

The Executive Bonus Plan—A Win-Win Strategy!

By Melvin L. Rohrer, LUTCF

If I can show you a way Mr. or Ms. Business Owner that you can have your business pay for your personal life insurance, as well as deduct the cost, would you be interested? Of course you would!

An Executive Bonus Plan funding a permanent life insurance policy may make this possible. Your client's business would bonus your client an amount to not only pay the premium costs, but also any additional income tax your client would incur from the bonus. In addition, the corporation can deduct this bonus as compensation.

These plans are easy to implement and administer. The first step is to have the business pay the premium on the personal life insurance policy. These premium payments are treated and taxed as a salary increase to your client, the owner. They can be deductible to the corporation under Internal Revenue Service Code Section 162, as long as the corporation is neither a direct nor indirect beneficiary of the death benefit. There is also the need to meet the reasonable compensation test, but your client's personal tax advisor can guide you further on this aspect.

Let me illustrate using an example. We will assume a corporation is in the 34 percent income tax bracket and the business owner is in a 28 percent income tax bracket. The business owner needs \$500,000 of life insurance coverage. If the premium for the life insurance policy is \$9,068 per year for 15 years, then the business would bonus a total of \$12,595 to the owner. This would be enough to cover the premium plus the business owner's additional income tax of \$3,527. Keep in mind the business could deduct this bonus, so the after tax outlay for the company in this example would be \$8,313.

This method also works very effectively for key employees as part of their overall benefit package.

An Executive Bonus Plan can provide the life insurance coverage your clients need for personal planning while letting your business pay the premiums on a tax-advantaged basis. If you have business owner clients, it's a win-win strategy that you can't afford to ignore!

Contact your RAM GROUP Life Marketing Consultant for more information on the Executive Bonus Plans and the types of policies available to fund these plans.

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