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THE IRS FUNDED KINGDOM BUY-SELL

How would you like to have the IRS fund your buy-sell agreement and make major gifts to the Christian ministries you care about all at the same time—without taking a penny out of your current cash flow? That is what Mrs. Williams did recently.

The Story

Several years ago Mr. Williams died, leaving his widow 90% of the stock in his Big Production Company, Inc. Their son, who was already very active in the business, owned the remaining 10% of the company.

Eventually Mrs. Williams remarried a much younger man, and her son became quite concerned that somehow Mom's new husband might end up with control of the company if his mother predeceased her new husband. Mrs. Williams still wanted to maintain control of the company during her lifetime, but her son wanted to ensure that he would gain control of the company at her death.

At that time, no formal buy-sell agreement existed between Mrs. Williams and her son. The son was in no financial position to underwrite the funding of a buy-sell, and if Mom were to provide him with the cash to fund the agreement, she would have had to use expensive after-tax dollars to do so.

The Big Production Company had very strong earnings and routinely faced retained earnings problems. Mrs. Williams very much wanted to make a commitment to the major ten-year capital campaign of her alma mater, a Christian college where she now served on the board. However, since the overwhelming majority of her estate was made up of illiquid company stock, her CPA had advised her against making any substantial cash gifts because her estate needed to retain the limited cash it had for estate liquidity.

Was there a way to solve these myriad problems and achieve everyone's personal goals and desires? The answer was Yes! Enter: ***The IRS-Funded Kingdom Buy-Sell Agreement.***

Step One

Mrs. Williams and her son entered into a formal, binding, buy-sell agreement ensuring that upon Mom's death, the son would buy her stock from the estate.

Step Two

Mrs. Williams agreed to donate $100,000 to the college for each of the next ten years. These annual gifts to the college would be made with her corporate stock. Gifting the stock would not reduce her current income or lifestyle or reduce her estate's limited liquidity. These annual gifts each represented only about 2% of her total stock holdings, so there was no concern on her part over losing control of the company with these gifts.

Step Three

Because Mrs. Williams was in a 40% income tax bracket, her annual $100,000 stock gift would create an income tax deduction, saving her $40,000 in taxes for each of the next ten years. Mrs. Williams would then turn around and gift this $40,000 income tax savings to her son and his wife, using her and her new husband's annual exclusion. The son would take this $40,000 and purchases a life insurance contract on his mother's life in the amount needed to buy the stock from her estate upon her death. By the end of Mrs. Williams' ten-year gifting commitment to the college, payments on the life insurance contract were projected to be internally funded, requiring no additional premium payments.

Step Four

Each year after Mrs. Williams would make her stock gift, Big Production Company and the college would enter into a discussion as to whether it would be in their mutual best interest for the company to buy back the gifted stock and simply retire it as treasury stock. Even though the corporation was not obligated to buy and the college was not obligated to sell, it was in both parties' best interest to do so. The company had the surplus cash and the college had no need for the stock. The company would repurchase the stock, and The IRS-Funded Charitable Buy-Sell Agreement would be completed.

Conclusion

What exactly had been accomplished with this planning strategy? Mrs. Williams was able to make $1 million ten-year gift to her college which didn't reduce her cash flow or estate liquidity. Mrs. Williams' commitment was used as the lead gift of the school's capital campaign, and the school subsequently raised another $9 million.

Mrs. Williams was able to gift no-cost dollars (tax savings) to her son to fund their buy-sell agreement, making her relationship with her son even stronger, and allowing him to stay committed to the company because he knew that he would definitely become the controlling owner of the company at Mom's death. Mrs. Williams was able to help relieve some of the retained earnings problems her company annually faced, keeping them from being forced to distribute the excess earning to her as doubled-taxed dividends. Mrs. Williams won. Her son won. The Christian college won. And her company won. All this because someone was willing to think outside the box!

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Jay Link, Director of Stewardship Planning at Taylor University, spent 35 years counseling Christian families to build customized Master Stewardship Plans. He is an author, a mentor to hundreds of financial advisors and attorneys, and started his career as a pastor. His passion is helping Christian families use all the Lord has entrusted to them for Kingdom-building purposes.