

Split-Dollar Life Insurance Plan Premium Variations

In order to overcome the problem of the employee generally having to pay a large portion of the premiums in the early years, a number of premium sharing variations have been developed, including:

Employer Pay All Split-Dollar

The **employer** pays the entire premium. Depending on policy ownership, the **employee** either reports as income the value of the economic benefits received (economic benefit tax regime), or the difference between market-rate interest and the actual interest paid by the **employee**, if any (loan tax regime).

Level Outlay Split-Dollar *

The **employee's** premium contribution is a level amount for a specified period of time, with the **employer** paying the balance of the premium.

Economic Benefit Split-Dollar (Endorsement Plan Only) *

The **employee** pays the portion of the premium equal to that year's reportable economic benefit and the **employer** pays the balance. This approach eliminates the **employee's** out-of-pocket cost for the tax on the economic benefit.

Bonus Split-Dollar (Endorsement Plan Only) *

The **employer** bonuses the annual economic benefit to the **employee**. The **employee** then uses the bonus to pay the portion of the premium equal to that year's reportable economic benefit and the **employer** pays the balance of the premium. Assuming overall compensation is reasonable, the **employer** can deduct the bonused amount, which the **employee** must include in income. Another alternative is for the **employer** to bonus both the economic benefit and the tax on the bonus, resulting in no out-of-pocket cost to the **employee**.

Bonus Split-Dollar (Collateral Assignment Plan Only)

The **employer** bonuses to the **employee** an amount equal to the **employee's** tax liability on the market-rate interest imputed to the outstanding premium "loans." The **employee** then uses the bonus to pay his/her tax liability. Assuming overall compensation is reasonable, the **employer** can deduct the bonused amount, which the **employee** must include in income. Another alternative is for the **employer** to bonus both the tax liability on the imputed interest and the tax on the bonus, resulting in no out-of-pocket cost to the **employee**, assuming the employer is paying the full premium.

*** Important Note:** Any premiums contributed to an **endorsement** split-dollar plan (economic benefit tax regime) by the **employee** are considered income to the **employer**.