

Advanced Sales - Endorsement Split Dollar

Providing Golden Handcuffs Using Endorsement Split Dollar

What is Endorsement Split Dollar?

Endorsement split dollar is a life insurance policy in which the premium payment(s) and the death benefit are split between a business and a key employee. Most plans are set up so that the business pays all of the premium(s) through a loan to the key employee. There is an option for the employee to contribute premium(s), which is rare. The employee must recognize the economic benefit rates (term rates) of the death benefit, endorsed over to the key person's personal heir(s).

Candidates

- C corporation owners, professional corporations, non-profits, and highly paid non-owner executives.

Non-Candidates

- Owners of pass-through entities.

Purpose: Executive Benefit

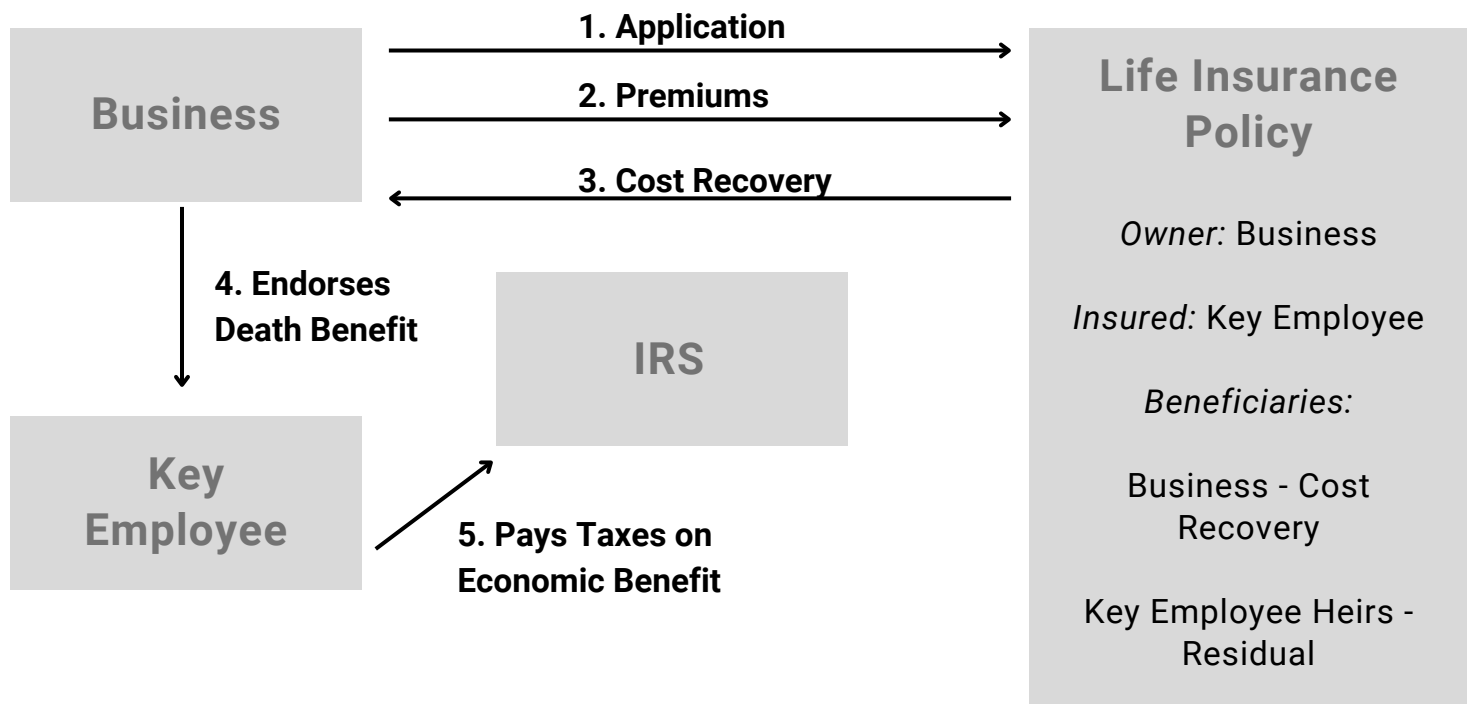
- Provides a strong golden handcuff on a business owner or key employee. Provides low cost insurance for the key employer while he or she is working.

Opportunity Under the New Tax Law

- A new tax legislation was signed into law by President Trump in December 2017. C corporations' tax brackets fell from 35% to 21%. Pass-through entities can receive a 20% discount on their "qualified business income" if they qualify for the new Section 199A deduction. However, these tax cuts are set to expire on December 31, 2025 and under current law, most of the tax cuts will revert back to 2017 rules (indexed for inflation). C corporations may go back to higher tax brackets and S corporations may no longer be able to take advantage of the Section 199A deduction.
- So what does this mean? The business has extra cash to provide golden handcuffs on their key employees. The business can set up split dollar arrangements on their key employees while they are in a lower tax bracket and take the tax deductions after December 31, 2025 when they are expected to be in a higher tax bracket.



How Does an Endorsement Split Dollar Work?



Typical Endorsement Split Dollar Sale

1. The business applies for and is issued a life insurance policy.

2. The business pays for the annual premium(s) to the life insurance company.

3. The business and the key employee split the death benefit. The business would receive the greater of the cash surrender value or the premium(s) paid (cost recovery).

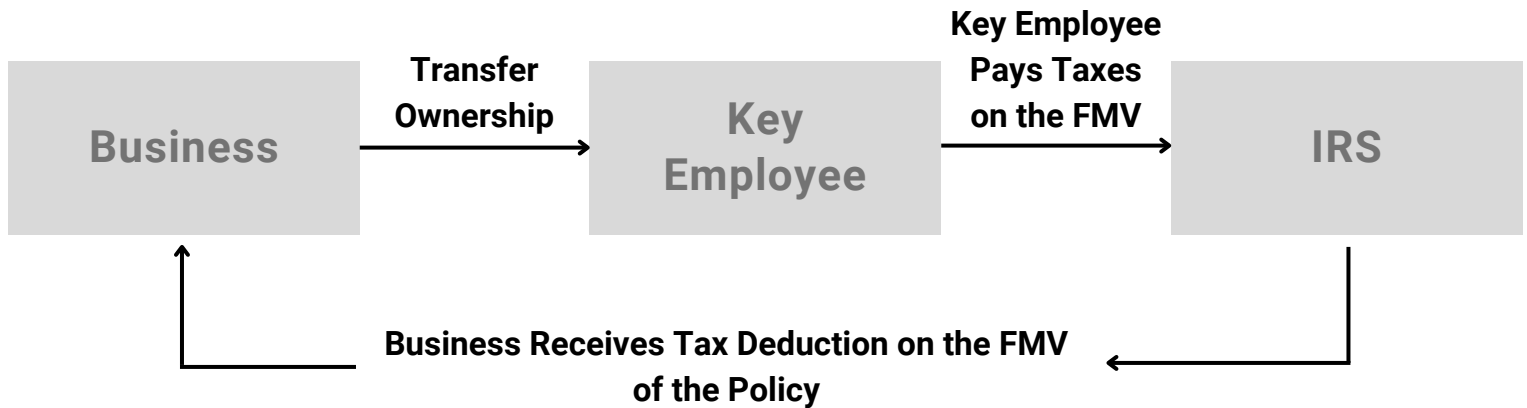
4. The business endorses the residual death benefit to the key employee. The key employee names his or her personal heir(s) as the beneficiary of the endorsed death benefit.

5. The key employee must recognize the economic benefit (term rates) as income and pay tax on economic benefit of the death benefit that is endorsed over to him or her. The two term rates that can be used to report the economic benefit are IRS table 2001 rates or the carrier's one year term rates (if available).

The Exit Strategy

When the business distributes the policy to the key employee, the business would receive a tax deduction on the Fair Market Value(FMV) of the policy and the employee would have to recognize the FMV as ordinary income. Below are two ways to mitigate the taxes to the key employee:

- When the business transfers the policy ownership to the key employee, it could bonus the taxes to the employee through a section 162 executive bonus (increases the tax deduction to the business).
- When the business transfers the policy ownership to the key employee, the key employee could take a withdrawal from the life insurance policy to pay the taxes due.



Conclusion

An endorsement split dollar is an excellent golden handcuff. The business owns the policy, which means if the key employee tries to leave the business prior to a specified date (usually retirement), the key employee would not receive anything from the policy.

For More Information Contact CBS Brokerage at 763.450.1870

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