BORDEN HAMMAN

BUSINESS PLANNING STRATEGIES

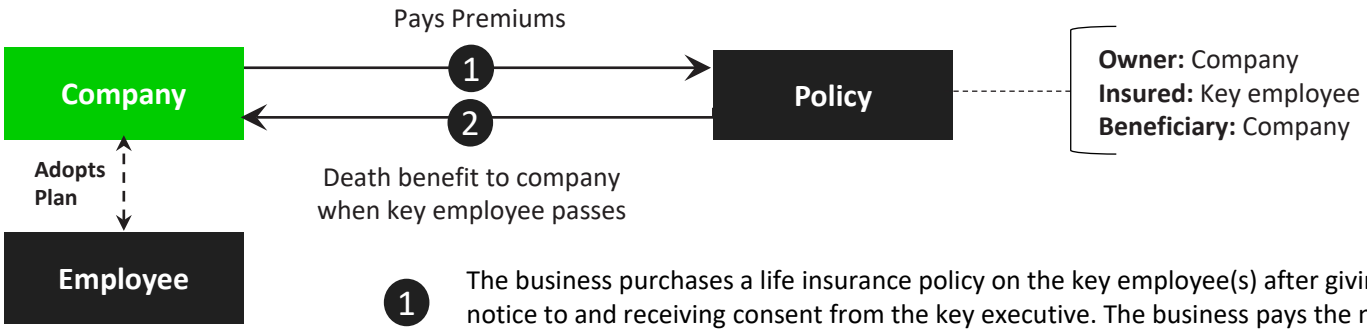
KEY PERSON

KEY PERSON

An employee that's critical to the prosperity of the business.

PROTECTING THE BUSINESS FROM THE LOSS OF A VALUABLE EMPLOYEE

STRATEGY: KEY PERSON COVERAGE



1. The business purchases a life insurance policy on the key employee(s) after giving notice to and receiving consent from the key executive. The business pays the non-deductible premium and is the beneficiary of the policy.

2. If the key employee passes while the policy is in-force, the company receives the death benefit, generally income tax free*

CONSIDERATIONS FOR THE BUSINESS

- Key person insurance can provide a source of income to replace profits or capital lost because of a key employee's death.
- Death benefit proceeds can be used to fund the recruitment and training efforts to replace key employee.+
- Key person insurance gives the business access to cash to help settle any loans due, or to use for other expenses/bills as the company transitions.+

CONSIDERATIONS FOR THE EMPLOYEE

- The employee's value as a key contributor to the business is confirmed
- If the employee holds an ownership interest in the business, they should be aware the death benefit proceeds may cause an increase in the value of their business interest. They should consult a professional tax advisor.
- Life insurance purchased and owned by a business on the employee may reduce their overall life insurance capacity.

*For federal income tax purposes, life insurance death benefits generally pay income tax-free to beneficiaries pursuant to IRC Sec. 101(a)(1). In certain situations, however, life insurance death benefits may be partially or wholly taxable. Situations include, but are not limited to: the transfer of a life insurance policy for valuable consideration unless the transfer qualifies for an exception under IRC Sec. 101(a)(2) (the transfer-for-value rule), arrangements that lack an insurable interest based on state law, and an employer-owned policy unless the policy qualifies for an exception under IRC Sec. 101(j).

†Annual increase in policy cash values and death benefit proceeds may have corporate alternative minimum tax implications.

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