself as a service for friends, family and co-workers to communicate and stay connected through the exchange of quick, frequent answers to one simple question: **What are you doing?** (See the caveat in the notes below.)

The unique thing about Twitter is that it only allows you to write your "tweet" (or written message) in 140 characters or less. In the "more is less" world of Internet communication, finally a website limits the amount a user can say. Twitterers have to be short and to the point.

When you "follow" someone, each of their tweets shows up on your personal webpage. When you tweet, each of your messages shows up on his/her Twitter page. One of the distinct differences between Twitter and other social communities, such as Facebook or LinkedIn, is the more liberal screening process people seem to have on Twitter when deciding with whom to connect. It is not uncommon to follow complete strangers based on knowing very little about them, except maybe that they are following someone you are following. You can blink and have hundreds of people following you or vice versa. For an even clearer definition of Twitter, go to [www.twitter.com](http://www.twitter.com) and watch the video in the top right-hand corner of the page.

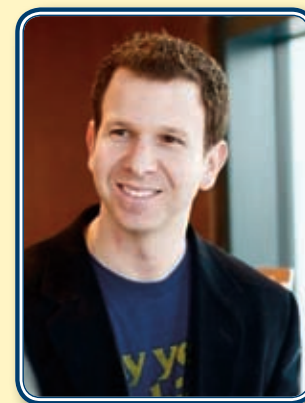
On to the question of whether you should add Twitter as part of your Internet marketing repertoire. The answer is no and yes. The answer is no if you are simply looking for a tool to sell more of your products or services. In my opinion, it is not being used that way and people frown upon heavy promoting and selling. If you are looking to create more online relationships, however, expand your brand, or stay on the bleeding edge of information in your industry, then I wholeheartedly recommend you jump on Twitter.

A colleague of mine, Perry Belcher, had a great analogy of how to view Twitter. Think of hosting a huge party. You wouldn't invite someone to your party and immediately try to sell them a product or service the second you open the door. Instead, you'd greet them, invite them in, have a conversation and engage in business only if the opportunity presents itself. That is exactly how Twitter seems to work.

Are you still interested in trying Twitter or did I scare you away? I hope not because Twitter can be a great opportunity to engage people with similar interests in an incredibly fast and effective way.

### To create your Twitter account:

1. Go to Twitter.com and register for an account. It's free!
2. Take some time to complete your profile. The more thoughtful your profile is, the more likely people will follow you.
3. Write your first tweet. Let everyone know you are new to the site and find a fun way to introduce yourself.
4. Look for some of your friends on Twitter. You have a friend in me! Just go to [www.twitter.com/coreyperlman](http://www.twitter.com/coreyperlman) and [www.twitter.com/ebootcamp](http://www.twitter.com/ebootcamp), click "follow" and you will then be following me. You'll be able to see all the people that I follow and can follow them as well if you choose.
5. For the next few weeks, tweet at least once a day. It only takes about 2-3 minutes. You can also write your tweets via your cell phone (see [Twitter.com](http://Twitter.com) for instructions).



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### A couple of final notes about Twitter:

1. Try not to tweet just about what you are doing. Although that is the theme of Twitter.com, most people like to offer some value in some of their tweets. For example, did you see a good article and want to share it with your followers? Simply highlight the article link and add it as a tweet.
2. You don't have to be too picky on who you follow. It is easy to "un-follow" someone if they are tweeting too much or for any other reason.
3. On occasion, you can promote your products or services. Just remember the party analogy – don't overdue it and annoy people. Communicate on a personal level with people and build trust. There will be plenty of opportunities down the road to conduct business if the opportunity presents itself naturally.

### See you in Twitterville!

Corey Perlman is the author of the #1 Amazon.com bestseller "eBoot Camp: Proven Internet Marketing Techniques to Grow Your Business." The book provides easy-to-do strategies and techniques to help you market your business on the Web. He also conducts seminars and workshops on the topics of Internet marketing and social media. To learn more about the upcoming eBoot Camp workshop in Novi or to purchase a copy of the book, go to [www.ebootcampbook.com](http://www.ebootcampbook.com).