Reward and retain with Executive Bonus plans

Situation

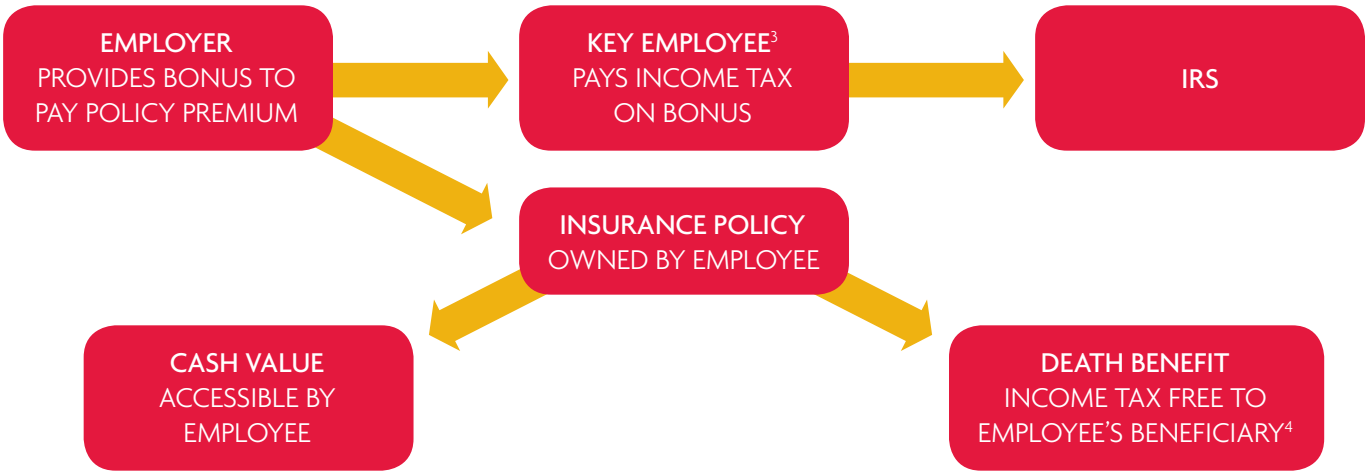
Berry Accounting, Inc., has been a successful family business for years, but the Berrys have recently been looking for a way to set themselves apart from their competition. Bob Plant, a former friendly competitor who was one of the area's best CPAs before moving away, is returning to be closer to his family. The Berrys are prepared to offer him a competitive package to persuade him to join their team.

Strategy: Executive Bonus plan

The Berrys arrange to meet with Bob to discuss their mutual interest in him joining Berry Accounting, Inc. After discussing the Berrys' proposal, Bob agrees to join the firm.

Berry Accounting, Inc., and Bob enter into an agreement specifying that the firm will pay Bob an annual bonus, which Bob will use to purchase a life insurance policy on his own life. Bob owns the policy and controls the cash values. The bonus is tax-deductible to the firm.[1] Bob pays income tax on the bonus.[2] If he dies prior to retirement, the policy proceeds are paid to his family or other named beneficiary.

EXECUTIVE BONUS PLANS EXAMPLE



1. *The employer can deduct bonus payments if they are considered "reasonable compensation" under the Internal Revenue Code, section 162.*
2. *The bonus is taxable to the employee as ordinary income in the year paid and is subject to Social Security (FICA) and Federal Unemployment Tax (FUTA).*
3. *Key employee as defined according to the Internal Revenue Code, section 101 (j).*
4. *Policy death benefit is income tax free provided there has not been a transfer for value pursuant to the Internal Revenue Code, section 101. The policy death benefit may be received estate tax free if the insured had no incidents of ownership in the policy within three years of death.*

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Result

By offering the bonus plan in addition to a competitive salary and other benefits, the Berrys are positive that Bob will remain with them for the long term. Bob is confident the plan will provide for him and his family. Throughout retirement, he can access the cash value in his policy[5] to supplement his retirement income and pay for other important life events. When he dies, his family will receive the death proceeds income tax free.[4]

Questions to ask your clients

- Have you ever tried to recruit a talented or skilled individual and lost that person to your competition?
- Do you have any key people who would be difficult to replace if they were to quit today?
- How do you currently reward your key people?
- Would your company be interested in receiving an immediate tax deduction by providing a benefit to a key employee without the funding limits or the complex administration procedures that exist in other business plans?

If clients answer "yes" to any of these questions, they could benefit from offering an Executive Bonus plan.

For more information, call your Advanced Markets Group
at Sun Life Financial, 800-432-1102, ext. 1756 or 1838.

5. Policy withdrawals or loans affect policy proceeds and account value, and may be subject to income tax if the policy is classified as a Modified Endowment Contract.

This information is for general education of producers and contains references to concepts that have significant legal, accounting, and tax implications. It is not intended as legal, accounting, or tax advice. Clients should consult with their own tax advisor regarding the application of these concepts to any particular situation.

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