



Who Needs to Know About the Buy-Sell Decision Announced by The Supreme Court?



What Affected Business Owners Should Do Now

What should business owners with stock redemption/ entity purchase buy-sell agreements funded with business owned life insurance do in a post Connelly world?

✓ In light of the Connelly decision, existing entity purchase buy-sell arrangements should be reviewed and potentially changed to another form of buy-sell arrangement.

✓ If a business owner's net worth does not raise to the level to trigger "death taxes" the owner may still want their document reviewed to make sure the agreement reflects the intentions concerning whether the purchase price should or should not include the value of the life insurance proceeds. Absent specific instructions in the buy-sell agreement, a business appraiser may have to make the determination. What the appraiser decides will almost certainly disappoint at least one side and may surprise both.

✓ Existing business owned life insurance may either need to be repurposed or replaced. It may not be possible to simply transfer existing life insurance without causing adverse income taxation.

The recent June 6, 2024, Supreme Court decision in *Connelly v. Commissioner* will significantly impact the following business owners:



Business owners with stock redemption/ entity purchase buy-sell arrangements. These are arrangements where the business agrees to purchase the interest of a deceased owner.



Owners where they are the insureds on a business owned life insurance policy. In *Connelly*, the court included the life insurance death proceeds received by the business increasing the company's value. The decision differs from the prior precedent where the insurance was offset by the liability created by the purchase obligation under the stock redemption agreement.



Business owners potentially subject to state or federal "death taxes" (estate, inheritance) are most affected by the decision. The Connelly decision involved a tax dispute where the IRS increased the value of the business by the amount of life insurance death proceeds received by the business, causing the estate of the deceased business owner to pay more estate taxes.

How Can DBS Help?

If you have questions contact DBS's in-house advanced markets resource, Terri Getman, JD*, CLU, ChFC, RIPC, AEP (Distinguished).

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