Allianz

Allianz Life Insurance Company of North America

INDEXED UNIVERSAL LIFE INSURANCE

Partnership/LLC buy-sell agreements

The need for and benefits of a smart business exit strategy.

What plans have you made to address the problems that would result from your absence, or that of your business co-owner(s)?

A partnership buy-sell agreement can help ensure the smooth continuation of your business after a potentially disruptive event.

A smart business exit plan should **benefit every owner**.

Indexed universal life (IUL) insurance may be a good choice to fund your buy-sell agreement, allowing the remaining business owner(s) to buy the company interests of a co-owner's share with the death benefit proceeds, if he or she were to die, at a previously agreed-upon price.

Benefits for the business and each of its owners

When funded with an IUL policy, a partnership buy-sell agreement can:

- **Provide death benefit protection** to you and your business partners that is generally income-tax-free to beneficiaries.
- **Provide supplemental income in retirement** through loans or withdrawals[1] from any available cash value accumulation for each owner by transferring the life insurance policy to the insured business owner.
- **Offer tax advantages** to the business owners, the partnership, or any existing C or S corporations.
- **Provide a stepped-up cost basis** to surviving owners who purchase a deceased owner's business.

Keep in mind that life insurance policies require health and financial underwriting.

Must be accompanied by the "Understanding indexed universal life insurance" consumer brochure (M-3959) or appropriate product consumer brochure.

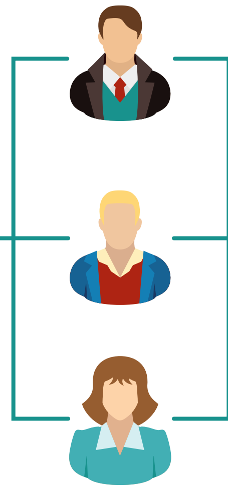
[1] Policy loans and withdrawals will reduce the available cash value and death benefit and may cause the policy to lapse, or affect guarantees against lapse. Withdrawals in excess of premiums paid will be subject to ordinary income tax. Additional premium payments may be required to keep the policy in force. In the event of a lapse, outstanding policy loans in excess of unrecovered cost basis will be subject to ordinary income tax. If a policy is a modified endowment contract (MEC), policy loans and withdrawals will be taxable as ordinary income to the extent there are earnings in the policy. If any of these features are exercised prior to age 59½ on a MEC, a 10% federal additional tax may be imposed. Tax laws are subject to change and you should consult a tax professional.

M-5391 (R-7/2024)

Partnership/LLC buy-sell agreements

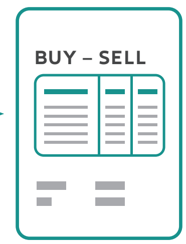
1 PARTNERSHIP OR AN LLC

2 A BUY-SELL AGREEMENT IS CREATED

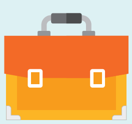


If your business is an S or C corporation, you must first establish a separate partnership, or LLC that's taxed as a partnership; this partnership or LLC owns the life insurance used for the buy-sell agreement.

If your business is already a partnership or an LLC, then your existing business could be used to own the life insurance.



Establish a buy-sell agreement with the flexibility to use either a cross-purchase or entity purchase approach. Your attorney should prepare the necessary documents.



You should consult with your own legal and tax advisors about the creation of a partnership or LLC and what is required in your state to do so. In addition, your advisors can provide you with guidance on a proper business purpose for the new entity and review which entity may be appropriate for estate tax purposes.

Also, keep in mind that there are fees associated with the start-up and maintenance of a new business entity, including attorney and CPA fees.

IF OWNER ONE DIES BEFORE RETIREMENT, THE DEATH BENEFIT FROM OWNER ONE'S LIFE INSURANCE

IF OWNER TWO RETIRES, THE CASH VALUE LIFE INSURANCE POLICY IS TRANSFERRED TO HIM OR HER

OWNER THREE CONTINUES AS SOLE OWNER OF THE BUSINESS OR AS A SINGLE-OWNER LLC, SUBJECT

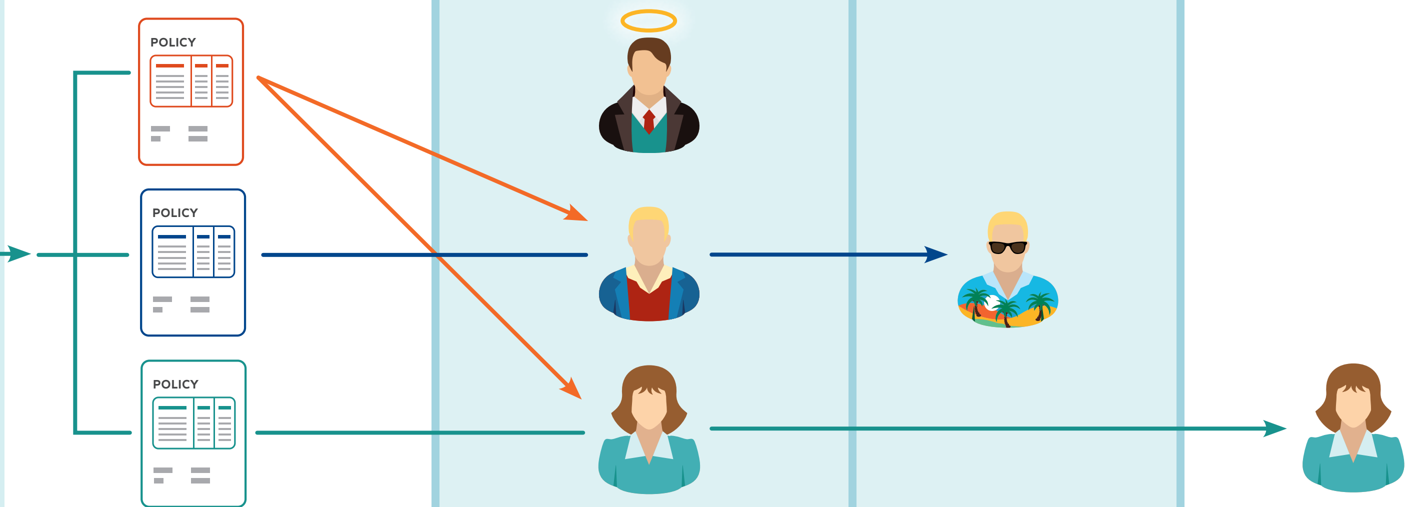
The following example assumes an existing C or S corporation with three owners and an entity purchase approach.

3 THE PARTNERSHIP OR LLC BUYS LIFE INSURANCE ON EACH OWNER

4 OWNER #1 DIES PRIOR TO RETIREMENT

5 OWNER #2 RETIRES

6 OWNER #3 REMAINS



Your partnership or LLC is the owner and beneficiary of separate life insurance policies for each of the three owners. Premiums are paid through bonuses from the corporation to the owners. They then contribute the bonuses to the partnership or LLC to purchase the policies. The partnership or LLC must comply with the notice and consent IRS rules before the policy is issued and follow ongoing reporting obligations to obtain an income-tax-free death benefit.

If you die before retirement:

- The death benefit from the life insurance policy insuring your life is paid to the partnership or LLC.
- The partnership or LLC can specially allocate and distribute the death benefit to the remaining partners.
- The surviving partners or LLC owners use the death benefit to purchase your C or S corporation stock from your estate.

At your retirement:

- Your partnership (or LLC) transfers your cash value life insurance policy to you. Under IRC Section 731, this transfer of property to you is generally not a taxable event.
- Your partnership (or LLC) interest is retired.

The business continues

- The partnership (or LLC) continues if two or more owners remain.
- If there is only one remaining owner, the business continues as a sole proprietorship or as a single-owner LLC, subject to state law requirements.

However, if it is more advantageous for your C or S corporation to redeem your stock, the C or S corporation can purchase your stock from your estate with cash in the C or S corporation. In this case, the death benefit from the policy in the partnership (or LLC) is specially allocated to the surviving owners' accounts and transferred to the surviving shareholders as **an income-tax-free distribution.**

POLICY IS PAID TO THE PARTNERSHIP OR LLC.

ND OWNER TWO'S PARTNERSHIP (OR LLC) INTEREST IS RETIRED.

O STATE LAWS.

Tax results

INCOME TAXES

To the existing C or S corporation:

- Corporate bonuses to the owners are generally income-tax-deductible.

To the new partnership or LLC taxed as a partnership:

- Cash contributed by the owners to pay the premiums is not taxable to the partnership or LLC.
- The death benefit paid to the partnership or LLC is not income-taxable as long as the business gave notice and obtained consent from each insured before policy issue, and followed other requirements applicable to employer-owned life insurance.

For the business owners:

- Corporate bonuses to the owners are income-taxable.
- The death benefit paid to the partnership or LLC and then specially allocated and distributed to the surviving business owners is not income-taxable.
- Distribution of a policy upon retirement is not taxable to the partner who receives it.

ESTATE TAXES

For the estate of the deceased business owner:

- An appropriately established buy-sell agreement should establish the value of the C or S corporate stock in the deceased's estate.
- An appropriately established buy-sell agreement should establish the value of the partnership or LLC interest in the deceased's estate.
- A family-owned business may prefer other strategies since the valuation of a family-owned business is subject to greater scrutiny.
- Consult with your tax advisor about whether a partnership or an LLC taxed as a partnership makes sense for estate tax purposes, in your situation.

CONTACT YOUR FINANCIAL PROFESSIONAL to learn how an IUL insurance policy may be appropriate for your strategy.