EXECUTIVE BONUS PLAN

KEEP THE PEOPLE WHO MATTER MOST

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Executive Bonus Plan

What is an Executive Bonus Plan?

An Executive Bonus Arrangement, under Internal Revenue Code Section 162(a)(1), is a bonus paid to an employee for the purchase of a dividend paying whole life insurance policy. The premium payment is reported in box 1 on the employee's W-2 statement. (This bonus is subject to Social Security (FICA) taxes if the employee's pay is below the FICA wage base, as well as Federal Unemployment (FUTA) tax.) Because the bonus is compensation the employer gets to deduct it as a business expense.

A bonus plan is one of the few fringe benefits an employer can *selectively* offer to their employees and *receive a tax deduction* for it.

Why Choose an Executive Bonus Plan?

The biggest reason is to keep key employees and reduce turnover and training costs of new employees.

You, as an employer, can set your company apart by offering and caring more about your employees then your competitors. It is shown that employees are not only interested in money but will stay with an employer longer when they are treated well and respected for what they do.

What are the Benefits to the Employee and Employer?

Employee:

Life Insurance Protection:

- ♦Gives employees life insurance protection for little to no cost.

Options:

- ♦Gives those employees who are not contributing to 401K's another option. They may not be contributing because they need the money to pay off debt or don't want their money in the stock market. This will allow them to create a retirement option as well as use the money at the same time.

Low-Risk:

- ♦Avoids the risk of the market by using a guaranteed product such as dividend paying whole life insurance.

Tax-Advantages:

- ♦Allows for an option to grow their money tax-deferred and use it tax free for retirement.
- ♦Provides tax free benefits to their family in the form of a death benefit.

Portability:

- ♦Employee owns the policy. Should they leave they are able to take it with them and continue to contribute.

Ownership & Control:

- ♦ The employee has FULL ownership of the policy and the right to name any beneficiary they choose.
- ♦ Employee has control of the cash value to use as they wish - pay off debt, retirement supplementation or help their children or relatives.

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Employee (continued):

Free Consulting:

- Provides employees with one-on-one FREE consulting to help reduce debt and financial stress.
- Should they not have debt, they will get FREE consulting on how to better utilize their money and learn how to keep more of it.

Employer:

Selectivity & Flexibility:

- This bonus plan allows the employer the ability to be selective on who receives the money and how much, unlike qualified plans where all employees must receive the same benefits.
- There is flexibility in the amount given each year. The employer can change this at their discretion.

Tax Advantages:

- Bonus payments are deductible, per Section 162 of the IRS code, as long as compensation is reasonable and a ordinary business expense.

Guidelines:

- Has the option to be restrictive and set limitations on this offer. For example, setting up an agreement with the employee to stay for a certain number of years or pay back a portion of the bonus should they terminate employment early.

Simplicity:

- Bonus plans are very easy to implement as there is no reporting to the IRS or agreements necessary unlike qualified plan filing and reporting.

Employee Retention:

- Retain good, key employees. We all know in the state of ND that is becoming more difficult.

WHY USE DIVIDEND PAYING WHOLE LIFE INSURANCE?

While there are many different kinds of permanent life insurance that could be used for this type of bonus plan FiscalBridge, LLC, focuses on the use of only one, and that is a dividend paying whole life policy.

We firmly believe it is the best option for your employees for the following reasons:

- Guaranteed returns by contract with the life insurance company.
- Dividends paid to the owner of the policy.
- No risk of cash value or death benefit being affected by the stock market.
- Flexibility in premium amounts should the employer change the bonus amount each year.
- No increasing fees that could potentially harm the status of the policy
- Easy access to cash value without fees.

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Designing the Plan

There are many ways to design your plan because it's your plan. However, most designs fall into two categories, either *single bonus plans* or *double bonus plans.*

Single Bonus Plan:

In a single-bonus plan, the employer pays the employee a bonus equal to the amount of the life insurance premium. In some plans, depending on accounting preference and life insurance company selection, the bonus is paid by the employer directly to the life insurance company. Regardless of whether the bonus is paid directly to the life insurance company, or first paid to the executive who then pays the life insurance premium, the accounting and tax effects of the plan are the same.

- ♦ Easiest plan to administer.
- ♦ Requires the lowest outlay by the employer resulting in a lower income tax deduction.
- ♦ Results in a higher after-tax outlay to the employee.

The employer receives an income tax deduction for the bonus as compensation under IRC Sec. 162 (a)(1)(as indicated earlier the bonus has to be an amount that is "reasonable" compensation). The employee recognizes the amount of the bonus as income, and pays income taxes to the IRS based on that amount. The employee owns the policy, has access to the policy's cash value, and names the beneficiary for the policy's death benefit.

Example*: Assume the employer is in a 35% tax bracket, the employee is in a 25% tax bracket, and the amount of the life insurance premium is $10,000.*

Employer's Annual Net Outlay:	($12,000)	premium bonus paid
	+$4,200	tax savings
	($7,800)	annual net outlay

*Employer's deduction = $12,000; Employer tax savings = $4,200 ($12,000 x 35%)

Employee's Annual Net Outlay:	$12,000	bonus received
	($12,000)	premium paid
	($3,000)	income tax liability
	($3,000)	annual net outlay

*Employee taxable income = $12,000; Executive tax liability = $3,000 ($12,000 x 25%)

Double Bonus Plan:

The goal of a double bonus plan is to reduce the employee's annual net outlay to zero. In a double bonus plan, the employer pays a bonus to the employee in an amount of the premium ***plus*** employees tax consequences. The employee then has the money to cover premium and to pay the income taxes due on the bonus.

- ♦ More complicated plan to administer.
- ♦ Requires a higher outlay by the employer resulting in a larger income tax deduction.
- ♦ Results no after-tax outlay to the employee.

Example*: Assume the same facts as above: the employer is in a 35% tax bracket, the employee is in a 25% tax bracket, and the amount of the life insurance premium is $10,000.*

Employer's Annual Net Outlay:	($12,000)	premium bonus paid
	($4,000)	cash ("double") bonus paid
	+$5,600	tax savings
	($10,400)	annual net outlay

*Employer deduction = $14,000; Employer tax savings = $5,600 ($14,000 x 35%)

Employee's Annual Net Outlay:	$12,000	bonus received
	$4,000	cash ("double") bonus received
	($12,000)	premium paid
	($4,000)	income tax liability
	$0	annual net outlay

*Employee's taxable income = $12,000; Executive tax liability = $4,000 ($14,000 x 25%)

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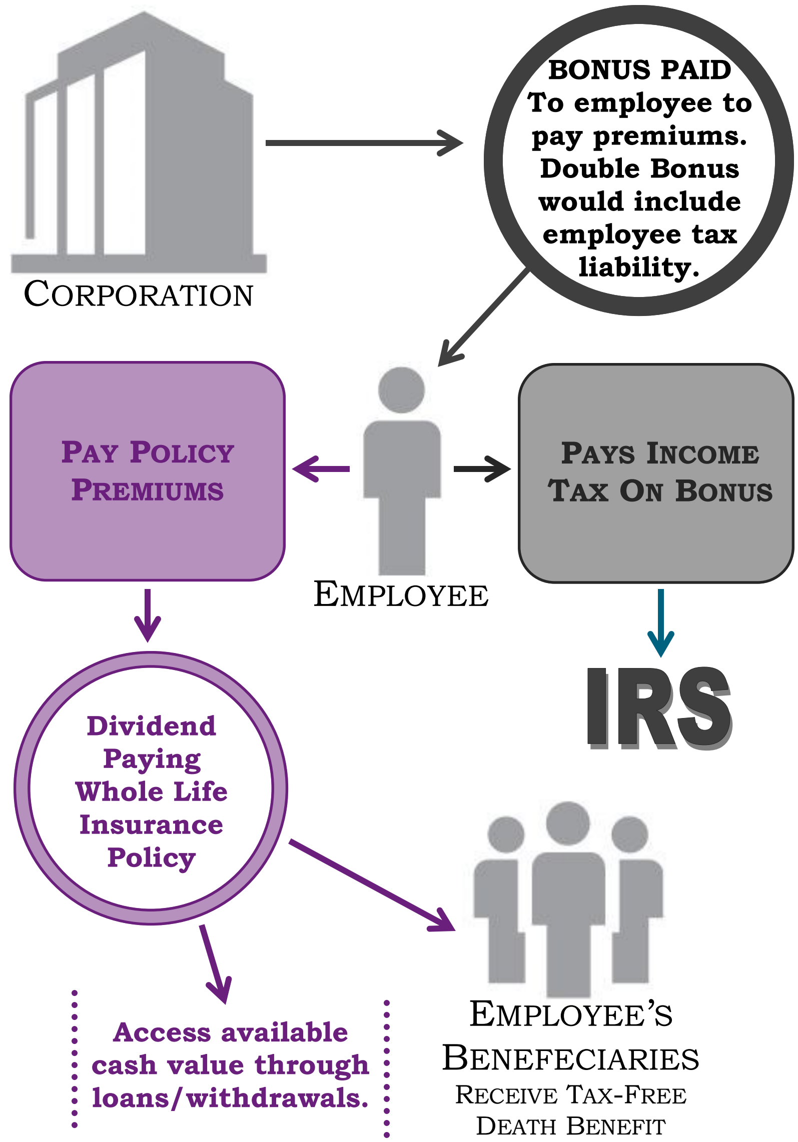
Should you consider an executive bonus for your employees? Call us today to discuss if it's a good option for your business.

Executive Plan in Action



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Policy loans will reduce available cash values and death benefits, and may cause the policy to lapse or affect guarantees against lapse. Yearly premium payments will be required to keep the policy in force. In the event of a lapse, outstanding policy loans in excess of unrecovered cost basis will be subject to ordinary income tax. Tax laws are subject to change. You should consult your tax professional for all tax matters.

Policy loans are not usually subject to tax unless the policy is classified as a modified endowment contract (MEC) under IRC Section 77402A. However, withdrawals or partial surrenders from a non-MEC policy are subject to income tax to the extent that the amount distributed exceeds the owner's cost basis in the policy.

This handout is designed to provide general information on the subjects covered. Pursuant to IRS Circular 230, it is not however intended to provide specific legal or tax advice and cannot be used to avoid tax penalties or to promote, market, or recommend any tax plan or arrangement. Please not that FiscalBridge, LLC and their representatives do not give legal or tax advice. You are encouraged to consult your tax advisor or attorney.

Consult your attorney to determine whether your executive bonus plan is subject to the Employee & Retirement Income Security Act of 1974 (ERISA).

Any guarantees are backed by the financial strength and claims-paying ability of the companies FiscalBridge, LLC writes insurance with.

Since life insurance is an underwritten product , any strategy that includes it is contingent on the health and financial underwriting of the insured.