



# Business Planning

## EXECUTIVE BONUS LIFE INSURANCE



A bonus to a key employee is an efficient method of paying premiums for needed life insurance. The bonus is taxable compensation to the employee and is a normal deductible business expense under Section 162 of the Internal Revenue Code. Since it is treated as compensation, the life insurance premiums become tax deductible by the business.

The arrangement also enables you to recognize valuable employees. A bonus in the form of premiums for life insurance protection shows that you really care for the welfare of your employees and their families.

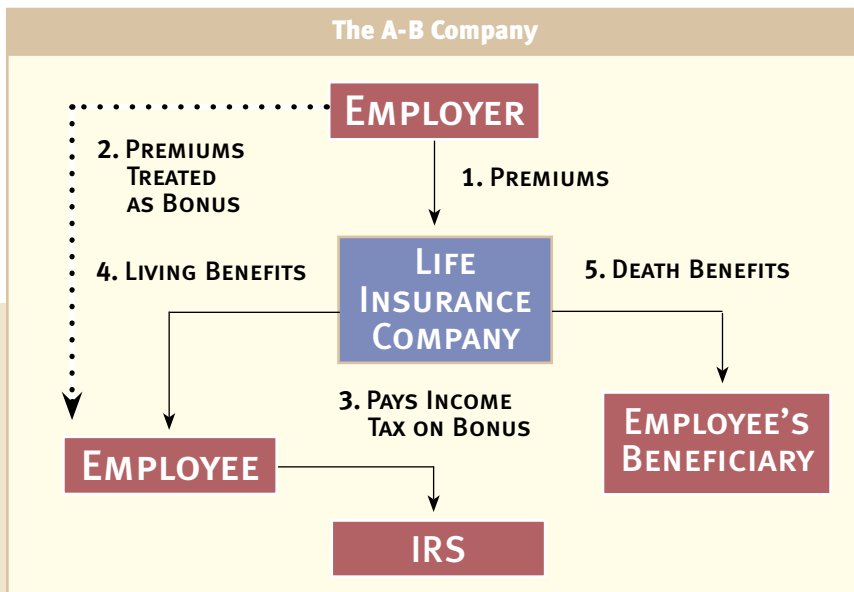
Using this concept can help meet several needs, including:

- Family survivor income
- College education funding
- Estate liquidity
- Supplemental retirement

### How it Works

1. The business pays life insurance premiums directly to the life insurance company.
2. The premiums are treated as taxable compensation (bonus) to the employee.
3. The employee pays income tax on the bonus (premiums).
4. The employee retains full rights to the policy, including accessing the policy's cash values, pledging the policy as collateral for a loan and naming a beneficiary.
5. The death benefits are income tax free\* when paid to a named beneficiary.

\*Under current federal income tax law



## Executive Bonus Life Insurance Advantages and Tax Considerations

### Advantages to the Business

- No IRS approval is required.
- The arrangement requires no ongoing administration.
- You can be selective as to whom and how much to benefit a key employee.
- The arrangement can be an incentive for the key employee.

### Tax Considerations for the Business

- The life insurance premiums are deductible as taxable compensation to the employee, as long as the compensation is reasonable.
- A bonus is considered taxable wages for both FICA and FUTA purposes.

### Advantages to the Participating Employee

- The employee has full control of the life insurance policy.
- The employee names a beneficiary of the policy's proceeds.
- The employee benefits from using the business' dollars to pay for personally owned life insurance.

### Tax Considerations for the Participating Employee\*

- Life insurance cash values accumulate tax deferred.
- The beneficiary receives life insurance death benefits income tax free.
- The employee's cost is the income and FICA tax due on the "bonus."

\*Under current federal income tax law

### Key Questions:

- How do you reward your "Key Employees?"
- Would you like to get a current deduction for benefits provided to your "Key Employees?"

*The purpose of this material is to illustrate a concept. Specific tax or legal questions should be directed to your tax or legal counsel.*

## Information Needed to Develop a Recommendation:

Name of Business \_\_\_\_\_

Form of Business  Sole Proprietorship  Partnership  Corporation  C  S  Limited Liability Company

Employee \_\_\_\_\_ Date of Birth \_\_\_\_\_

Annual Income \$ \_\_\_\_\_ Position \_\_\_\_\_

Life Insurance Death Benefit \$ \_\_\_\_\_

Business marginal tax bracket \_\_\_\_\_ % Employee marginal tax bracket \_\_\_\_\_ %

Life insurance underwritten by:

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Hauppauge, NY 11788-2934



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