



## The Concept Exchange

# BUSINESS PLANNING

## Executive Bonus

These materials contain statements regarding the tax treatment of certain financial assets and transactions. These statements represent only our current understanding of the law in general and are not to be considered legal or tax advice by purchasers. Business tax rules and the tax treatment of life insurance are subject to change at any time. Neither West Coast Life nor its representatives offer legal or tax advice. Purchasers should consult with their legal or tax adviser regarding their individual situations before making any tax-related decisions.

An Executive Bonus Plan—also called a “Section 162 Plan” —provides a basic, affordable method for small business owners to reward selected employees. The employer pays the premiums on a life insurance policy owned by the key employee. The policy provides an immediate death benefit, and the policy cash values, which grow tax-deferred, can be used by the employee to supplement retirement income.

The premium payments are tax deductible as a bonus to the employee (provided the amount is reasonable compensation), and are reported as taxable income to the employee. These benefits can be provided at little or no cost to the employee if the employer also distributes additional bonus to cover the employee’s tax consequences (“double bonus”).

### Advantages for Employer

- Premiums are tax deductible to the employer as long as they are considered reasonable compensation
- Participants may be selectively chosen
- Helps to attract, retain and reward key employees
- Plan is generally exempt from IRS approval and reporting requirements

### Advantages for Employee

- Personally-owned life insurance is available at little or no out-of-pocket expense because the employer pays the premium
- Employee retains control of personally-owned life insurance, even after separation from service
- Control over beneficiary designation
- Life insurance provides family protection for beneficiaries and policy cash values may be withdrawn for any reason, including emergencies and educational funding



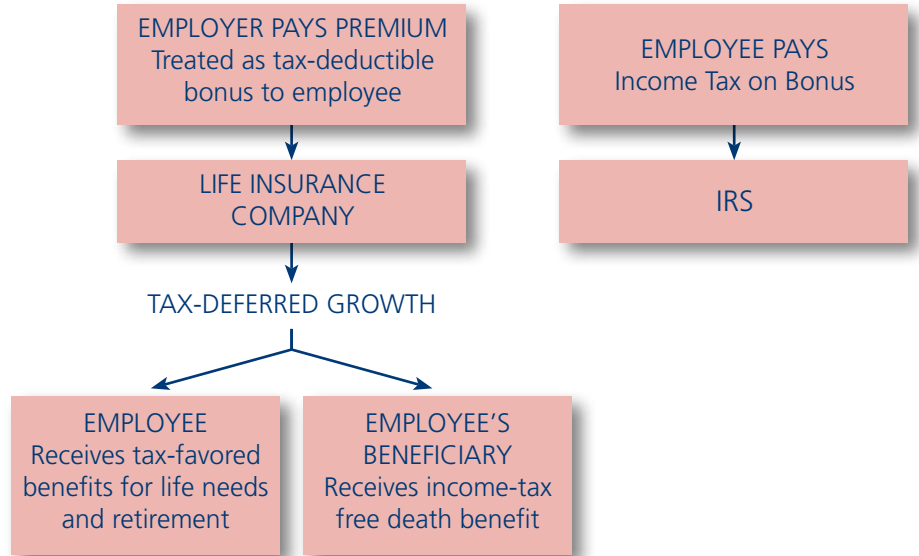
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Insurance Company**

A PROTECTIVE COMPANY

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No Bank Guarantee	Not FDIC Insured	May Lose Value

- Employee doesn't need to worry about post-retirement solvency of the business to support retirement income from the plan
- At retirement, policy cash values may be used to supplement retirement income
- If the policy includes a Disability Benefit Rider (within rider limits) the policy will provide benefits even if the employee becomes disabled

## HOW IT WORKS



### Executive bonus may meet your needs if you:

- Own a closely-held company (regular C corporation, S corporation, LLC or Partnership)
- Want to reward and retain your best employees and are interested in maximizing dollars to provide life insurance for key persons
- Want to do more than is allowed under IRS-regulated qualified plans

### Important considerations:

- The employee needs to be in reasonable health to qualify for life insurance
- The employee should have a need for life insurance (family protection, personal retirement)
- The premium amount (as part of total compensation) must be "reasonable"
- If the participant is the owner of a pass-through business entity, the premium will not be tax-deductible

**For more information, contact  
your Financial Representative.**

Life insurance is issued by West Coast Life Insurance Company (WCL), 2801 Highway 280 South, Birmingham, AL 35223.



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