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GT in Brief

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SCOTUS Tax Decision Could Affect Your Business Estate Planning

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Green Profit's business columnist Bill McCurry asked if we could fill in our readers on a recent Supreme Court decision.

In his notes to us about the case, Bill quoted Judge Gordon J. Tucker, who wrote in 1866, “No man’s life, liberty or property are safe while the legislature is in session.” Bill says you can now add the Supreme Court to that list, thanks to their June 6 decision in *Connelly v. United States*.

In the ruling, the court unanimously held that a corporation’s contractual obligation to redeem shares is not necessarily a liability that reduces a corporation’s value for purposes of the federal estate tax.

In layperson’s language, explains Bill, “life insurance policies on owners’ lives, owned by the company, and usually used to buy out remaining partners or provide working capital, may be taxable and included in the corporation’s income and valuation for estate tax.”

That’s what happened to the Connelly family, who brought the suit. The family building supply business, owned by two brothers, had taken out a \$3.5 million insurance policy on each brother, which was to be used to buy the deceased’s shares upon his passing, ensuring the business would stay in the family (apparently, a not-uncommon estate-planning practice). That happened, and an IRS audit led to an additional \$890,000 tax bill. The surviving brother sued, leading to SCOTUS getting the case.

After deliberation, the court ruled unanimously that when the brother died, the proceeds of that policy became assets of the company—effectively making a \$4 million business now a \$7 million business for tax purposes.

So if you are using a life insurance policy as a way to help your survivors or heirs purchase your share of the family business when you shuffle off this mortal coil, you’d better check with your tax and estate planning experts! To get more details on the ruling visit [GO HERE](#). GT