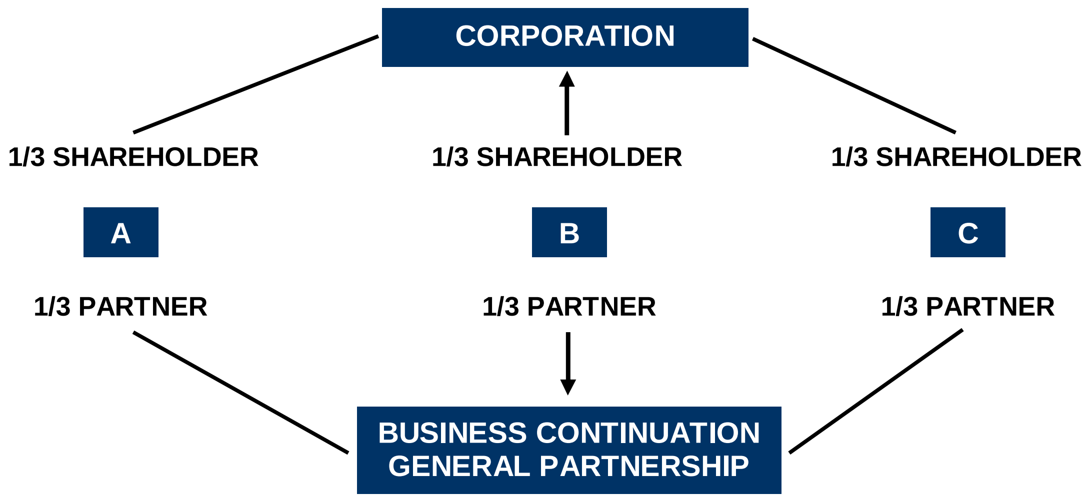
Business Continuation General Partnership

How It Works

Business Continuation General Partnerships (BCGP) provide a flexible structure to fund corporate buy-sell agreements while permitting owners to accumulate cash on a tax-deferred basis for additional retirement income or business contingencies.

How the Business Continuation General Partnership Works



1. The owners form a partnership. (It may be possible to use a pre-existing partnership or Limited Liability Company.)
2. A, B and C own proportionate interests in the corporation and the BCGP.
3. The BCGP owns one policy each on A, B and C. Premiums are paid with contributions from A, B and C.
4. If an owner dies or becomes disabled prior to retirement, the BCGP purchases the partnership interest of the departing owner and distributes the remaining insurance policy proceeds to surviving owners who purchase the stock of the departing owner.
5. At retirement, the life insurance policy may be distributed to the insured who may draw on policy cash values to supplement retirement income.

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Advantages:

- Upon a buy-out, remaining owners can receive a basis increase in their stock equal to the purchase price paid to the departing shareholder.
- Buy-sell agreement can be funded with one policy per shareholder regardless of the number of owners.
- Provides flexibility in allocating premium cost among owners.
- Owners can accumulate cash on a tax-deferred basis for additional retirement income or business contingencies.
- Partnerships are not subject to the corporate alternative minimum tax (AMT).
- Partnerships are generally not subject to the corporation's creditors.
- If an owner dies before retirement, most of the death benefit can be excluded from the owner's estate and additional estate liquidity can be provided through purchase of the deceased owner's business interest.
- Avoids transfer for values issues associated with other types of buy-sell agreements.
- It may be possible to distribute policies to retiring partners without recognition of gain.

Considerations:

- Professional fees incurred in forming and operating the entity.
- On-going operating expenses.
- Certain tax issues that must be discussed with the client's tax advisor.