

# LET'S TALK MONEY<sup>®</sup>

November/December 2018

## Life Insurance and Executive Bonuses

When you want to reward executives with a bonus but don't have the cash flow to do it, executive bonus arrangements funded by life insurance may be an efficient option. Also known as Internal Revenue Code (IRC) Section 162 plans, executive bonus arrangements are typically additional compensation – or bonuses – given to executives and other key employees.

### The Details

Because the IRC defines Section 162 plans as nonqualified, the plans don't offer the tax-deferral advantages of 401(k) and other qualified retirement plans. But, as nonqualified deferred compensation (NQDC), they also don't have the contribution limits deferred compensation plans have.

Executive bonus plans may give business owners the ability to deduct premium payments as a business expense. However, the business cannot recover expenses from the death benefit, because the insured owns the policy and names the beneficiary.

Because there is some flexibility in how cash value and loans are handled, business owners may restrict key executives from taking cash value or loans from the policy for a period of time. This approach can provide an incentive for key employees to remain with the company. Conversely, key employees may have access to cash value and loans throughout the life of the agreement.

### Pros and Cons

While life insurance is an efficient way to provide

an executive bonus, the arrangement itself has a few potential pitfalls of which business owners need be aware. The key disadvantage is the life insurance policy's portability. Because key executives name beneficiaries of the policy, business owners have little control over this method of compensation. For example, executives leaving the firm can take the policy's death benefits with them.

However, business owners that use Section 162 plans appreciate their ability to help attract and retain key employees and their ease of administration compared to qualified plans.

### Executive Points

Key employees who benefit from Section 162 plans need be aware of a couple of tax implications. First, premiums paid by the company are taxable to the employee. However, the company may offer a double bonus arrangement that includes extra compensation to pay the tax. Second, the death benefit becomes part of a potentially taxable estate.

Consult your financial and tax professionals to learn more.



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# Save Big After the Holidays

If you want to score big on bargain-priced goodies, one of the best times to buy is right after the holidays. Here's how to rack up big money-savings as you start on next year's holiday shopping.

## When to Shop

While brick-and-mortar and internet stores typically offer sales for up to a week after Christmas, December 26 has historically been the best day to shop. It's first come, first served. Stores looking to rid themselves of excess inventory offer deals that may rival those of Black Friday, the day after Thanksgiving. Christmas decorations usually come with the biggest discounts, so think "next year."

## Shop Second Generation

Look for second- and third-generation new and refurbished electronics. While others may stand in line waiting to buy the newest smartphone, you can find a previous version at a fraction of the price. Don't forget to shop for older computers, video games, televisions and other electronics, as manufacturers get ready to roll out new models.

## Use Those Gift Cards

If you really like to save, consider using merchandise exchanges and gift cards you received this holiday to lower your out-of-pocket costs even more as you shop for the next holiday season.

# Cut Your Holiday Travel Costs

Americans usually travel during the holidays, which can cost more than a few dollars even with thoughtful planning. Here's how to save money on the ground and in the air.

## On the Ground



If you'll spend some time in the family vehicle, consider ways to cut gasoline costs that always seem to rise during the holidays. Some wholesale buying clubs sell gasoline at discounts that can save you a couple of dollars. You can also look for apps that alert you to the lowest gas prices wherever you travel.

Pack some sandwiches, snacks and games to keep the kids occupied if you expect to travel for hours. If you'll need lodging, use rewards cards if the establishment offers lower prices for members. Also look for discount books, where you could find coupons for your favorite hotel, when using rest stops on major highways and interstates.

## By Air

Look to fly during off-peak hours, including on the holiday itself, for some of the lowest airline fares you will find. Also look to travel to and from secondary airports, which often costs less than flying to the big ones. To save on checked baggage charges, make sure everyone arrives at the airport with a fully packed carry-on bag or suitcase, as long as the airline doesn't charge for it.



## Combo



Enlist family and friends to pick you up from the airport if you don't expect to need your own vehicle. If you have to rent after flying to a destination, don't buy insurance for the same coverage you may already have. Check with your auto insurer before traveling.

# Big Hearts: Giving to Charity

Americans gave an estimated \$390.05 billion to U.S. charities in 2016, according to Giving USA 2017: The Annual Report on Philanthropy for the Year 2016 (from the Giving USA Foundation, the Giving Institute and the Indiana University Lilly Family School of Philanthropy). The total includes charitable contributions made by individuals, estates, foundations and corporations.

## How to Choose

If you want to give to an organization that makes the most of your charitable giving, learn how much of each dollar goes toward the charity and how much is spent elsewhere. You can find some organizations with websites that evaluate the legitimacy of charities and how they spend contributions. Also look for a charity's IRS Form 990 and ask to see the charity's audited financial statement to ensure it meets the standards you want.

Importantly, match your giving objectives with a charity's mission and demonstrated results.

Look for charities that best match your values.

## Get Help

If you make large charitable contributions, consider enlisting the aid of your advisor and an estate planning attorney. Although the federal estate tax exclusion is higher than in the past, some families may exceed it while also having to potentially deal with lower state estate and inheritance tax thresholds. Structured properly, charitable giving can both benefit your charity and reduce your estate taxes.

# Giving Life Insurance

In this season of giving, some people want to give more to a favorite charity or organization, but don't have the funds to do so. Giving the gift of life insurance is a cost-efficient way to increase your charitable giving:

## Your Choice

There are a few ways to give life insurance, some of which may include current or future tax advantages. Talk to your accounting professional to learn more about how you may best benefit a charity and potentially receive tax benefits in return.

## Charitable Choices

One way is to rename a charity as beneficiary, which eventually removes this benefit from your estate. Or you could donate the policy, but continue to pay the premiums.

Another way to make charitable use of life insurance is to ask your insurance company if it can issue a charitable rider, directing a percentage of the death benefit to a named charity. If, for example, you have a \$500,000 policy and you acquire a rider of 10%, the charity would eventually receive \$50,000, with your named beneficiaries receiving the remainder.



## How We Give

In 2016, Americans continued to give billions of dollars in charitable contributions to their favorite causes and organizations.\* Here's a breakdown of who gave what:

\*Source: Giving USA 2017: The Annual Report on Philanthropy for the Year 2016.



Individuals:

**\$281.86**

Billion



Foundations:

**\$59.28**

Billion



Bequests:

**\$30.36**

Billion



Corporations:

**\$18.55**

Billion



# Year-End Tips for Business Owners

If you own a business, the end of any year is a good time to review your practices and examine ways to become more efficient and profitable. Check out these considerations:

## The Taxman Cometh

If you are a sole entrepreneur or own an S corporation, you may want to shift income to 2019 if you expect lower income then. Companies that pay bonuses to employees may want to look at income projections to determine whether to give them in December or January.

If you have a 401(k) or other deferred compensation plan, you might also want to contribute more tax-qualified dollars into the plan before year-end. Don't forget that you are not only an employer, but an employee, too. Try to contribute as much as your tax-deferred retirement plan allows before the year ends.

Also, don't forget your company may be responsible for filing IRS 1099 forms for independent contractors you've paid and employment taxes such as for federal unemployment insurance (FUTA). And, if you're self-employed, you'll have to pay self-employment tax.

## Take Account

The end of year is a good time to take a long look at how you do business. Check your accounts receivable for laggards and work out a system to get paid more quickly if you find late payments are a problem.

Avoid IRS penalties for payment mistakes and late filings, and review the compensation and benefits you offer employees, including life and health insurance. By now, you should be in the middle or toward the end of completing your financial reports and gathering any receipts you'll need.

## Take Action

If your end-of-year accounting shows some flaws, act to correct them. Consider taking a big-picture look at your company to look at the financial, sales, marketing and other aspects of business.

Review your tax strategy. If you need more tax deductions, this is a fertile time of year to find them. Check your tax strategy to ensure you put away the proper amount. Look at your sales and marketing efforts and put more money into them if your review of them indicates this will help.

Talk to your financial and tax professionals to learn more.

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## **REVIEW LETTER**

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The material submitted appears consistent with applicable standards.

Reviewed by,

Wayne L. Louviere  
Manager

hrm

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