



## Integrated Wealth Strategies

Miriam Favor, J.D.,\* C.F.P.<sup>®</sup>  
Managing Director

Three Greenway Plaza  
Suite 1800  
Houston, TX 77046  
Phone: Direct (713) 402-3859  
Cell: (504) 234-1420 • Fax: (713) 961-0153  
Email: [mfavor@financialguide.com](mailto:mfavor@financialguide.com)

# Executive Bonus Plans



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# EXECUTIVE BONUS PLANS

An **Executive Bonus Plan** is an employee fringe benefit plan which allows an employer to provide valuable life insurance for a “selected” employee on a tax-deductible basis to the employer.

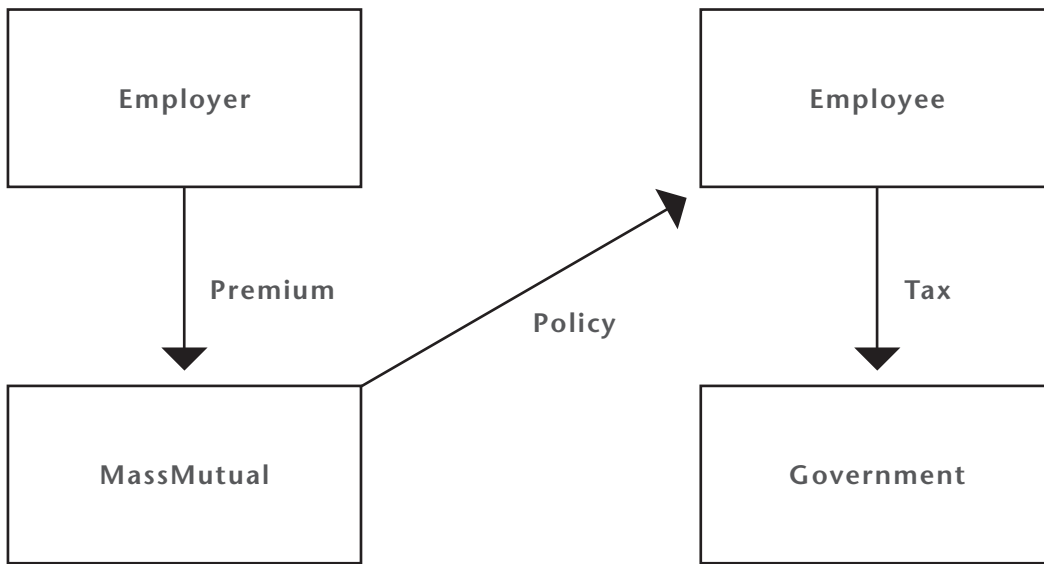
## Advantages

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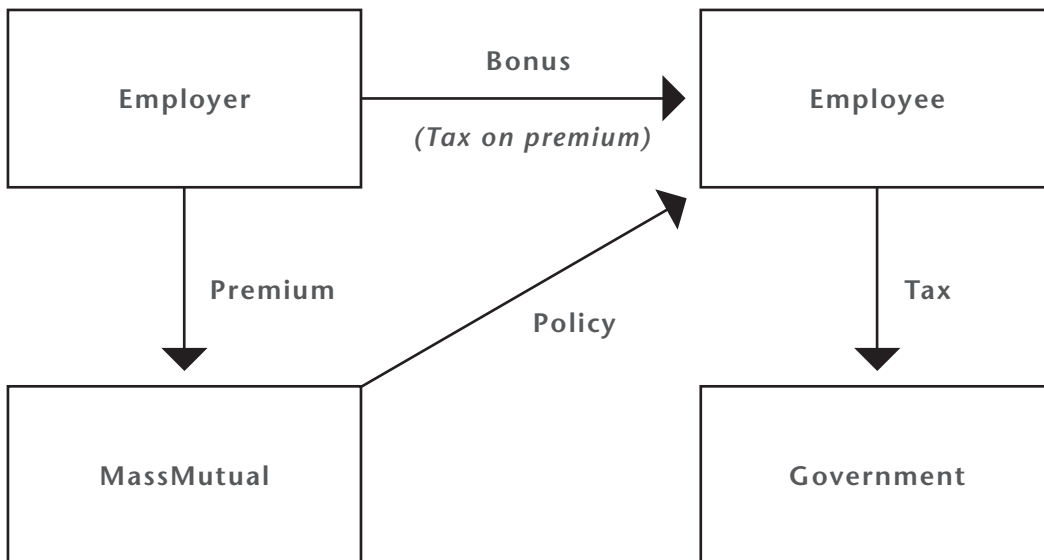
- To the **Employee** – Provides valuable life insurance  
Minimizes the cost of life insurance
- To the **Employer** – Simple to install  
May cover only selected employees  
Costs are tax-deductible  
Promotes employee retention and recruiting

# HOW DOES IT WORK?

## Straight Bonus Method



## (Double) Bonus Method



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- Employer pays the premium directly to MassMutual.
  - Employee applies for, owns, and names the beneficiary of a policy insuring his life or the life of a third party.
  - Employee pays the income tax attributable to the premium payment paid by the employer with out-of-pocket funds.
  - Policy dividends can be used to offset employee's income tax.
- \* As an alternative, employer may bonus cash to the employee and have the employee pay the premium to MassMutual.

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- Employer pays the policy premium directly to MassMutual **and also** bonuses the employee the income tax attributable to the policy premium.
  - Employee applies for, owns, pays premium on and names the beneficiary of a policy insuring his life or the life of a third party.
  - Employee pays the income tax attributable to the premium payment with the additional bonus.
- \* As an alternative, employer may bonus cash equal to the premium amount and the tax attributable to the bonus and let the employee pay the premium to MassMutual.

# TAX CONSEQUENCES

## To The Employee

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- The cash bonus or premium payment provided by the employer is in the employee's income.

## To The Employer

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- The cash bonus or premium provided the employer is deductible by the employer. IRC Section 162(a)(1).

## Other

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- As a general rule, the death benefit received under a life insurance policy purchased using the Executive Bonus Plan is income tax-free. IRC Section 101(a)(1).
- Policy dividends received in cash are income tax free until the employee's basis in the policy is fully recovered. IRC Section 72(e).
- Premium bonus is subject to Social Security (FICA) and Federal Unemployment Tax (FUTA) and Medicare taxes.