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CONNELLY V. UNITED STATES: CORPORATE REDEMPTION POLICIES CAN MEAN MORE TAX

In a recent decision in *Connelly v United States*, the U.S. Supreme Court altered the calculation of estate tax on businesses that hold life insurance policies payable to shareholders. A business taking out a life insurance policy to redeem a deceased shareholder's interest is a common strategy of closely held companies that can be utilized to keep a family-owned business within the family. A company holding a life insurance policy to transfer an owner's business interest should review the purchase and redemption agreements to ensure that they are still an efficient tax structure.

Planning Ahead: Buy-Sell Agreements

A buy-sell agreement is a common method to provide a plan to transfer an owner's business interest in the event of termination, retirement, divorce, disability, or death. Depending on how it is written, a buy-sell agreement can prevent the sale of equity interests outside of the ownership group, create a market for a shareholder's stock, and fix the stock value for a closely held company—which has incredible value for estate tax purposes. The three primary forms of buy-sell agreements are (1) corporate redemption agreements; (2) cross-purchase agreements; and (3) hybrid agreements.

Estate Tax Valuation: Then and Now

Before 2024, some taxpayers took the position that the amount of life insurance proceeds received by a company that was specifically earmarked to redeem a deceased shareholder's interest represented an asset (the life insurance proceeds) that was immediately offset by a liability (the payment in exchange for a shareholder's interest) and was not includable in the valuation of the interest as part of the deceased shareholder's estate for estate tax purposes.

In *Connelly v. US*, the U.S. Supreme Court held that where a closely held corporation holds a life insurance policy on a shareholder of the corporation, any proceeds of such policy used to purchase a deceased shareholder's shares are includible in the valuation of the business for determining a deceased shareholder's estate tax liability. In its decision, the Court turned the previous understanding of redemption agreements on its head.

Planning Ahead: Different Solutions

Redemption agreements distributing life insurance policies owned by the business should be immediately reviewed and reconsidered. Utilizing a cross-purchase agreement, a separate limited liability company to hold life insurance proceeds, split-dollar life insurance, or a trusted buy-sell

agreement could provide a more favorable estate tax valuation for business succession consideration.

JAH Can Help

Our **attorneys** at JAH are here to help you plan and navigate the recent US Supreme Court decision in *Connelly v United States* ruling and how it will impact you. **[Click here to contact one of our attorneys](#)** if you require assistance.

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