



HOW DO BUY-SELL AGREEMENTS IMPACT SUCCESSION PLANS?

A recent United States Supreme Court case regarding the valuation of an interest in a family business for estate tax purposes may warrant taking a second look at succession plans for closely-held businesses.

It is common for owners of a closely-held business to enter into an arrangement to control the disposition of shares in the company if one owner dies. Often this takes the form of a “buy-sell agreement” in which all owners and/or the company itself are required to purchase the shares of a deceased owner and the deceased owner’s estate is required to sell the shares. To fund the purchase of shares, the company will often purchase life insurance on the lives of the owners.

On June 6, 2024, the Supreme Court issued its ruling in *Connelly v. United States* and upheld the IRS’s position that life insurance death benefit proceeds payable to a company to fund its obligation to redeem shares from a deceased owner in a “buy-sell agreement” increase the fair market value of the deceased owner’s shares. In essence the value of the insurance proceeds received by the company which result from the death of a shareholder is added to the value of the company to determine the date of death value of the decedent’s stock, thereby increasing the potential estate tax due.

In light of the Supreme Court’s decision, we recommend that owners of closely-held businesses consult with their attorneys and tax advisors to review and potentially update their buy-sell arrangements to ensure they are structured with estate tax implications in mind.