

Controlled Executive Bonus Plan Using Indexed Universal Life

Presented By: [Licensed user's name appears here]

Insured: Alex Demas

Executive's Repayment Obligations

Employer: Hawthorne Construction, Inc.
C Corporation

Note from Bob: See Page 2 for remarks regarding the Controlled Bonus.

		Age 40		Indexed UL Interest Rate 7.00%		Initial Death Benefit 2,875,000			
Year	Age	(1) Bonus Paid to the Executive	(2) Cumulative Bonus Paid to the Executive	(3) % of Bonus Due if Executive Terminates	(4) Amount of Repayment Due by Executive	(5) Executive's Policy Cash Value*	(6) Executive's Net Gain/Loss** (5) - (4)	(7) Executive's Policy Death Benefit [†]	
1	40	100,000	100,000	100.00%	100,000	42,569	-57,431	2,833,149	
2	41	100,000	200,000	100.00%	200,000	89,081	-110,919	2,789,720	
3	42	100,000	300,000	100.00%	300,000	139,743	-160,257	2,744,342	
4	43	100,000	400,000	100.00%	400,000	194,784	-205,216	2,696,842	
5	44	100,000	500,000	100.00%	500,000	254,475	-245,525	2,647,034	
6	45	0	500,000	100.00%	500,000	259,657	-240,343	2,636,557	
7	46	0	500,000	100.00%	500,000	265,449	-234,551	2,625,360	
8	47	0	500,000	100.00%	500,000	271,991	-228,009	2,613,387	
9	48	0	500,000	100.00%	500,000	279,403	-220,597	2,600,578	
10	49	0	500,000	100.00%	500,000	287,730	-212,270	2,586,867	
11	50	0	500,000	0.00%	0	305,472	305,472	2,572,408	
12	51	0	500,000	0.00%	0	326,608	326,608	2,557,289	
13	52	0	500,000	0.00%	0	351,388	351,388	2,541,414	
14	53	0	500,000	0.00%	0	380,130	380,130	2,524,745	
15	54	0	500,000	0.00%	0	413,202	413,202	2,507,243	
16	55	0	500,000	0.00%	0	450,944	450,944	2,488,866	
17	56	0	500,000	0.00%	0	493,843	493,843	2,469,569	
18	57	0	500,000	0.00%	0	542,394	542,394	2,449,308	
19	58	0	500,000	0.00%	0	597,136	597,136	2,428,034	
20	59	0	500,000	0.00%	0	658,664	658,664	2,405,697	
21	60	0	500,000	0.00%	0	727,582	727,582	2,382,242	
22	61	0	500,000	0.00%	0	804,551	804,551	2,357,615	
23	62	0	500,000	0.00%	0	890,262	890,262	2,331,756	
24	63	0	500,000	0.00%	0	985,510	985,510	2,304,604	
30	69	0	500,000	0.00%	0	928,542	928,542	1,341,147	
35	74	0	500,000	0.00%	0	657,016	657,016	916,129	
40	79	0	500,000	0.00%	0	495,282	495,282	761,257	
45	84	0	500,000	0.00%	0	522,970	522,970	903,893	
50	89	0	500,000	0.00%	0	838,110	838,110	1,379,730	
55	94	0	500,000	0.00%	0	1,688,769	1,688,769	1,842,596	
		500,000							

*This illustration assumes the nonguaranteed values shown continue in all years. This is not likely, and actual results may be more or less favorable. This illustration is not valid unless accompanied by a basic illustration from the issuing life insurance company.

**Negatives in Column (6) are in excess of the policy cash value.

† Assumes the executive's death waives the repayment obligation.

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Repayment of the Bonus

Employer: Hawthorne Construction, Inc.
C Corporation

Background

A Controlled Executive Bonus Plan is a fringe benefit in which an executive is paid a recurring taxable bonus which is used to purchase a life insurance policy with an emphasis on maximizing cash value accumulation. Subject to the terms of a separate Employment Agreement, the executive is required to repay the bonus under certain circumstances such as voluntary termination of employment by the executive prior to a certain date or event described in the Agreement or termination by the employer for cause.

Question

Can the executive deduct the repayment if it occurs?

Comments

The executive may be able to deduct the repayment under IRC Sec. 1341 (computation of tax where taxpayer restores an amount held under a claim of right). If the executive's bonus repayment is not deductible, and a policy loan is used to provide all or part of the funds for the bonus repayment, there is meaningful tax leverage available as tax free cash flow will have been accessed from the policy's tax deferred assets as the source of funds for repayment.

The employer must recognize any amount repaid as income under IRC Sec. 61.

Important Note: This information is for educational purposes only. In all cases, the approval of a client's legal and tax advisers must be secured regarding the implementation or modification of any planning technique as well as the applicability and consequences of new cases, rulings, or legislation upon existing or impending plans.