BUSINESS OPPORTUNITIES DECISION TREE

Click for instructions

For use by financial advisors or clients' legal tax advisors. Not for use by the general public. This material contains references to concepts that have legal, accounting, and tax implications. It is not intended as legal, accounting or tax advice.

INSTRUCTIONS

This guide will take you through a series of questions that will help provide general guidance and direction for the specific situation being discussed.

For each question, click on the button like this ● that corresponds to the answer that best fits the situation.

There are 4 general questions about the business structure followed by more specific questions about the client's primary objective, which acts as the main starting point.

You will be able to return to the starting screen and start over at any time.

● **Let's Begin**

Is the proposed insured:

- An owner of a business
- A key employee but not a business owner

What's the business entity tax form?

- Sole Proprietorship
- Partnership/LLC
- S Corporation
- C Corporation
- Tax Exempt Entity

How many owners does the business have?

- Single owner
- Two owners
- Three or more owners

What's the client's primary objective?

- Help pay-down business debt in event of the death of an owner.
- Protect the business against the loss incurred at the death of a key person.
- Provide funds for the buyout/continuation of the business interest at the death of an owner.
- Reward and retain a key person who is not an owner by providing an incentive to remain.

You selected

"Help pay-down business debt in event of the death of an owner"

If there is excess insurance death benefit at the time of claim who does the client want to receive the excess funds?

- **Business**
- **Family**

- Back to Primary Objective

You selected

"Business"

Based on your response you may want to consider **Key Person Coverage**. Key person coverage helps to protect the business against the financial impact it can experience after the death of a key person whose skills contributed to the success of the business.

Policy Structure	Insured – person lender wants covered Owner & Beneficiary – business Collateral Assignment – lender (form usually available from carrier and executed after the policy is issued)
Face Amount	Generally limited to 60% of the outstanding loan amount. The carrier will typically want to know the loan terms (i.e., amount, length). In some situations, they will ask for the loan document. If client desires more face than this, contact the DBS advanced design resource, Terri Getman at extension 230.
Other	To preserve the income-tax fee death benefit, the 101j employer notice and consent form must be completed prior to policy issue – which usually is prior to premium payment.
How it Works	Business pays premium on a policy in which it is the owner and beneficiary. At the death of the insured the carrier pays death benefit equal to the loan to the lender and the balance to the business. Premiums are not tax-deductible, and the proceeds are usually income tax-free.
Carrier Selection	Some carriers are better/easier at underwriting this coverage. Contact your DBS Case Design Analyst.

- Back to Primary Objective

You selected

“Family or Other”

Based on your response you may want to consider **Personal Key Person Coverage** or **Family Protection Coverage**.

Policy Structure	Insured – person lender wants to cover – the person responsible for the repayment of the loan Owner – the insured Beneficiary – family or other with an insurable interest Collateral Assignment - lender (form usually available from carrier and executed after the policy is issued
Face Amount	Generally limited to 60% of the outstanding loan amount. The carrier will typically want to know the loan terms (i.e., amount, length). In some situations, they will ask for the loan document.
Other	The insured may be able to qualify for a larger face amount by applying for **family protection coverage** instead of coverage for a loan. So, if the desire is to get more than 60% of loan try personal family protection which is usually based on a multiple of the insured’s income.
How it Works	Insured purchases a policy on his/her life. Source of the premiums may be the business. At death of the insured the carrier pays death benefit equal to the loan to the lender and the balance to the personal beneficiary. Proceeds are usually income tax-free.

- Back to Primary Objective

You selected

“Protect the business against the loss incurred at the death of a key person”

Is the key person:

- **Not a business owner**
- **Owner of a business that has multiple owners**
- **100% Owner of a business**

- Back to Primary Objective

You selected

“Not a business owner”

Based on your answer you may want to consider **Key Person Coverage**. Key person coverage helps to protect the business against the financial impact it can experience after the death of a key person whose skills contributed to the success of the business.

Policy Structure	Insured – key person whose death expected to cause the business a loss Owner & Beneficiary – business
Face Amount	Generally, the maximum face amount is 10 times the key person’s compensation. Compensation is not limited to W-2 income and includes benefits not received by rank and file such as bonuses, deferred compensation, stock options etc. The carrier will typically ask for the key employee’s income which can cause confusion. Where the face amount requested is over 10 times income it will be very important to include a cover letter selling the carrier on why the amount is justified. Also, if the business is relatively new (under 3-years) carriers tend to want to wait. DBS can help contact Terri Getman at extension 230.
Other	To preserve the income-tax fee death benefit the 101j employer notice and consent form must be completed prior to policy issue – which usually is prior to premium payment.
How it Works	Business pays premium on a policy which it is the owner and beneficiary. At the death of the insured the carrier pays death benefit to the business. Premiums are not tax-deductible, and the proceeds are usually income tax-free.
Carrier Selection	Some carriers are better/easier at underwriting this coverage. Contact your DBS Case Design Analyst.

- Back to Primary Objective

You selected

“Owner of a business with multiple owners”

Based on your answer you may want to consider **Key Person Coverage**. Key person coverage helps to protect the business against the financial impact it can experience after the death of a key person whose skills contributed to the success of the business.

Policy Structure	Insured – key person whose death expect to cause the business a loss Owner & Beneficiary – business
Face Amount	Generally, the maximum face amount is 10 times the key person’s compensation. Compensation is not limited to W-2 income and includes benefits not received by rank and file such as bonuses, deferred compensation, stock options etc. With an owner determining “income” can be complex because the owner can take income out of the business in multiple ways. The carrier will typically ask for the owner’s income which will typically cause confusion. Where the face amount request is over 10 times income it will be very important to include a cover letter selling the carrier on why the amount is justified. Also, if the business is relatively new (under 3 years) carriers tend to want to wait. DBS can help. Contact Terri Getman at extension 230.
Other	To preserve the income-tax fee death benefit the 101j employer notice and consent form must be completed prior to policy issue – which usually is prior to premium payment.
How it Works	Business pays premium on a policy which it is the owner and beneficiary. At the death of the insured the carrier pays death benefit to the business. Premiums are not tax-deductible, and the proceeds are usually income tax-free.
Carrier Selection	Some carriers are better/easier at underwriting this coverage. Contact your DBS Case Design Analyst.

- Back to Primary Objective

You selected

100% business owner

Is there a plan in place to continue the business at the owner's death?

- No
- Yes

- Back to Primary Objective

You selected

"No"

Based on your response you may want to consider **Family Protection Coverage** to provide for the family.

Policy Structure	Insured – business owner Owner – business owner or third-party such as a trust depending on personal situation Beneficiary – family or trust
Face Amount	Generally, the amount is a multiple of the owner's income. The multiple usually ranges from 35% to 5% depending on the age of the insured. The younger the insured the greater the multiple of income and the larger the face amount. (Example: 3- year owner with $100,000 of income will usually qualify for $100,000 X 25 = $2.5 million of coverage)
How it Works	Insured purchases a policy on his/her life. The source of the premiums may be the business. At death of the insured the carrier pays death benefit to the beneficiary. Proceeds are usually income tax-free.

- Back to Primary Objective

You selected

“Yes”

You may want to consider establishing a **Stay Bonus Plan** with key employees non-owners to retain them as part of the plan to continue the business after the owner’s death. To help assure funding for the plan, consider **Key Person Coverage** on the owner. A Stay Bonus Plan is a formal agreement between a business and one of more of its key employees which is designed to entice the person to stay during a transition period by offering the key person a bonus at a defined point in the designated future.

Policy Structure	Insured – key person whose death expect to cause the business a loss Owner & Beneficiary – business assuming the business is an LLC or S/C Corporation
Face Amount	Key person coverage is typically limited to 10 times the insured’s compensation; however, where the coverage is based on a contractual promise the face may be larger in order to cover the bonus amount. The carrier will often want to see the stay bonus agreement. The carrier will also typically ask for the owner’s income which can cause confusion because owners can take income from the business in many ways. Where the face amount request is over 10 times income it will be very important to include a cover letter selling the carrier on why the amount is justified. DBS can help contact Terri Getman at extension 230.
Other	To preserve the income tax-free death benefit the 101j employer notice and consent form must be completed prior to policy issue – which usually is prior to premium payment.
How it Works	Business pays premium on a policy which it is the owner and beneficiary. At the death of the insured the carrier pays death benefit to the business. Premiums are not tax-deductible, and the proceeds are usually income tax-free. The proceeds are deductible to the business and taxable to the key employee when paid as a bonus.
Carrier Selection	Some carriers are better/easier at underwriting this coverage. Contact your DBS Case Design Analyst.

- Back to Primary Objective

You selected

“Provide funds for the buyout/ continuation of the business interest at the death of an owner”

Select the option that best describes the situation:

- **The business is a single owner entity**
- **The business has two owners**
- **The business has three or more owners**

- Back to Primary Objective

“The business is a single owner entity”

Select the option that best describes the owner's plans:

- **The business owner plans to sell the business**
- **The owner wants the business to continue, but there is no clear successor at this time**
- **The business owner plans to transfer the business by gift or inheritance to a family member(s)**

- Back to Primary Objective

You selected

“The business owner plans to sell the business”

Based on your response you may want to consider a life insurance funded **One-Way Buy-Sell Arrangement.** A One-Way Buy-Sell Arrangement is one where an owner agrees to sell his/her business interest to an individual who agrees to buy.

Policy Structure	Insured – business owner Owner & Beneficiary – the person who plans to buy the business
Face Amount	Generally, the amount is based on the value of the owner’s business interest. If more is desired typically carriers will permit the addition of an amount equal to the key person multiple.
Other	May also want to have a key person policy on the person who plans to purchase the business to protect against his/her untimely death prior to the death of the owner.
How it Works	The person who plans to purchase the business purchases a policy on the business owner’s life. The source of the premiums may be the business (structured as an Executive Bonus/REBA or Split Dollar Arrangement). At death of the business owner the carrier pays death benefit to the beneficiary/business purchaser. Proceeds are usually income tax-free. The proceeds are used to buy the business from the estate of the insured leaving the heirs with the proceeds and the business interest with the new business owner.
Carrier Selection	Some carriers are better/easier at underwriting this coverage. Contact a DBS Case Design Analyst.

- Back to Primary Objective

You selected

“There is no clear successor at this time”

Based on your response you may want to consider **Family Protection Coverage** to provide for the spouse and other family members who may suffer loss due to the loss of income or business value that will likely occur at the death of the owner.

In addition, you may also want to consider establishing a **Stay Bonus Plan** with key employees non-owners to retain them as part of the plan to continue the business after the owner’s death.

Next

You selected

“There is no clear successor at this time”

Family Protection

Policy Structure	Insured – business owner Owner – business owner or third-party such as a trust depending on personal situation Beneficiary – family or trust
Face Amount	Generally, the amount is a multiple of the owner’s income. The multiple usually ranges from 35% to 5% depending on the age of the insured. The younger the insured the greater the multiple of income and the larger the face amount. (Example: 30-year owner with $100,000 of income will usually qualify for $100,000 X 25 = $2.5 million of coverage)
How it Works	Insured purchases a policy on his/her life. The source of the premiums may be the business. At death of the insured the carrier pays death benefit to the beneficiary. Proceeds are usually income tax-free.

Next

You selected

“There is no clear successor at this time”

Stay Bonus: A Stay Bonus is a formal agreement between a business and one or more key employees which is designed to entice the person to stay during a transition period by offering the key person a bonus at a defined point in the future.

Policy Structure	Insured – key person whose death expect to cause the business a loss Owner & Beneficiary – business assuming the business is an LLC or S/C Corporation
Face Amount	Key person coverage is typically limited to 10 times the insured’s compensation; however, where the coverage is based on a contractual promise the face may be larger in order to cover the bonus amount. The carrier will often want to see the stay bonus agreement as part of financially underwriting the policy especially if the carrier is “stretching” the amount typically permitted on a key person policy. The carrier will also typically ask for the owner’s income which can cause confusion because owners can take income from the business in many ways. Where the face amount request is over 10 times income it will be very important to include a cover letter selling the carrier on why the amount is justified. DBS can help - contact Terri Getman at extension 230.
Other	To preserve the income-tax fee death benefit the 101j employer notice and consent form must be completed prior to policy issue – which usually is prior to premium payment.
How it Works	Business pays premium on a policy which it is the owner and beneficiary. At the death of the insured the carrier pays death benefit to the business. Premiums are not tax-deductible, and the proceeds are usually income-tax free. When the bonus is paid to the key employee for staying the amount is deductible to the business and taxable to the employee.
Carrier Selection	Some carriers are better/easier at underwriting this coverage. Contact a DBS Case Design Analyst.

- Back to Primary Objective

You selected

“The business owner plans to transfer the business by gift or inheritance to a family member”

Select the option that best describes the plan:

- **Spouse will inherit the business**
- **Some, but not all, of the children will continue to own the business**
- **All the children will continue to own the business equally**

- Back to Primary Objective

You selected

“Spouse will inherit the business”

Based on your response that the spouse will inherit the business you may need **Family Protection Coverage** for the spouse to replace the owner’s lost income and/or hire someone to take on some of the responsibilities of the deceased owner.

Policy Structure	Insured – business owner Owner – business owner or third-party such as trust depending on personal situation Beneficiary – spouse or trust depending on personal situation
Face Amount	Generally, the amount is a multiple of the owner’s income. The multiple usually ranges from 35% to 5% depending on the age of the insured. The younger the insured the greater the multiple of income and the larger the face amount. (Example: 30-year owner with $100,000 of income will usually qualify for $100,000 X 25 = $2.5 million of coverage)
Other	You may also want to establish a Stay Bonus Arrangement with key employees who the spouse needs to retain during the transition. A Stay Bonus is a formal agreement between a business and one or more key employees which is designed to entice the person to stay during a transition period by offering the key person a bonus at a determined point in the future. The arrangement is typically financed with the key person coverage on the business owner
How it Works	Insured purchases a policy on his/her life. The source of the premiums may be the business. At death of the insured the carrier pays death benefit to the beneficiary. Proceeds are usually income tax-free.

- Back to Primary Objective

You selected

"Some but not all of the children will continue to own the business"

Select all the options that concern the business owner:

- **Concerned about treating the children not involved in the business fairly/equally**
- **Concerned that the spouse will need a source of income not dependent on the business to maintain his/her standard of living**
- **Concerned that the business will need some additional cash during the transition period**

- Back to Primary Objective

You selected

“Concerned about treating the children equally/fairly”

Based on your response that you want to treat the children not involved in the business fairly/equally with the children who will receive the business you may want to consider sufficient life insurance coverage to **equalize the estate** value between business and non-business heirs.

Policy Structure	Insured – business owner Owner & Beneficiary structure will depend on the specific situation
Face Amount	The face amount is equal to the amount the business owner believes is fair to equalize the estate values.
How it Works	A policy is purchased on the business owner’s life. The source of the premiums may be the business. At death of the insured the carrier pays death benefit to the beneficiaries who are the heirs not involved in the business. Proceeds are usually income tax-free
Carrier Selection	Some carriers are better/easier at underwriting this coverage. Contact a DBS Case Design Analyst.

- Back to Primary Objective

You selected

“Concerned that the spouse will need a source of income”

Based on your response that your spouse may need a source of income not dependent on the business to maintain his/her standard of living you may want to consider **Family Protection Coverage.**

Policy Structure	Insured – business owner Owner – business owner or third-party such as a trust depending on personal situation Beneficiary – family or trust
Face Amount	Generally, the amount is a multiple of the owner’s income. The multiple usually ranges from 35% to 5% depending on the age of the insured. The younger the insured the greater the multiple of income and the larger the face amount. (Example: 30-year owner with $100,000 of income will usually qualify for $100,000 X 25 = $2.5 million of coverage)
How it Works	Insured purchases a policy on his/her life. The source of the premiums may be the business. At death of the insured the carrier pays death benefit to the beneficiary. Proceeds are usually income tax-free.

Back to Primary Objective

You selected

“Concerned that the business will need additional cash during the transition period”

Based on the response that there may be a need for the business to have some additional during the ownership transition period there may be a need for **Key Person Coverage.**

Policy Structure	Insured – owner of the business Owner & Beneficiary – business assuming the business is an LLC or S/C Corporation
Face Amount	Generally, the maximum face amount for key person coverage is 10 times the key person’s compensation. Compensation is not limited to W-2 income and includes benefits not received by rank and file such as bonuses, deferred compensation, stock options, etc. The carrier will typically ask for the key employee’s income which can cause confusion, especially in the case of a business owner. Where face amount requested is over 10 times income it will be very important to include a cover letter selling the carrier on why the amount is justified. DBS can help. Contact Terri Getman at ext. 230.
Other	To preserve the income-tax fee death benefit the 101j employer notice and consent form must be completed prior to policy issue – which usually is prior to premium payment.
How it Works	Business pays premium on a policy which it is the owner and beneficiary. At the death of the insured the carrier pays death benefit to the business. Premiums are not tax-deductible, and the proceeds are usually income-tax free.
Carrier Selection	Some carriers are better/easier at underwriting this coverage. Contact a DBS Case Design Analyst.

- Back to Primary Objective

You selected

"All the children will own the business equally"

Will a surviving spouse need a source of income not dependent on the business to maintain his/her standard of living?

- Yes
- No

- Back to Primary Objective

You selected

“Yes, the spouse will need a source of income”

Based on your response that the spouse will need a source of income to maintain his/her lifestyle you may need **Family Protection Coverage** to replace the lost income of the deceased business owner.

Policy Structure	Insured – business owner Owner – business owner or third-party such as a trust depending on personal situation Beneficiary – family or trust
Face Amount	Generally, the amount is a multiple of the owner’s income. The multiple usually ranges from 35% to 5% depending on the age of the insured. The younger the insured the greater the multiple of income and the larger the face amount. (Example: 30-year owner with $100,000 of income will usually qualify for $100,000 x 25 = $2.5 million of coverage)
How it Works	Insured purchases a policy on his/her life. The source of the premiums may be the business. At death of the insured the carrier pays death benefit to the beneficiary. Proceeds are usually income tax-free.

- Back to Primary Objective

You selected

"No"

Based on your response there either is no spouse, or the spouse is not dependent on the business to maintain his/her lifestyle. There may be a need for **Key Person Coverage** for the business to have some additional cash during the ownership transition period.

Policy Structure	Insured – owner of the business Owner & Beneficiary – business assuming the business is an LLC or S/C Corporation
Face Amount	Generally, the maximum face amount for key person coverage is 10 times the key person's compensation. Compensation is not limited to W-2 income and includes benefits not received by rank and file such as bonuses, deferred compensation, stock options, etc. The carrier will typically ask for the key employee's income which can cause confusion, especially in the case of a business owner. Where face amount requested is over 10 times income it will be very important to include a cover letter selling the carrier on why the amount is justified. DBS can help. Contact Terri Getman at ext. 230.
Other	To preserve the income-tax fee death benefit the 101j employer notice and consent form must be completed prior to policy issue – which usually is prior to premium payment.
How it Works	Business pays premium on a policy which it is the owner and beneficiary. At the death of the insured the carrier pays death benefit to the business. Premiums are not tax-deductible, and the proceeds are usually income-tax free.
Carrier Selection	Some carriers are better/easier at underwriting this coverage. Contact a DBS Case Design Analyst.

- Back to Primary Objective

You selected

“The business has two owners”

Based on this response the buy-sell is typically structured as either a **Cross-Purchase Arrangement** or where there is a desire for additional flexibility, a **Wait-and-See Arrangement**. A Cross-Purchase Buy-Sell arrangement is one where the owners agree to purchase the business interest of the other.

Cross Purchase or Wait-and-See Arrangements

Policy Structure	Insureds – each business owner will be an insured Owner & Beneficiary – Each business owner will be the owner and beneficiary of a policy insuring the other business owner. So, where business owner A is the insured the owner and beneficiary of the policy is B and vice versa
Face Amount	Generally, the amount is equal to the owner’s value in the business. So, A’s value in the business is $400,000 and B’s value is worth $600,000 where they have a 40/60% split in the business valued at $1 million. B would be the owner and beneficiary of a $400,000 policy insuring A. To determine the value carriers often look to the financial statements. Where there is a desire to have more face amount than the current business value to provide growth some carriers will permit additional coverage by combining it with the amount permitted under key person. Where face amount desired may be perceived as too large contact DBS advanced case resource Terri Getman at extension 230.

Next

You selected

“The business has two owners”

Based on this response the buy-sell is typically structured as either a **Cross-Purchase Arrangement** or where there is a desire for additional flexibility, a **Wait-and-See Arrangement**. A Cross-Purchase Buy-Sell arrangement is one where the owner agrees to purchase the other’s business interest.

Cross Purchase or Wait-and-See Arrangements

How it Works	Each business owner purchases a policy on the life of the other business owner. The source of the premiums may be the business. At death of the insured the carrier pays the death benefit to the surviving business owner who uses the proceeds to buy the interest from the estate of the deceased business owner. Proceeds received by the surviving business owner are usually income tax-free. The heirs of the deceased owner receive cash in exchange for the sale of the business. Since the estate receives a basis adjustment (step-up) to date of death value for the business interest when the surviving owner purchases the interest from the estate, assuming the purchase price is equal to the date of death value this transaction generally is income tax-free.
Wait-and-See Variation	Under the Wait-and-See arrangement, the policy structure is set up the same as a cross purchase. The primary difference is at death the agreement permits the business to redeem the interest from the estate of the deceased owner, and if the business does not buy, then the surviving owner has the next option, and if s/he does not buy then the business must buy. This back and forth purchase option for both the business and surviving owner provides more flexibility. If it turns out the business will buy some of the interest the surviving owner who has the insurance proceeds may simply loan funds to the business taking back a note.

Next

You selected

“The business has two owners”

Based on this response the buy-sell is typically structured as either a **Cross-Purchase Arrangement** or where there is a desire for additional flexibility, a **Wait-and-See Arrangement**.

Cross Purchase or Wait-and-See Arrangements

Other	While the two-person business is typically structured as a Cross-Purchase Arrangement/Wait-and-See Arrangement there may be situations where an **Entity-Purchase Arrangement** may have more appeal and be viable. For example, when there is a large difference in percentage ownership, or age, or health where the premium on the two policies are significant different business owners will often look for alternatives. For more information contact DBS advanced case resource Terri Getman at extension 230. **IMPORTANT NOTE**: The buy-sell structure used does not need to be the same for each business owner. If one owner wants to maintain his/her interest in the family while the other wants to be bought out; the one with the family may need to look at estate equalization arrangement while the one wanting to be bought out might be structured as an entity purchase or one-way buy-sell depending on the specific facts. Ultimately, the buy-sell should reflect the owners desired distribution and the insurance should be consistent with the buy-sell document.
Carrier Selection	Some carriers are better/easier at underwriting this coverage. Contact a DBS Case Design Analyst.

Back to Primary Objective

You selected

“The business has three or more owners”

Select the option that best describes the business:

- **The business is a C corporation (or an S corporation that once was a C corporation) with some of the owners family members who are lineal descendants (like parent-child).**
- **The business is a C corporation with unrelated owners**
- **The business entity is a partnership, LLC taxed as a partnership, or an S corporation (that has not been a C corporation) and the owners desire the simplicity of one policy per owner**

- Back to Primary Objective

You selected

"The business is a C corporation (or S corporation that once was a C corporation) where some of the owners are family members

Based on this response the buy-sell is typically structured as a **Cross-Purchase Arrangement**. However, the Cross-Purchase Arrangement will result in multiple policies on each owner. So, where there is a second business entity structured as an LLC the **LLC as Cross-Purchase Alternative Arrangement** has gained popularity especially where there is a desire to have one policy per owner. The Cross-Purchase Buy-Sell arrangement is one where the business owners agree to purchase the business interest of the other.

Cross-Purchase Arrangement

Policy Structure	Insureds – each business owner will be an insured Owner & Beneficiary – Each business owner will be the owner and beneficiary of a policy insuring the other business owner. So, where business owner A is the insured, the owner and beneficiary of the policy is B and vice versa. The number of policies is N x (N-1) where N = the number of owners. So, with 3 owners it is 3 x (3-1) = 6 policies.

Next

You selected

"The business is a C corporation (or S corporation that once was a C corporation) where some of the owners are family members"

Based on this response the buy-sell is typically structured as a **Cross-Purchase Arrangement**. However, the Cross-Purchase Arrangement will result in multiple policies on each owner. So, where there is a second business entity structured as an LLC the **LLC as Cross-Purchase Alternative Arrangement** has gained popularity especially where there is a desire to have one policy per owner.

Cross-Purchase Arrangement

Face Amount	Generally, the amount is equal to the owner's value in the business. So, where A's value in the business is $400,000 and B's value is worth $400,000 and C's value is $800,000 where they have a 25%/25%/50% split in the business valued at $1.6 million. B could be the owner and beneficiary of a $200,000 policy insuring A and a $400,000 policy insuring C. To determine the value carriers often look to the financial statements. Where there is a desire to have more face amount than the current business value to provide growth some carriers will permit additional coverage by combining it with the amount permitted under key person. Where face amount desired may be perceived as too large contact DBS advanced case resource Terri Getman at extension 230.

Next

You selected

“The business is a C corporation (or S corporation that once was a C corporation) where some of the owners are family members”

Based on this response the buy-sell is typically structured as a **Cross-Purchase Arrangement**. However, the Cross-Purchase Arrangement will result in multiple policies on each owner. So, where there is a second business entity structured as an LLC the **LLC as Cross-Purchase Alternative Arrangement** has gained popularity especially where there is a desire to have one policy per owner.

Cross-Purchase Arrangement

How it Works	Each business owner purchases a policy on the life of the other business owner. The source of the premiums may be the business. At the death of the insured, the carrier pays the death benefit to the surviving business owners who use the proceeds to buy the interest from the estate of the deceased owner. Proceeds are usually received by the surviving owner(s) income tax-free. The heirs of the deceased owner receive cash in exchange for the sale of the business. Since the estate receives a basis adjustment (step-up) of the date of death value for the business interest when the surviving owner purchases the interest from the estate, assuming the purchase price is equal to the date of death value, this transaction generally is income tax-free.

Next

You selected

“The business is a C corporation (or S corporation that once was a C corporation) where some of the owners are family members”

Based on this response the buy-sell is typically structured as a **Cross-Purchase Arrangement**. However, the Cross-Purchase Arrangement will result in multiple policies on each owner. So, where there is a second business entity structured as an LLC the **LLC as Cross-Purchase Alternative Arrangement** has gained popularity especially where there is a desire to have one policy per owner.

Cross-Purchase Arrangement

Other	The reason for using a cross-purchase arrangement in a C Corporation where some of the owners are family members has to do with a provision in the tax code called the family attribution rules. This rule can cause adverse taxation to the deceased owner’s estate when the buyout is structured as an entity purchase arrangement. For more information contact DBS advanced case design Terri Getman at extension 230. **IMPORTANT NOTE**: The buy-sell structure used does not need to be the same for each business owner. If one owner wants to maintain his/her interest in the family while the other wants to be bought out; the one with the family may need to look at estate equalization arrangement while the one wanting to be bought out might be structured as an entity purchase or one-way buy-sell depending on the specific facts. Ultimately, the buy-sell should reflect the owners desired distribution and the insurance should be consistent with the buy-sell document.

Next

You selected

"The business is a C corporation (or S corporation that once was a C corporation) where some of the owners are family members"

Based on this response the buy-sell is typically structured as a **Cross-Purchase Arrangement**. However, the Cross-Purchase Arrangement will result in multiple policies on each owner. So, where there is a second business entity structured as an LLC the **LLC as Cross-Purchase Alternative Arrangement** has gained popularity especially where there is a desire to have one policy per owner.

Cross-Purchase Arrangement

Carrier Selection	Some carriers are better/easier at underwriting this coverage. Contact a DBS Case Design Analyst.

Next

You selected

"The business is a C corporation (or S corporation that once was a C corporation) where some of the owners are family members"

Based on this response the buy-sell is typically structured as a **Cross-Purchase Arrangement**. However, the Cross-Purchase Arrangement will result in multiple policies on each owner. So, where there is a second business entity structured as an LLC the **LLC as Cross-Purchase Alternative Arrangement** has gained popularity especially where there is a desire to have one policy per owner.

LLC as a Cross-Purchase Alternative

Policy Structure	Insureds – each business owner will be an insured Owner & Beneficiary – is the LLC so there is one policy on each owner
Face Amount	Generally, the amount is equal to the owner's value in the business. So, A's value in the primary business is $400,000 and B's value is worth $400,000 and C's value is $800,000 where they have a 25%/25%/50% split in the primary business valued at $1.6 million. In addition, an amount would be added for the value of the LLC interest. So, if the LLC is worth $600,000 and is owned equally by A, B, and C, an additional $200,000 of coverage would be added to each. So, A and B would need $600,000 of life insurance on each of their lives with the LLC as the owner and beneficiary and C would need $1 million with the LLC as owner and beneficiary. To determine the value carriers often look to the financial statements. Where there is a desire to have more face amount than the current business value to provide growth some carriers will permit additional coverage by combining it with the amount permitted under key person. Where face amount desired may be perceived as too large contact DBS advanced case resource Terri Getman at extension 230.

Next

You selected

"The business is a C corporation (or S corporation that once was a C corporation) where some of the owners are family members"

Based on this response the buy-sell is typically structured as a **Cross-Purchase Arrangement**. However, the Cross-Purchase Arrangement will result in multiple policies on each owner. So, where there is a second business entity structured as an LLC the **LLC as Cross-Purchase Alternative Arrangement** has gained popularity especially where there is a desire to have one policy per owner.

LLC as a Cross-Purchase Alternative

How it Works	The LLC purchases one policy on the life of each business owner. The source of the premiums is typically the LLC. The primary business often is paying the LLC for services or property. **Two Steps:** At death of the insured the carrier pays the death benefit to the LLC. • Step 1 - the LLC uses part of the proceeds to purchase the deceased owner's interest in the LLC (on an entity-purchase basis). The surviving owners now own the entire LLC. • Step 2 - the LLC distributes the remaining proceeds to the surviving business owners who use the proceeds to buy the primary business interest from the estate of the deceased owner (on a cross-purchase basis). Example: Assume A dies. The LLC receives $600,000 income-tax free. The LLC purchases A's LLC interest from A's estate for $200,000 leaving $400,000. As the surviving owners, B and C take a tax-free distribution of the remaining proceeds. They then use the proceeds to buyout B's interest in the primary business entity.

Next

You selected

“The business is a C corporation (or S corporation that once was a C corporation) where some of the owners are family members”

Based on this response the buy-sell is typically structured as a **Cross-Purchase Arrangement**. However, the Cross-Purchase Arrangement will result in multiple policies on each owner. So, where there is a second business entity structured as an LLC the **LLC as Cross-Purchase Alternative Arrangement** has gained popularity especially where there is a desire to have one policy per owner.

LLC as a Cross-Purchase Alternative

Other	To preserve the income-tax fee death benefit the 101j employer notice and consent form must be completed prior to policy issue – which usually is prior to premium payment. This structure will always require a cover letter to the underwriter to explain the structure. Contact DBS advanced case design resource Terri Getman at extension 230 for help. **IMPORTANT NOTE**: The buy-sell structure used does not need to be the same for each business owner. If one owner wants to maintain his/her interest in the family while the other wants to be bought out; the one with the family may need to look at estate equalization arrangement while the one wanting to be bought out might be structured as an entity purchase or one-way buy-sell depending on the specific facts. Ultimately, the buy-sell should reflect the owners desired distribution and the insurance should be consistent with the buy-sell document.

Next

You selected

"The business is a C corporation (or S corporation that once was a C corporation) where some of the owners are family members"

Based on this response the buy-sell is typically structured as a **Cross-Purchase Arrangement**. However, the Cross-Purchase Arrangement will result in multiple policies on each owner. So, where there is a second business entity structured as an LLC the **LLC as Cross-Purchase Alternative Arrangement** has gained popularity especially where there is a desire to have one policy per owner.

LLC as a Cross-Purchase Alternative

Carrier Selection	Some carriers are better/easier at underwriting this coverage. Contact a DBS Case Design Analyst.

You selected

“C corporation with unrelated owners”

Select the option that best describes the owners’ primary objective:

- **Surviving owners desire a basis adjustment on the interest acquired from the deceased owner**
- **The owners desire simplicity even if it means they don’t receive a basis adjustment**

- Back to Primary Objective

You selected

"Surviving owners desire a basis adjustment on the interest acquired from the deceased owner"

Based on your response the buy-sell is typically structured as a **Cross-Purchase Arrangement**. However**,** the Cross-Purchase Arrangement will result in multiple policies on each owner. So, where there is a second business entity structured as an LLC the **LLC as Cross-Purchase Alternative Arrangement** has gained popularity especially where there is a desire to have one policy per owner. The Cross-Purchase Buy-Sell arrangement is one where the business owners agree to purchase the business interest of the others.

Cross-Purchase Arrangement

Policy Structure	Insureds – each business owner will be an insured Owner & Beneficiary – Each business owner will be the owner and beneficiary on a policy insuring the other business owner. So, where business owner A is the insured, the owner and beneficiary of the policy is B and vice versa. The number of policies is N x (N-1) where N = the number of owners. So, with 3 owners it is 3 x (3-1) = 6 policies.

Next

You selected

"Surviving owners desire a basis adjustment on the interest acquired from the deceased owner"

Based on your response the buy-sell is typically structured as a **Cross-Purchase Arrangement**. However, the Cross-Purchase Arrangement will result in multiple policies on each owner. So, where there is a second business entity structured as an LLC the **LLC as Cross-Purchase Alternative Arrangement** has gained popularity especially where there is a desire to have one policy per owner.

Cross-Purchase Arrangement

Face Amount	Generally, the amount is equal to the owner's value in the business. So, where A's value in the business is $400,000 and B's value is worth $400,000 and C's value is $800,000 where they have a 25%/25%/50% split in the business valued at $1.6 million. B could be the owner and beneficiary of a $200,000 policy insuring A and a $400,000 policy insuring C. To determine the value carriers often look to the financial statements. Where there is a desire to have more face amount than the current business value to provide growth some carriers will permit additional coverage by combining it with the amount permitted under key person. Where face amount desired may be perceived as too large contact DBS advanced case resource Terri Getman at extension 230.

Next

You selected

"Surviving owners desire a basis adjustment on the interest acquired from the deceased owner"

Based on your response the buy-sell is typically structured as a **Cross-Purchase Arrangement**. However**,** the Cross-Purchase Arrangement will result in multiple policies on each owner. So, where there is a second business entity structured as an LLC the **LLC as Cross-Purchase Alternative Arrangement** has gained popularity especially where there is a desire to have one policy per owner.

Cross-Purchase Arrangement

How it Works	Each business owner purchases a policy on the life of the other business owner. The source of the premiums may be the business. At death of the insured the carrier pays the death benefit to the surviving business owners who use the proceeds to buy the interest from the estate of the deceased owner. Proceeds are usually received by the surviving owners income tax-free. The heirs of the deceased owner receive cash in exchange for the sale of the business. Since the estate receives a basis adjustment (step-up) to date of death value for the business interest when the surviving owner purchase the interest from the estate, assuming the purchase price is equal to the date of death value, this transaction generally is income tax-free.

Next

You selected

“Surviving owners desire a basis adjustment on the interest acquired from the deceased owner”

Based on your response the buy-sell is typically structured as a **Cross-Purchase Arrangement**. However**,** the Cross-Purchase Arrangement will result in multiple policies on each owner. So, where there is a second business entity structured as an LLC the **LLC as Cross-Purchase Alternative Arrangement** has gained popularity especially where there is a desire to have one policy per owner.

Cross-Purchase Arrangement

Other	**IMPORTANT NOTE**: The buy-sell structure used does not need to be the same for each business owner. If one owner wants to maintain his/her interest in the family while the other wants to be bought out; the one with the family may need to look at estate equalization arrangement while the one wanting to be bought out might be structured as an entity purchase or one-way buy-sell depending on the specific facts. Ultimately, the buy-sell should reflect the owners desired distribution and the insurance should be consistent with the buy-sell document.

Next

You selected

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Cross-Purchase Arrangement

Carrier Selection	Some carriers are better/easier at underwriting this coverage. Contact a DBS Case Design Analyst.

Next

You selected

"Surviving owners desire a basis adjustment on the interest acquired from the deceased owner"

Based on your response the buy-sell is typically structured as a **Cross-Purchase Arrangement**. However**,** the Cross-Purchase Arrangement will result in multiple policies on each owner. So, where there is a second business entity structured as an LLC the **LLC as Cross-Purchase Alternative Arrangement** has gained popularity especially where there is a desire to have one policy per owner.

LLC as Cross-Purchase Alternative

Policy Structure	Insureds – each business owner will be an insured Owner & Beneficiary – is the LLC so there is one policy on each owner

Next

You selected

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Based on your response the buy-sell is typically structured as a **Cross-Purchase Arrangement**. However**,** the Cross-Purchase Arrangement will result in multiple policies on each owner. So, where there is a second business entity structured as an LLC the **LLC as Cross-Purchase Alternative Arrangement** has gained popularity especially where there is a desire to have one policy per owner.

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LLC as Cross-Purchase Alternative

How it Works	The LLC purchases one policy on the life of each business owner. The source of the premiums is typically the LLC. The primary business often is paying the LLC for services or property. **Two Steps:** At death of the insured the carrier pays the death benefit to the LLC. • Step 1 - the LLC uses part of the proceeds to purchase the deceased owner's interest in the LLC (on an entity-purchase basis). The surviving owners now own the entire LLC. • Step 2 - the LLC distributes the remaining proceeds to the surviving business owners who use the proceeds to buy the primary business interest from the estate of the deceased owner (on a cross-purchase basis). Example: Assume A dies. The LLC receives $600,000 income-tax free. The LLC purchases A's interest from A's estate for $200,000 leaving $400,000. As the surviving owners, B and C take a tax-free distribution of the remaining proceeds. They then use the proceeds to buyout B's interest in the primary business entity.

Next

You selected

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LLC as Cross-Purchase Alternative

Other	To preserve the income-tax fee death benefit the 101j employer notice and consent form must be completed prior to policy issue – which usually is prior to premium payment. This structure will always require a cover letter to the underwriter to explain the structure. Contact DBS advanced case design resource Terri Getman at extension 230 for help. **IMPORTANT NOTE**: The buy-sell structure used does not need to be the same for each business owner. If one owner wants to maintain his/her interest in the family while the other wants to be bought out; the one with the family may need to look at estate equalization arrangement while the one wanting to be bought out might be structured as an entity purchase or one-way buy-sell depending on the specific facts. Ultimately, the buy-sell should reflect the owners desired distribution and the insurance should be consistent with the buy-sell document.

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LLC as Cross-Purchase Alternative

Carrier Selection	Some carriers are better/easier at underwriting this coverage. Contact a DBS Case Design Analyst.

- Back to Primary Objective

You selected

“The owners desire simplicity even if it means they don’t receive a basis adjustment”

Based on your response an **Entity Purchase Arrangement** is often the preferred option because only one policy per owner is needed. With an Entity Purchase Buy-Sell arrangement the business agrees to acquire the interest of the deceased business owner.

LLC as Cross-Purchase Alternative

Policy Structure	Insureds – each business owner Owner & Beneficiary – the business So, one policy on each business owner

Next

You selected

"The owners desire simplicity even if it means they don't receive a basis adjustment"

Based on your response an **Entity Purchase Arrangement** is often the preferred option because only one policy per owner is needed.

LLC as Cross-Purchase Alternative

Face Amount	Generally, the amount is equal to the owner's value in the business. So, where A's value in the business is $400,000 and B's value is worth $400,000 and C's value is $800,000 (where they have a 25%/25%/50% split in the business valued at $1.6 million). The policies on A and B would be for $400,000 and C's policy would have a face of $800,000. To determine the value carriers often look to the financial statements. Where there is a desire to have more face amount than the current business value to provide growth some carriers will permit additional coverage by combining it with the amount permitted under key person. Where face amount desired may be perceived as too large contact DBS advanced case resource Terri Getman at extension 230.

Next

You selected

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Based on your response an **Entity Purchase Arrangement** is often the preferred option because only one policy per owner is needed.

LLC as Cross-Purchase Alternative

How it Works	The business purchases a policy on the life of each business owner. The source of the premiums is the business and is not deductible. At the death of the insured the carrier pays the death benefit to the business which uses the proceeds to acquire the interest from the estate of the deceased owner. Proceeds are usually received by the business income tax-free. The heirs of the deceased owner receive cash in exchange for the sale of the business. Since the estate receives a basis adjustment (step-up) to date of death value for the business interest when the surviving owner purchase the interest from the estate, assuming the purchase price is equal to the date of death value, this transaction generally is income tax-free. **IMPORTANT NOTE**: In an entity purchase arrangement the surviving owners acquire a proportional increase in the business interest. If the percentage ownership interest of the owners is the same the entity purchase will preserve the equal ownership. However, if the percentage ownership is different as in the above face amount example the entity purchase arrangement may have unintended consequences. For example, if B in the face amount example dies - under an entity purchase buy sell B’s 25% interest would increase A’s interest by 8.5% while C’s interest is increase by 16.5%. Result, C owns 66.5% of the business.

Next

You selected

“The owners desire simplicity even if it means they don’t receive a basis adjustment”

Based on your response an **Entity Purchase Arrangement** is often the preferred option because only one policy per owner is needed.

LLC as Cross-Purchase Alternative

Other	To preserve the income-tax fee death benefit the 101j employer notice and consent form must be completed prior to policy issue – which usually is prior to premium payment. **IMPORTANT NOTE**: The buy-sell structure used does not need to be the same for each business owner. If one owner wants to maintain his/her interest in the family while the other wants to be bought out; the one with the family may need to look at estate equalization arrangement while the one wanting to be bought out might be structured as an entity purchase or one-way buy-sell depending on the specific facts. Ultimately, the buy-sell should reflect the owners desired distribution and the insurance should be consistent with the buy-sell document.

Next

You selected

“The owners desire simplicity even if it means they don’t receive a basis adjustment”

Based on your response an **Entity Purchase Arrangement** is often the preferred option because only one policy per owner is needed.

LLC as Cross-Purchase Alternative

Carrier Selection	Some carriers are better/easier at underwriting this coverage. Contact a DBS Case Design Analyst.

- Back to Primary Objective

You selected

"The business entity is a partnership, an LLC taxed as a partnership, or S corporation (that has not been a C corporation) and the owners desire the simplicity of one policy per owner"

Based on your response an **Entity Purchase Arrangement** is often the preferred option because only one policy per owner is needed and owners can receive an increased basis for the death proceeds paid to the business. With an Entity Purchase Buy-Sell arrangement the business agrees to acquire the interest of the deceased business owner.

LLC as Cross-Purchase Alternative

Policy Structure	Insureds – each business owner Owner & Beneficiary – the business So, one policy on each business owner
Face Amount	Generally, the amount is equal to the owner's value in the business. So, where A's value in the business is $400,000 and B's value is worth $400,000 and C's value is $800,000 (where they have a 25%/25%/50% split in the business valued at $1.6 million). The policies on A and B would be for $400,000 and C's policy would have a face of $800,000. To determine the value carriers often look to the financial statements. Where there is a desire to have more face amount than the current business value to provide growth some carriers will permit additional coverage by combining it with the amount permitted under key person. Where face amount desired may be perceived as too large contact DBS advanced case resource Terri Getman at extension 230.

Next

You selected

"The business entity is a partnership, an LLC taxed as a partnership, or S corporation (that has not been a C corporation) and the owners desire the simplicity of one policy per owner"

Based on your response an **Entity Purchase Arrangement** is often the preferred option because only one policy per owner is needed and owners can receive an increased basis for the death proceeds paid to the business.

LLC as Cross-Purchase Alternative

How it Works	The business purchases a policy on the life of each business owner. The source of the premiums is the business and is not deductible. At the death of the insured the carrier pays the death benefit to the business which uses the proceeds to acquire the interest from the estate of the deceased owner. Proceeds are usually received by the business income tax-free. The heirs of the deceased owner receive cash in exchange for the sale of the business. Since the estate receives a basis adjustment (step-up) to date of death value for the business interest when the surviving owner purchase the interest from the estate, assuming the purchase price is equal to the date of death value, this transaction generally is income tax-free. **IMPORTANT NOTE**: In an entity purchase arrangement the surviving owners acquire a proportional increase in the business interest. If the percentage ownership interest of the owners is the same the entity purchase will preserve the equal ownership. However, if the percentage ownership is different as in the above face amount example the entity purchase arrangement may have unintended consequences. For example, if B in the face amount example dies - under an entity purchase buy sell B's 25% interest would increase A's interest by 8.5% while C's interest is increase by 16.5%. Result, C owns 66.5% of the business.

Next

You selected

"The business entity is a partnership, an LLC taxed as a partnership, or S corporation (that has not been a C corporation) and the owners desire the simplicity of one policy per owner"

Based on your response an **Entity Purchase Arrangement** is often the preferred option because only one policy per owner is needed and owners can receive an increased basis for the death proceeds paid to the business.

LLC as Cross-Purchase Alternative

Other	To preserve the income-tax fee death benefit the 101j employer notice and consent form must be completed prior to policy issue – which usually is prior to premium payment. **IMPORTANT NOTE**: The buy-sell structure used does not need to be the same for each business owner. If one owner wants to maintain his/her interest in the family while the other wants to be bought out; the one with the family may need to look at estate equalization arrangement while the one wanting to be bought out might be structured as an entity purchase or one-way buy-sell depending on the specific facts. Ultimately, the buy-sell should reflect the owners desired distribution and the insurance should be consistent with the buy-sell document.

Next

You selected

“The business entity is a partnership, an LLC taxed as a partnership, or S corporation (that has not been a C corporation) and the owners desire the simplicity of one policy per owner”

Based on your response an **Entity Purchase Arrangement** is often the preferred option because only one policy per owner is needed and owners can receive an increased basis for the death proceeds paid to the business.

LLC as Cross-Purchase Alternative

Carrier Selection	Some carriers are better/easier at underwriting this coverage. Contact a DBS Case Design Analyst.

- Back to Primary Objective

You selected

“Reward and retain a key person who is not an owner by providing an incentive to remain”

Select the option that best describes the key person:

- Employee of a sole proprietorship, partnership, LLC, or S corporation (pass-through business entity)
- Employee of a C corporation
- Employee of a tax-exempt organization

- Back to Primary Objective

You selected

"Employee of a sole proprietorship, partnership, LLC, or S corporation (pass-through business entity)"

Which is more important for the business owner:

- **Immediate income tax deduction with employee reporting W-2 income**
- **Control over the policy cash value even though the owner recognizes that this will cause them to retain the tax burden**

Note: Business owners of businesses that are <u>not</u> classified as "specified service businesses" under the 199A rules who have household taxable income in excess of $157,000 (single 2018 figure)/$315,000 (married joint filers 2018 figure) may want to increase W-2 income to employees in order to gain a larger 199A deduction. If the owner(s) have a household taxable income less than this amount and they are any form of pass-through business retaining control and the tax burden up to the income limits may be desired.

- Back to Primary Objective

You selected

“Immediate income tax deduction with the employee reporting W-2 income”

Select the item that best meets the owner’s objective:

- **Owner desires an arrangement that is simple to establish and easy to administer**
- **Owner is willing to accept more complexity to retain some control**

- Back to Primary Objective

You selected

“Owner desires an arrangement that is simple to establish and easy to administer”

Based on your response a **Section 162 Executive Bonus Arrangement** may be the employee benefit arrangement to consider. In a Bonus Arrangement the business is simply paying premiums for a life insurance policy owned by the executive. The premium amount and policy structure can be specifically tailored to meets the needs of the executive.

Policy Structure	Insureds – key employee the owner wants to benefit Owner - typically the key employee Beneficiary – typically spouse of the key employee
Face Amount	The face amount is based on the premiums paid. Policy design can be structured to either minimize death benefit to focus on developing cash value for retirement or to create a large death benefit.
How it Works	The employer agrees to pay an employee bonus sufficient to pay the premiums on a life insurance policy. This payment is deductible to the employer and taxable to the employee. The employee purchases a life insurance policy. During the employee’s life the employee can use the policy for its living benefits including long-term care or access to the policy cash value on a tax-favored basis. At death of the employee/insured the proceeds are paid to the employee’s beneficiary generally income tax-free.

Next

You selected

"Owner desires an arrangement that is simple to establish and easy to administer"

Based on your response a **Section 162 Executive Bonus Arrangement** may be the employee benefit arrangement to consider. In a Bonus Arrangement the business is simply paying premiums for a life insurance policy owned by the executive. The premium amount and policy structure can be specifically tailored to meets the needs of the executive.

Other	An executive bonus arrangement is simple to implement and requires no special administration. The arrangement can be structured as a single bonus or a double bonus. In a single bonus the employer bonuses the clients the premiums for the policy, and the employee pays the tax due on the premium. In a double bonus the employer bonuses an amount equal to the premiums and the taxes so the employee has no out-of-pocket cost.
Section 199A QBI Deduction	Effective for tax years beginning after December 31, 2017 and before January 1, 2026, a pass-through business taxpayer is entitled to a deduction equal to 20% of the taxpayer's qualified business income earned in a qualified trade or business (hereafter referred to as the QBI deduction). The form of executive benefit arrangement can impact this deduction. For more information contact Terri Getman DBS advanced case design resource at extension 230.

- Back to Primary Objective

You selected

"Owner is willing to accept more complexity to retain some control"

Based on your response a **Restrictive Executive Bonus Arrangement** may be the employee benefit arrangement to consider. A Restrictive Executive Bonus Arrangement is a combination of a bonus plan with a restrictive endorsement issued on the policy that serves as a "golden handcuff" to encourage the executive to stay with the company.

Policy Structure	Insureds – key employee the owner wants to benefit Owner - typically the key employee Beneficiary – typically spouse of the key employee Restrictive endorsement is placed on the policy
Face Amount	The face amount is based on the premiums paid. Policy design can be structured to either minimize death benefit to focus on developing cash value for retirement or to create a large death benefit.

Next

You selected

"Owner is willing to accept more complexity to retain some control"

Based on your response a **Restrictive Executive Bonus Arrangement** may be the employee benefit arrangement to consider. A Restrictive Executive Bonus Arrangement is a combination of a bonus plan with a restrictive endorsement issued on the policy that serves as a "golden handcuff" to encourage the executive to stay with the company.

How it Works	A restrictive executive bonus arrangement is similar to an executive bonus plan, but includes additional "golden handcuff." The employer and employee enter into an employment agreement where the employer agrees to pay premiums on a life insurance policy in exchange for the executive's unsecured promise to continue his/her service for a specified period of time. If the employment ends prior to the period of time, the contract may provide that the employer has a right of repayment. Properly designed the payment is deductible to the employer and taxable to the employee. The employee purchases a life insurance policy. In conjunction with the purchase of the policy a restrictive endorsement is placed on the contract. This endorsement limits the executive's rights in the policy. Once the terms of the employment contract are fulfilled the restrictive endorsement is released. The policy is now available for personal or family needs. During the employee's life after the release of the restrictive endorsement, the employee can use the policy for its living benefits including long-term care or access to the policy cash value on a tax-favored basis. At death of the employee/insured the proceeds are paid to the employee's beneficiary generally income tax-free. **IMPORTANT NOTE:** For a restrictive executive bonus arrangement to provide the needed tax results and to avoid ERISA it must be implemented and structured carefully. There are tax risks associated with this arrangement.

Next

You selected

“Owner is willing to accept more complexity to retain some control”

Based on your response a **Restrictive Executive Bonus Arrangement** may be the employee benefit arrangement to consider. A Restrictive Executive Bonus Arrangement is a combination of a bonus plan with a restrictive endorsement issued on the policy that serves as a “golden handcuff” to encourage the executive to stay with the company.

Other	A restrictive executive bonus arrangement is more complex than a bonus arrangement and has more tax risks to implement. The arrangement can be structured as a single bonus or a double bonus but is most frequently structured as a double bonus. In a single bonus the employer bonuses the clients the premiums for the policy, and the employee pays the tax due on the premium. In a double bonus the employer bonuses and amount equal to the premiums and the taxes so the employee has no out-of-pocket cost.
Section 199A QBI Deduction	Effective for tax years beginning after December 31, 2017 and before January 1, 2026, a pass-through business taxpayer is entitled to a deduction equal to 20% of the taxpayer’s qualified business income earned in a qualified trade or business (hereafter referred to as the QBI deduction). The form of executive benefit arrangement can impact this deduction. For more information contact Terri Getman DBS advanced case design resource at extension 230.

- Back to Primary Objective

You selected

"Control over the policy cash value even though the owner recognizes that this will cause them to retain the tax burden"

Select the options that best meets the business owner's primary objectives:

- **Owner wants recovery of plan costs at termination of the arrangement**
- **Owner wants recovery of plan cost only if the employee leaves early**
- **Owners wants to handcuff the employee for a period of time, but is not concerned about recovering costs**

- Back to Primary Objective

You selected

"Owner wants recovery of plan costs at termination of the arrangement"

Based on your response an **Endorsement Split Dollar Arrangement** may be the employee benefit arrangement to consider. A split dollar arrangement is a method of funding premium on a permanent life insurance policy where the party paying the premium (employer) recovers its cost and the other party (employee) receives death benefit coverage at a relatively inexpensive price. With endorsement split dollar the business retains ownership and control over the policy.

Policy Structure	Insureds – key employee the owner wants to benefit Owner - typically the business Beneficiary – typically spouse of the key employee Policy endorsement is placed on the policy
Face Amount	The face amount is based on the premiums paid. Policy design can be structured to either minimize death benefit to focus on developing cash value for retirement or to create a large death benefit.
How it Works	The business enters into an endorsement split dollar arrangement with the employee. This is an agreement where the business owns the policy and all its cash value (and in some cases a key person death benefit portion of the policy). The employer agrees to pay the death benefit over the cash value amount to the employee's beneficiary. The employer purchases a policy and agrees to pay the premium while the agreement is in force. During the time the agreement is in force the employee either pays or reports on their W-2 the "economic benefit amount" (which is the term charge for the death benefit his/her family would receive). If the employee dies while the arrangement is in effect the employer recovers its cost out of the policy death benefit and the employee's family will receive the balance of the income tax-free death benefit. At the employee's retirement the employer has the option of keeping the policy in force, surrendering the policy for its cash value or bonusing the policy to the employee.

Next

You selected

“Owner wants recovery of plan costs at termination of the arrangement”

Based on your response an **Endorsement Split Dollar Arrangement** may be the employee benefit arrangement to consider. A split dollar arrangement is a method of funding premium on a permanent life insurance policy where the party paying the premium (employer) recovers its cost and the other party (employee) receives death benefit coverage at a relatively inexpensive price. With endorsement split dollar the business retains ownership and control over the policy.

How it Works	The business enters into an endorsement split dollar arrangement with the employee. This is an agreement where the business owns the policy and all its cash value (and in some cases a key person death benefit portion of the policy). The employer agrees to pay the death benefit over the cash value amount to the employee’s beneficiary. The employer purchases a policy and agrees to pay the premium while the agreement is in force. During the time the agreement is in force the employee either pays or reports on their W-2 the “economic benefit amount” (which is the term charge for the death benefit his/her family would receive). If the employee dies while the arrangement is in effect the employer recovers its cost out of the policy death benefit and the employee’s family will receive the balance of the income tax-free death benefit. At the employee’s retirement the employer has the option of keeping the policy in force, surrendering the policy for its cash value or bonusing the policy to the employee.

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Other	To preserve the income-tax fee death benefit the 101j employer notice and consent form must be completed prior to policy issue – which usually is prior to premium payment. In addition, if the annual economic benefit/term cost is not reported or paid the death benefit becomes taxable. This is why administration is important for these arrangements. This arrangement is slightly more complex than an executive bonus arrangement, but does not have the complexity of a SERP or the tax risks of a REBA. It does require a plan document and annual administration of the term cost.
Section 199A QBI Deduction	Effective for tax years beginning after December 31, 2017 and before January 1, 2026, a pass-through business taxpayer is entitled to a deduction equal to 20% of the taxpayer’s qualified business income earned in a qualified trade or business (hereafter referred to as the QBI deduction). The form of executive benefit arrangement can impact this deduction. For more information contact Terri Getman DBS advanced case design resource at extension 230.

Next

You selected

“Owner wants recovery of plan costs at termination of the arrangement”

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Carrier Selection	Some carriers are easier/better at underwriting this concept. Contact a DBS Case Design Analyst.

Back to Primary Objective

You selected

"Owner wants recovery of plan cost only if the employee leaves early"

Based on your response a **Restrictive Executive Bonus Arrangement** may be the employee benefit arrangement to consider. A Restrictive Executive Bonus Arrangement is a combination of a bonus plan with a restrictive endorsement issued on the policy that serves as a "golden handcuff" to encourage the executive to stay with the company.

Policy Structure	Insureds – key employee the owner wants to benefit Owner - typically the key employee Beneficiary – typically spouse of the key employee Restrictive endorsement is placed on the policy
Face Amount	The face amount is based on the premiums paid. Policy design can be structured to either minimize death benefit to focus on developing cash value for retirement or to create a large death benefit.

Next

You selected

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You selected

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- Back to Primary Objective

You selected

"Owner wants to handcuff the employee for a period of time, but is not concerned about recovering costs"

Based on your response a **Supplemental Executive Benefit Arrangement (SERP/Deferred Comp)** may be the employee benefit arrangement to consider. A SERP/deferred compensation plan allows a business to provide key employees retirement benefits beyond those provided by a qualified plan. The arrangement is a complex arrangement and requires plan administration.

Policy Structure	Insureds – key employee the owner wants to benefit Owner & Beneficiary - typically the business Separate plan beneficiary endorsement allows the employee to name a personal beneficiary
Face Amount	The face amount is based on the premiums paid. Policy design is typically structured to minimize death benefit to focus on developing cash value for retirement.

Next

You selected

“Owner wants to handcuff the employee for a period of time, but is not concerned about recovering costs”

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Next

You selected

“Owner wants to handcuff the employee for a period of time, but is not concerned about recovering costs”

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Other	To preserve the income-tax fee death benefit the 101j employer notice and consent form must be completed prior to policy issue – which usually is prior to premium payment. SERP/Deferred comp arrangements are long term commitments and should only be established by a business that has strong financials and continuity plans in place. Therefore, this arrangement may not be appropriate for single owner business entities.
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Carrier Selection	Some carriers are better/easier at underwriting this concept. Contact a DBS Case Design Analyst.

- Back to Primary Objective

You selected

"Employee of a C Corporation"

Which is more important for the business owner:

- **Immediate income tax deduction**
- **Control over the policy cash value**

- Back to Primary Objective

You selected

"Immediate income tax deduction"

Select the item that best meets the owner's objective:

- **Owner desires an arrangement that is simple to establish and easy to administer**
- **Owner is willing to accept more complexity to retain some control**

- Back to Primary Objective

You selected

"Owner desires an arrangement that is simple to establish and easy to administer"

Based on your response a **Section 162 Executive Bonus Arrangement** may be the employee benefit arrangement to consider. In a Bonus Arrangement the business is simply paying premiums for a life insurance policy owned by the executive. The premium amount and policy structure can be specifically tailored to meets the needs of the executive.

Policy Structure	Insureds – key employee the owner wants to benefit Owner - typically the key employee Beneficiary – typically spouse of the key employee
Face Amount	The face amount is based on the premiums paid. Policy design can be structured to either minimize death benefit to focus on developing cash value for retirement or to create a large death benefit.
How it Works	The employer agrees to pay an employee bonus sufficient to pay the premiums on a life insurance policy. This payment is deductible to the employer and taxable to the employee. The employee purchases a life insurance policy. During the employee's life the employee can use the policy for its living benefits including long-term care or access to the policy cash value on a tax-favored basis. At death of the employee/insured the proceeds are paid to the employee's beneficiary generally income tax-free.
Other	An executive bonus arrangement is simple to implement and requires no special administration. The arrangement can be structured as a single bonus or a double bonus. In a single bonus the employer bonuses the clients the premiums for the policy, and the employee pays the tax due on the premium. In a double bonus the employer bonuses and amount equal to the premiums and the taxes so the employee has no out-of-pocket cost.

- Back to Primary Objective

You selected

“Owner is willing to accept more complexity to retain some control”

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Next

You selected

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- Back to Primary Objective

You selected

“Control over the policy cash value”

Select the options that best meets the business owner’s primary objectives:

- **Owner wants recovery of plan costs at termination of the arrangement**
- **Owner wants recovery of plan cost only if the employee leaves early**
- **Owner wants to handcuff the employee for a period of time, but is not concerned about recovering costs**

- Back to Primary Objective

You selected

“Owner wants recovery of plan costs at termination of the arrangement”

Based on your response an **Endorsement Split Dollar Arrangement** may be the employee benefit arrangement to consider. A split dollar arrangement is a method of funding premium on a permanent life insurance policy where the party paying the premium (employer) recovers its cost and the other party (employee) receives death benefit coverage at a relatively inexpensive price. With endorsement split dollar the business retains ownership and control over the policy.

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Carrier Selection	Some carriers are easier/better at underwriting this concept. Contact a DBS Case Design Analyst.

- Back to Primary Objective

You selected

“Owner wants recovery of plan cost only if the employee leaves early”

Based on your response a **Restrictive Executive Bonus Arrangement** may be the employee benefit arrangement to consider. A Restrictive Executive Bonus Arrangement is a combination of a bonus plan with a restrictive endorsement issued on the policy that serves as a “golden handcuff” to encourage the executive to stay with the company.

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Next

You selected

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- Back to Primary Objective

You selected

"Owner wants to handcuff the employee for a period of time, but it is not concerned about recovering costs"

Based on your response a **Supplemental Executive Benefit Arrangement (SERP/Deferred Comp)** may be the employee benefit arrangement to consider. A SERP/deferred compensation plan allows a business to provide key employees retirement benefits beyond those provided by a qualified plan. The arrangement is a complex arrangement and requires plan administration.

Policy Structure	Insureds – key employee the owner wants to benefit Owner & Beneficiary - typically the business Separate plan beneficiary endorsement allows the employee to name a personal beneficiary
Face Amount	The face amount is based on the premiums paid. Policy design is typically structured to minimize death benefit to focus on developing cash value for retirement.

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You selected

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Carrier Selection	Some carriers are better/easier at underwriting this concept. Contact a DBS Case Design Analyst.

Back to Primary Objective

You selected

"Employee of a tax-exempt organization"

Which is more important for the business owner:

- **Immediate income to the employee**
- **Business retain control over the policy as a "golden handcuff"**

- Back to Primary Objective

You selected

"Immediate income to the employee"

Select the item that best meets the owner's objective:

- **Owner desires an arrangement that is simple to establish and easy to administer**
- **Owner is willing to accept more complexity to retain some control**

- Back to Primary Objective

You selected

"Owner desires an arrangement that is simple to establish and easy to administer"

Based on your response a **Section 162 Executive Bonus Arrangement** may be the employee benefit arrangement to consider. In a Bonus Arrangement the business is simply paying premiums for a life insurance policy owned by the executive. The premium amount and policy structure can be specifically tailored to meets the needs of the executive.

Policy Structure	Insureds – key employee the owner wants to benefit Owner - typically the key employee Beneficiary – typically spouse of the key employee
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- Back to Primary Objective

You selected

"Owner is willing to accept more complexity to retain some control"

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Back to Primary Objective

You selected

“Business retains control over the policy as a ‘golden handcuff’”

Select the options that best meets the business owner’s primary objectives:

- **Owner wants recovery of plan costs at termination of the arrangement**
- **Owner wants recovery of plan costs only if the employee leaves early**
- **Owner wants to handcuff the employee for a period of time, but is not concerned about recovering costs**

- Back to Primary Objective

You selected

“Owner wants recovery of plan costs at termination of the arrangement”

Based on your response an **Endorsement Split Dollar Arrangement** may be the employee benefit arrangement to consider. A split dollar arrangement is a method of funding premium on a permanent life insurance policy where the party paying the premium (employer) recovers its cost and the other party (employee) receives death benefit coverage at a relatively inexpensive price. With endorsement split dollar the business retains ownership and control over the policy.

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Next

You selected

"Owner wants recovery of plan costs at termination of the arrangement"

Based on your response an **Endorsement Split Dollar Arrangement** may be the employee benefit arrangement to consider. A split dollar arrangement is a method of funding premium on a permanent life insurance policy where the party paying the premium (employer) recovers its cost and the other party (employee) receives death benefit coverage at a relatively inexpensive price. With endorsement split dollar the business retains ownership and control over the policy.

Other	To preserve the income-tax fee death benefit the 101j employer notice and consent form must be completed prior to policy issue – which usually is prior to premium payment. In addition, if the annual economic benefit/term cost is not reported or paid the death benefit becomes taxable. This is why administration is important for these arrangements. This arrangement is slightly more complex than an executive bonus arrangement, but does not have the complexity of a SERP or the tax risks of a REBA. It does require a plan document and annual administration of the term cost.
Carrier Selection	Some carriers are easier/better at underwriting this concept. Contact a DBS Case Design Analyst.

- Back to Primary Objective

You selected

“Owner wants recovery of plan cost only if the employee leaves early”

Based on your response a **Restrictive Executive Bonus Arrangement** may be the employee benefit arrangement to consider. A Restrictive Executive Bonus Arrangement is a combination of a bonus plan with a restrictive endorsement issued on the policy that serves as a “golden handcuff” to encourage the executive to stay with the company.

Policy Structure	Insureds – key employee the owner wants to benefit Owner - typically the key employee Beneficiary – typically spouse of the key employee Restrictive endorsement is placed on the policy
Face Amount	The face amount is based on the premiums paid. Policy design can be structured to either minimize death benefit to focus on developing cash value for retirement or to create a large death benefit.

Next

You selected

“Owner wants recovery of plan cost only if the employee leaves early”

Based on your response a **Restrictive Executive Bonus Arrangement** may be the employee benefit arrangement to consider. A Restrictive Executive Bonus Arrangement is a combination of a bonus plan with a restrictive endorsement issued on the policy that serves as a “golden handcuff” to encourage the executive to stay with the company.

How it Works	A restrictive executive bonus arrangement is similar to an executive bonus plan, but includes additional "golden handcuff." The employer and employee enter into an employment agreement where the employer agrees to pay premiums on a life insurance policy in exchange for the executive's unsecured promise to continue his/her service for a specified period of time. If the employment ends prior to the period of time, the contract may provide that the employer has a right of repayment. Properly designed the payment is immediately taxable to the employee. The employee purchases a life insurance policy. In conjunction with the purchase of the policy a restrictive endorsement is placed on the contract. This endorsement limits the executive's rights in the policy. Once the terms of the employment contract are fulfilled the restrictive endorsement are released. The policy is now available for personal or family needs. During the employee's life after the restrictive endorsement is released, the employee can use the policy for its living benefits including long-term care or access to the policy cash value on a tax-favored basis. At death of the employee/insured the proceeds are paid to the employee's beneficiary generally income tax-free. **IMPORTANT NOTE** For a restrictive executive bonus arrangement to provide the needed tax results and to avoid ERISA it must be implemented and structured carefully. There are tax risks associated with this arrangement.

Next

You selected

“Owner wants recovery of plan cost only if the employee leaves early”

Based on your response a **Restrictive Executive Bonus Arrangement** may be the employee benefit arrangement to consider. A Restrictive Executive Bonus Arrangement is a combination of a bonus plan with a restrictive endorsement issued on the policy that serves as a “golden handcuff” to encourage the executive to stay with the company.

Other	A restrictive executive bonus arrangement is more complex than a bonus arrangement and has more tax risks to implement. The arrangement can be structured as a **single bonus** or a **double bonus** but is most frequently structured as a double bonus. In a single bonus the employer bonuses the clients the premiums for the policy, and the employee pays the tax due on the premium. In a double bonus the employer bonuses and amount equal to the premiums and the taxes so the employee has no out-of-pocket cost.

- Back to Primary Objective

You selected

“Owner wants to handcuff the employee for a period of time, but is not concerned about recovering costs”

Based on your response a special form of **Deferred Compensation Arrangement** often referred to as a **Section 457f Plan** may be the employee benefit arrangement to consider. A 457f plan allows a business to provide key employees retirement benefits beyond those provided by a qualified plan. The arrangement is a complex arrangement and requires plan administration.

Policy Structure	Insureds – key employee the owner wants to benefit Owner & Beneficiary - typically the business Separate plan beneficiary endorsement allows the employee to name a personal beneficiary
Face Amount	The face amount is based on the premiums paid. Policy design is typically structured to minimize death benefit to focus on developing cash value for retirement.

Next

You selected

“Owner wants to handcuff the employee for a period of time, but is not concerned about recovering costs”

Based on your response a special form of **Deferred Compensation Arrangement** often referred to as a **Section 457f Plan** may be the employee benefit arrangement to consider. A 457f plan allows a business to provide key employees retirement benefits beyond those provided by a qualified plan. The arrangement is a complex arrangement and requires plan administration.

How it Works	The employer enters into an agreement with the executive where the employer agrees to pay a retirement benefit to the employee. The employer purchases a life insurance policy on the employee’s life to “informally fund” the arrangement. During the time the plan is in effect the executive must have a risk of forfeiture to avoid taxation. Once the employee’s risk of forfeiture ends/lapse, typically at retirement, the benefit become immediately taxable. At retirement, the employer pays the employee the promised benefit typically by accessing policy cash value. Unlike for-profit business where retirement payment can be made over a period of years, in a not-for-profit the payment is typically paid in a lump sum because the executive is taxed in a lump sum. If the employee dies prior to retirement the family receives the 457f payment which is reported as income.

Next

You selected

“Owner wants to handcuff the employee for a period of time, but is not concerned about recovering costs”

Based on your response a special form of **Deferred Compensation Arrangement** often referred to as a **Section 457f Plan** may be the employee benefit arrangement to consider. A 457f plan allows a business to provide key employees retirement benefits beyond those provided by a qualified plan. The arrangement is a complex arrangement and requires plan administration.

Other	To preserve the income-tax fee death benefit the 101j employer notice and consent form must be completed prior to policy issue – which usually is prior to premium payment.
Carrier Selection	Some carriers are better/easier at underwriting this concept. Contact a DBS Case Design Analyst.

Back to Primary Objective

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