



# KARDIA

FAMILY WEALTH COUNSELING

*Keeping the heart of God at the heart of planning*

## 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 and left 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

Recently Mrs. Williams remarried a much younger man, and the son is now quite concerned that somehow mom's new husband might end up with control of the company if his mother predeceases her new husband. Mrs. Williams, however, undoubtedly still wants to maintain control of the company during her lifetime. The son, on the other hand, does want to gain control of the company at her death.

There is currently no formal buy-sell agreement between Mrs. Williams and her son. Even if there was, the son was in no financial position to underwrite the funding of the buy-sell, and if mom were to provide him with the cash to fund the agreement, she would have to use expensive after-tax dollars to do it.

The Big Production Company has very strong earnings and routinely faces retained earnings problems. Mrs. Williams is on the board of the Christian college where she graduated. The college has just begun a major ten year capital campaign and she would very much like to make a commitment to the campaign. However, since the overwhelming majority of her estate is made up of illiquid company stock, her CPA has advised her against making any substantial cash gifts at this time because her estate needs to retain the limited cash it has for estate liquidity.

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

### Step One

Mrs. Williams and her son enter into a formal, binding, buy-sell agreement that ensures that when mom dies, the son buys her stock from the estate.

## Step Two

Mrs. Williams agrees to donate \$100,000 to the college for each of the next ten years. These annual gifts to the college will be made from her corporate stock. Gifting the stock doesn't reduce her current income and lifestyle or reduce her estate's limited liquidity. These annual gifts each represents only about 2% of her total stock holdings, so there is no concern on her part over losing control of the company with these gifts.

## Step Three

Because Mrs. Williams is in a 40% income tax bracket, her annual \$100,000 stock gift will create an income tax deduction saving her \$40,000 in taxes each of the next ten years. Mrs. Williams then, turns around and gifts this \$40,000 income tax savings to her son and his wife, using her and her new husband's annual exclusion. The son takes 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 when she dies. By the end of Mrs. Williams' ten year gifting commitment to the college, payments on the life insurance contract on her life are projected to be internally funded requiring no additional premium payments.

## Step Four

Each year after Mrs. Williams makes her stock gift, Big Production Company and the college 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 is not obligated to buy and the college is not obligated to sell, it is in both parties best interest to do so. The

company has the surplus cash and the college has no need for the stock. The company repurchases the stock, and The IRS Funded Charitable Buy-Sell Agreement is completed.

## Conclusion

What exactly has been accomplished with this planning strategy? Mrs. Williams has made a \$1 million ten year gift to her college which didn't reduce her cash flow or estate liquidity. Mrs. Williams' commitment is used as the lead gift of the schools capital campaign and the school subsequently raises another \$9 million.

Mrs. Williams is 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 knows that he will definitely become the controlling owner of the company at mom's death.

Mrs. Williams has been able to help relieve some of the retained earning problems her company annually faces, keeping them from being forced to distribute the excess earning to her as doubled-taxed dividends.

Mrs. Williams wins. Her son wins. The Christian college wins. And her company wins. All this because someone was willing to think outside the box!

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