

Executive Bonus Plan

If you're looking for a plan to selectively reward key employees, including yourself, an Executive Bonus Plan may make sense for your business.

In today's competitive job market, keeping the people who matter most to your company may require providing more than traditional benefits. An Executive Bonus Plan is a fringe benefit worth considering for key employees who are continually making significant contributions that add to your company's success.

What is an Executive Bonus Plan?

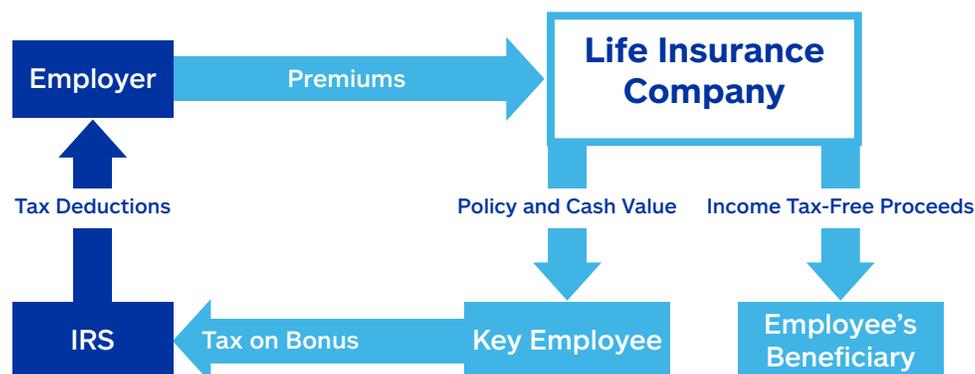
An Executive Bonus Plan offers a way for employers to provide the additional benefit of life insurance for selected key employees. As a benefit, it can also attract top-level people to the company. By offering a bonus plan, businesses can use tax deductible corporate dollars to selectively meet individual employees' life insurance needs while allowing for cash value accumulation.²

How does it work?

The employee usually applies for and owns the policy, naming his or her family as the beneficiary. The employer pays the premiums directly to the life insurance company. This is treated as compensation for income tax purposes because the employee is the owner of the policy. Since the premium is additional compensation to the employee, it may be tax-deductible to the business provided it qualifies as reasonable compensation. The employee reports the premium as compensation and is responsible for the taxes. As an option, business owners may choose to provide an additional cash bonus amount sufficient to pay the tax increase due (double bonus).

Benefits to the employer

- The policy is an additional fringe benefit that makes it easier to recruit and retain quality employees.
- Business owners may freely select the employees who will participate in the plan.
- Bonus plans can be simple to implement. The arrangement does not have to be prequalified by the IRS nor is it subject to annual reporting (other than W-2 reporting).
- The bonus payments are deductible as long as the total compensation is reasonable. This is usually not a problem for employees who are not owners.



Benefits to the employee

- Life insurance protection is provided at little or no cost.
- Employee owns the policy, so it is portable if he or she terminates employment.
- The death benefit is generally income tax-free.
- The cash value can be accessed if needed.²

Restricted Executive Bonus Plans

The Restricted Executive Bonus Plan provides the same benefits as the Executive Bonus Plans with one additional feature. You and the key employee agree that the key employee will have restricted access to the policy cash value. This restriction will typically expire upon the key employee's retirement, attainment of a designated age or similar event. This provides a measure of "control" over the employee to encourage her or him to stay with the employer.

What about taxes?

There are several tax considerations to keep in mind with an Executive Bonus Plan.

- You can deduct bonus payments as long as the compensation is reasonable (IRC section 162).
- The bonus is subject to FICA and Medicare taxes.
- Any bonus paid to the employee is taxable in the year it is paid.
- The death benefits are received income tax-free by the employee's beneficiaries.

With additional planning, the life insurance may be estate tax-free if the policy is owned by an Irrevocable Life Insurance Trust (ILIT).

Shareholder-Employees

As a shareholder-employee, you are also eligible for an Executive Bonus Plan. In fact, in some cases, it could be cheaper for income to be taxed at the shareholder level rather than the corporate level because your individual marginal tax bracket may be lower than the business's. This can provide tax leverage for shareholder employees.¹

Tax Facts Summary Executive Bonus Plan

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| Policyowner | Employee |
| Beneficiary | Employee Designates |
| Payor | Business |
| Premium payments | Deductible to Employer |
| Bonus | Taxable to employee |
| Death benefit | Not included in income |
| Estate tax value | Death benefit included in employee's gross estate |
| Cash value accumulation | Tax-deferred and available through tax-free loans and withdrawals ² |

¹ In general, the executive bonus plan is only attractive for owners who are also employees when the business is taxed as a C Corporation. For S Corporations, LLCs, partnerships or other pass-through type entities, the executive bonus plan may result in higher taxes as ordinary income is subject to FICA and Medicare taxes when it is taxed as compensation income.

² Loans or partial withdrawals can reduce the policy's cash value and death benefit, increase the possibility of policy lapse and may result in a tax liability. Consult a tax advisor for more information on the tax treatment of loans or withdrawals from a life insurance policy.

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All guarantees are based on the claims-paying ability of the issuing insurance company.