



BUSINESS PLANNING

Executive Bonus Arrangements

PRESENTED FOR

PRESENTED BY

BUSINESS PLANNING

IMPORTANT INFORMATION

This information is provided by American General Life Insurance Company (AGL) and The United States Life Insurance Company in the City of New York (US Life), members of American International Group, Inc. (AIG).

The information contained in this document is general in nature and intended for educational purposes only and is not a comprehensive analysis of the topic presented. The information may be subject to change and should be verified for accuracy and reliability (e.g., federal income tax statutes, rulings, etc. that may have changed since publication) and may be subject to differing legal interpretations. While the publisher has been diligent in attempting to provide accurate information, the accuracy of the information cannot be guaranteed. No representation or warranty, express or implied, is made by AGL, US Life and its affiliates as to the completeness of the information in this document. AGL and US Life shall not be liable for any loss or damage caused by the use of, or reliance on, the tax, accounting, legal, investment or financial items contained in this material.

The Company, its financial professionals and other representatives are not authorized to give legal, tax or accounting advice. For advice concerning your situation, consult your professional attorney, tax advisor or accountant.

To ensure compliance with requirements imposed by U.S. Treasury Regulations, we inform you that any tax advice contained in this document (including any attachments) is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding penalties under the Internal Revenue Code or (ii) promoting, marketing or recommending to another party any transaction or matter addressed herein.

©2020. All rights reserved.



BUSINESS PLANNING

EXECUTIVE BONUS ARRANGEMENTS

SUMMARY

WHAT IS EXECUTIVE BONUS?

An executive bonus arrangement is an easy-to-implement employee benefit that provides employers with the opportunity to selectively reward hand-picked employees with individual life insurance protection, supplementing broad-based group term life plans that may be in place.

Executive bonus arrangements are simple and easy to explain to employees. Also, there are no burdensome reporting requirements or anti-discrimination rules imposed by the IRS.

HOW DOES IT WORK?

The employee applies for and owns a life insurance policy on his or her life and names a personal beneficiary. The employer pays an annual bonus to the employee, either in cash or indirectly as a premium on the life insurance policy.

The result is employer-provided, employee-owned life insurance that ultimately benefits the employee's chosen beneficiaries. Employers use it to reward selected key employees for significant contributions to the company's bottom line. (The arrangement is generally not recommended for S corporation owners or partners, since those businesses are not separate tax-paying entities.)

WHAT ARE THE TAX CONSEQUENCES?

The employer reports the bonus to the employee and the IRS. Some arrangements provide for an additional cash bonus to offset anticipated payroll and income taxes. This results in a zero net cost to employees.

Since the annual premium payment or bonus is taxed to the employee, it is generally deductible by the employer provided the employee's total compensation is "reasonable." If compensation is judged unreasonably high by the IRS, the excess compensation is not deductible by the employer and, like other compensation, is taxed to the employee.



BUSINESS PLANNING

EXECUTIVE BONUS ARRANGEMENTS

As policy owner, the employee has full access to cash values. The accumulating tax-deferred values may exceed the employee's tax liability after a few years and can be used to cover those costs if the employee takes a loan or a partial surrender. The employee can also leave the cash value in the policy for unanticipated emergencies or to supplement future retirement income.

WHAT ARE THE BENEFITS?

An executive bonus arrangement provides employers with an opportunity to recognize and reward executives and other key employees on a selective basis with employer-financed, personal life insurance. It is easy to implement and administer, with few restrictions or reporting requirements. The employer can tailor each policy with a face amount designed to effectively encourage the selected employee to remain with the company.

For the employee, the arrangement provides additional life insurance protection funded with employer dollars. Cash values that accumulate and grow on a tax-deferred basis are available for potential emergencies or to supplement future retirement income.

Death benefits paid to the employee's chosen beneficiary are generally income tax free. In addition, because the policy is owned by the employee and not the business, it is portable should the employee leave the organization.

WHAT'S THE RESULT?

Executive bonus arrangements provide a tax-favored reward to key people on a selective basis, avoiding anti-discrimination rules and giving recipients valuable life insurance protection. Employees appreciate knowing that the company values them, which increases the firm's ability to retain valuable, productive contributors to the bottom line.



BUSINESS PLANNING
EXECUTIVE BONUS ARRANGEMENTS

