

STRATEGY SPOTLIGHT*

Wait-and-See Buy-Sell Arrangements

The wait-and-see buy-sell arrangement is a hybrid buy-sell agreement that combines elements of the traditional entity purchase and the cross-purchase buy-sell arrangements. Unlike those, the specific purchaser of an owner's business interest remains uncertain until death, retirement, or disability actually occurs. This provides the business owner with flexibility as to the transfer of ownership when the triggering event occurs.

The wait-and-see buy-sell arrangement provides that the business entity has the first right to purchase the ownership interest in question after the triggering event, then the other owners have the right to purchase, and if any ownership interests remain, then the business entity must purchase the remaining ownership interests.

* 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.

Using Life Insurance to Fund the Arrangement

Each of the individual owners and the business entity are potential life insurance buyers.

The entity has the greatest exposure since it has a binding obligation to purchase the interest if the two options are unexercised or incompletely exercised. It is essential to establish the life insurance ownership in the proper manner at the outset. For this purpose, either the cross-purchase approach or the stock redemption approach may be used. However, more often the wait-and-see buy-sell is funded under the cross-purchase structure. This is because it is generally more tax efficient to move the insurance proceeds from the surviving shareholder(s) to the business (if the entity option was elected) than to move the proceeds from the business to the surviving shareholder(s) (if the surviving shareholder option was elected), which may cause the surviving shareholder to be taxed on the proceeds.

When the Wait-and-See Buy-Sell Arrangement is Not Appropriate

The wait-and-see approach is obviously not appropriate for a sole proprietorship or a single-owner business. Further, if the owners are related, the family attribution rules are a potential problem in the event of a redemption under the first option, or a mandatory purchase under the third step.

Please work with your financial professional, tax advisor,
and legal advisor. They can assist you with any questions
you may have.

Additional Resources

[Wait-and-See Buy-Sell Arrangements Strategy Snapshot](#)

[Buy-Sell Concept Guide](#)

Participating whole life insurance policies are issued by Massachusetts Mutual Life Insurance Company (MassMutual), Springfield, MA 01111-0001.



© 2023 Massachusetts Mutual Life Insurance Company (MassMutual®), Springfield, MA 01111-0001.
All rights reserved. www.MassMutual.com.