MassMutual

Business Planning Techniques*

Overall Business Planning

This techniques grid provides a high-level overview on the various types of business planning options available to business owners. Select the planning category to compare the objectives and differences in each technique.

General Business Planning

This chart compares different arrangements used in business succession, such as:

- Buy-Sell Cross Purchase
- Buy-Sell Stock Redemption or Entity Purchase
- Partial Stock Redemption Under § 303 of the Internal Revenue Code (IRC)
- Wait-and-See Buy-Sell
- One-Way Buy-Sell
- Trusteed Cross Purchase
- Partnership Buy-Sell for Shareholders

It also includes strategies to protect key people, such as:

- Key Person Life Insurance
- Key Person Disability Income Insurance (Sick Pay Plan)

					Federal Income Tax Aspects			
	Objective	**Payor**	**Owner**	**Beneficiary**	**Business**	**Employee/Key Person**	**Deceased's Family**	**Federal Estate Tax Aspects**
Buy-Sell Cross Purchase	Disposal of business interest by transferring ownership to surviving co-owners who continue business.	Each partner or stockholder pays premiums for policy on the life of partner(s) or co-stockholder(s).	Each partner or stockholder owns policy on the life of partner(s) or co-stockholder(s).	Each partner or stockholder is beneficiary of the policy that party owns on life of partner(s) or co-stockholder(s); proceeds used to buy interest from deceased owner’s estate.		Premiums not deductible. Proceeds not taxable.	Step-up in basis usually applies. If purchase price does not exceed stepped-up basis, there is no tax.	The value of the decedent’s business interest is included in the decedent's estate.
Buy-Sell Stock Redemption or Entity Purchase	Disposal of business interest by having business purchase deceased’s interest.	Business	Business	Business — proceeds used to buy interest from deceased owner’s estate.	Premiums not deductible. Proceeds not taxable.		Step-up in basis usually applies. If purchase price does not exceed stepped-up basis, there is no tax.	The value of the decedent’s business interest is included in the decedent's estate.
Partial Stock Redemption Under § 303 of the Internal Revenue Code (IRC)	Transfer ownership of close corporation to heirs but also convert some shares to cash for estate clearance costs.	Corporation	Corporation	Corporation — proceeds used to purchase stock from estate of deceased stockholder in amount limited to estate settlement costs.	Premiums not deductible. Proceeds not taxable.		Step-up in basis usually applies. If purchase price does not exceed stepped-up basis, there is no tax.	The value of the decedent’s business interest is included in the decedent's estate.
Wait-and-See Buy-Sell	Disposal of business interest by transferring ownership either by entity or surviving owner.	Either each partner, shareholder, or the business.	Either each partner, shareholder, or the business.	Either each partner, shareholder, or the business.	Premiums not deductible. Proceeds not taxable.	Premiums not deductible. Proceeds not taxable.	Step-up in basis usually applies. If purchase price does not exceed stepped up basis, there is no tax.	The value of the decedent's business interest is included in the decedent's estate.

One-Way Buy-Sell	Disposal of business interest by transferring ownership either to a key person or child working in the business.	Business	Key person or adult child	Key person or adult child	Business may pay premium as a bonus to key person or adult child. Bonus is a deductible expense so long as reasonable.	Key person or adult child taxed on the bonus.	Step-up in basis usually applies. If purchase price does not exceed stepped up basis, there is no tax.	The value of the decedent's business interest is included in the decedent's estate.
Trusteed Cross Purchase	Disposal of business interest by transferring the ownership by a trustee of the surviving owners.	Each partner or shareholder of the business.	Trustee under the trust for the partners or shareholders	Trustee under the trust	Premiums not deductible. Proceeds not taxable.	Premiums not deductible. Proceeds not taxable.	Step-up in basis usually applies. If purchase price does not exceed stepped up basis, there is no tax.	The value of the decedent's business interest is included in the decedent's estate.
Partnership Buy-Sell for Shareholders	Disposal of business interest by transferring ownership through a partnership entity.	Each partner or shareholder of the business.	Partnership/Entity	Partnership/Entity	Premiums not deductible. Proceeds not taxable.	Premiums not deductible. Proceeds not taxable.	Step-up in basis usually applies. If purchase price does not exceed stepped up basis, there is no tax.	The value of the decedent's business interest is included in the decedent's estate.

Key Person Life Insurance	Provide protection to offset financial losses to a business due to death of valuable key person.	Business	Business	Business — proceeds offset reduced profits and help pay for replacement upon key person's death.	Premiums not deductible. Proceeds not taxable. IRC § 101(j) rules required for death benefit to be income tax free: • Employer must give notice • Key person must consent in writing • Key person must meet status requirement[1] • Employer must file an annual Form 8925			Considered a relevant factor in valuing shares of stock if deceased key person was an owner.
Key Person Disability Income Insurance (Sick Pay Plan)	Provide salary continuation plan for selected key person during period of disability.	Business	Covered key person	Covered key person — benefits offset salary lost while unable to work.	Premiums deductible.	Employer-paid premiums need not be included in gross income. Benefits then taxable to key person. If the employer pays the premium but the employer-paid premiums are included in the key person's taxable income (i.e., included in W-2 wages), then it is considered key person-paid, and benefits will be received income tax free.		

Nonqualified Benefit Arrangements

This chart compares different nonqualified benefit plans that help the business retain key people, such as:

- Split Dollar (Conventional Non-Equity)
- Split Dollar Loan Arrangement
- Nonqualified Deferred Compensation
- Executive Bonus Arrangement
- Leveraged Bonus Arrangement

					Federal Income Tax Aspects			
	Objective	Payor	Owner	Beneficiary	Business	Key Person	Deceased's Family	Federal Estate Tax Aspects
Split Dollar (Conventional Non-Equity)	Retention of selected key person by helping them purchase life insurance.	Business	Business or insured or third party (i.e., trust)	Business receives greater of premium costs or cash value — balance to key person's beneficiary.	Premium paid not deductible. Proceeds received not taxable. Deduction for term cost taxable to the key person.	Taxed on economic benefit (one-year term costs).	Proceeds not taxable.	Proceeds received included in key person's gross estate if there are incidents of ownership, e.g., right to designate and change beneficiary.
Split Dollar Loan Arrangement	Retention of selected key person by helping them purchase life insurance.	Business pays all or part of premium payment	Insured or third party (i.e., trust)	Business interest in policy equal to its cumulative premiums.	Premium paid not deductible. Proceeds received not taxable. Business taxable on any interest payments received by policyowner.	Unless paid, key person taxed on imputed interest income equal to Applicable Federal Interest Rate (AFR) times loan balance.	Proceeds not taxable.	Proceeds received included in key person's gross estate if there are incidents of ownership, e.g., right to designate and change beneficiary.

Nonqualified Deferred Compensation	Retention of key person by deferring taxable income and/or providing salary continuation plan.	Business	Business	Business — proceeds used to fund key person's salary continuation plan.	Premium not deductible. Death proceeds not taxable. Benefit payments deductible if reasonable compensation. Must comply with IRC § 409A rules.	Employer-paid premiums not treated as taxable income. Taxes deferred until key person receives benefits, which are considered ordinary income.	Benefit payments taxable as ordinary income when received.	Commuted value of remaining benefit payments included in key person's gross estate.
Executive Bonus Arrangement	Retention of selected key person by providing death and/or retirement benefits.	Business	Covered key person	As designated by covered key person.	Premium deductible.	Employer-paid premiums considered taxable income. Benefits not taxable (except gain on surrender).	Proceeds not taxable.	Proceeds included in covered key person's gross estate due to policy ownership.
Leveraged Bonus Arrangement	Retention of selected key person by providing death an/or retirement benefits.	Business pays premium payment and loans the amount for key person's taxes on the bonus.	Covered key person (or trust or person on behalf of covered key person).	As designated by covered key person.	Premium deductible. Loan not deductible. (Can deduct loan amount if forgiven[2] at a later date; key person would be taxed as income on amount forgiven by employer).	Employer-paid premiums considered taxable income. Benefits not taxable (except gain on surrender). Loan not taxable unless forgiven.*	Proceeds not taxable.	Proceeds included in covered key person's gross estate due to policy ownership.

Qualified Benefit Plans

This chart compares different qualified benefit plans to help the business reward and retain its employees, such as:

- Pension plan
- Profit Sharing Plan
- Individual Retirement Account (IRA)
- Nondeductible Individual Retirement Account (Roth IRA)

					Federal Income Tax Aspects			
	Objective	Payor	Owner	Beneficiary	Business	Employee	Deceased's Family	Federal Estate Tax Aspects
Pension Plan	Provide retirement benefits for employees, including stockholder-employees, on a tax-favored basis.	Business	Trustee — vesting schedule determines covered employee's ownership rights.	Usually trustee of plan with beneficiary under the plan as designated by covered employee, subject to qualified joint and survivor and pre-retirement survivor annuity requirements.	Contributions deductible provided they do not exceed the limits of IRC § 415.	Employer contributions not considered taxable income, except one-year term cost of insurance protection. Taxes deferred until benefits received. Benefits taxable as ordinary income.	Plan distributions are taxable as ordinary income; for a plan with life insurance, the death benefit in excess of the cash value is income tax free.	Qualified plan funds are included in the employee's gross estate.
Profit Sharing Plan	Provide retirement benefits for employees, including stockholder-employees, on a tax-favored basis.	Business	Trustee — vesting schedule determines covered employee's ownership rights.	Usually trustee of plan with beneficiary under the plan as designated by covered employee, subject to qualified joint and survivor and pre-retirement survivor annuity requirements.	Contributions deductible provided they do not exceed the limits of IRC § 415.	Employer contributions not considered taxable income, except one-year term cost of insurance protection. Taxes deferred until benefits received. Benefits taxable as ordinary income.	Plan distributions are taxable as ordinary income; for a plan with life insurance, the death benefit in excess of the cash value is income tax free.	Qualified plan funds are included in the employee's gross estate.

Individual Retirement Account (IRA)	Provide retirement benefits. Possible current tax deduction.	Individual participant (or spouse)	Individual	As designated by the owner.		Deductible contributions up to specified amounts (see below) and also same permissible limits for nonworking spouse. Contribution limits are: **50 and Under** / **Over Age 50** $7,000 / $8,000	IRA distributions are taxed as ordinary income. A surviving spouse can roll over the IRA into his or her own IRA.	IRA funds are included in the employee's gross estate.
Nondeductible Individual Retirement Account (Roth IRA)	Provide tax-free withdrawals. No current tax deduction.	Individual participant	Individual	As designated by the owner.		Nondeductible contributions up to specified amounts (see below) with income limitations. Contribution limits are: **50 and Under** / **Over Age 50** $7,000 / $8,000 "Qualified" distributions are income tax free. Roth contributions vary according to tax filing status, income levels, and age. Your total contributions to Roth and traditional IRAs cannot exceed the dollar limits above.	Qualified distribution not includible in gross income.	IRA funds are included in the employee's gross estate.

[1] Insured was employee at any time during 12 months before death, or at time of issue insured was: a director, 5% or greater owner, highly compensated, one of five highest paid officers, or among the highest paid 35% of all employees.
Either employment status requirement must be met, not both.

[2] Note that if loan forgiveness is illustrated, the arrangement is likely to be classified as a deferred compensation arrangement and subject to the requirements of Internal Revenue Code (IRC) § 409A. Any promise, whether expressed or implied, by the business to forgive the loan to the employee at some future date is a form of deferred compensation. In addition, if this arrangement is classified as a deferred compensation arrangement, Employee Retirement Income Security Act (ERISA) filing and other legal requirements will apply.

The information provided is not written or intended as specific tax or legal advice. MassMutual, its subsidiaries, employees, and representatives are not authorized to give tax or legal advice. Individuals are encouraged to seek advice from their own tax or legal counsel. Individuals involved in the estate planning process should work with an estate planning team, including their own personal legal or tax counsel.

AS5000ge 1123 MM202504-301373