



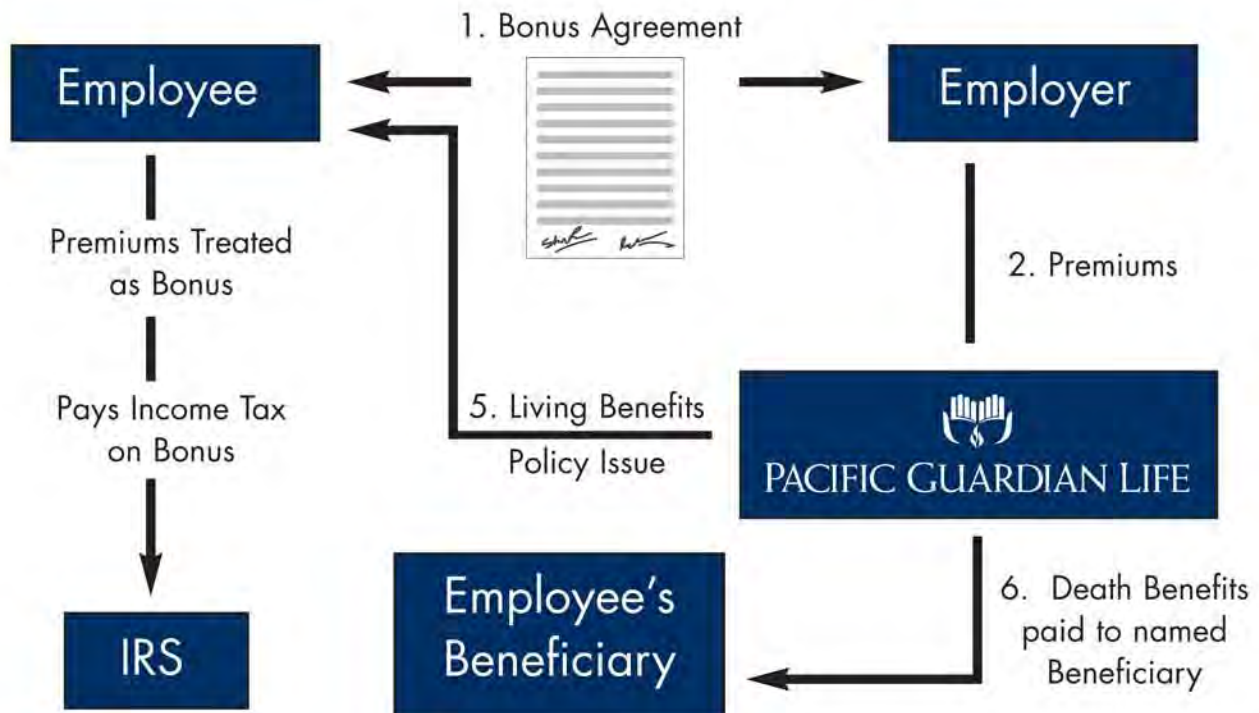
**Solution For Your  
Business**

**Executive Bonus**

# Executive Bonus Plan

An Executive Bonus Plan (IRC SECTION 162) is an effective method for a business to pay the premiums on life insurance covering selected key employees or a business owner. The premiums are tax deductible by the Employer as a taxable bonus to the Employee.

## How an Executive Bonus Plan Works



1. Employer and Employee enter into an agreement regarding the Executive Bonus plan.
2. Employer pays life insurance premiums.
3. Premiums are treated as a taxable bonus to the Employee.
4. The Employee pays the income tax on the bonus (premiums).
5. Employee retains full ownership rights to the policy and designates his beneficiaries.
6. Death benefits are paid income tax free\* to his named beneficiary.

*The purpose of this material is to illustrate a concept.*

*Neither Pacific Guardian Life nor its producers offer tax or legal advice.*

*Specific tax or legal questions or concerns should be directed to a professional advisor or legal counsel.*



## Advantages to the Employer

- Executive Bonus plan can help to retain valuable key employees.
- Creation of an Executive Bonus plan is simple.
- No IRS approval is necessary.
- No plan administration is needed.
- Coverage on the key employee can vary.
- Employer can be selective on who participates in the plan.

## Tax Considerations to the Employer\*

- Life insurance premiums paid are generally tax-deductible to the Employer.
- Bonus is considered compensation for FICA and FUTA purposes\*.

*\*Under current federal income tax law. IRC Sec. 162(a)(1)*

## Advantages to the Employee

- Employee owns the life insurance policy.
- Employee designates the beneficiaries.
- Policy cash values can be used by the employee for emergencies or as a retirement supplement through policy loans.
- Death benefit proceeds may be used for estate settlement costs, and family needs.

## Tax Considerations to the Employee

- Employee pays the income taxes due on the bonused premium, unless included as a "double bonus."
- Life insurance cash values accumulate tax-deferred.
- Death benefit proceeds, received by the beneficiary, are generally income tax free\*.

*\*Under current federal income tax law IRC Sec. 101(a).*



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