

## Did you know that tax brackets have an impact on funding insurance solutions?

From Victor Posod, Circa Benefits Insurance Agency

Yes, tax brackets have an impact on funding insurance solutions. Especially to the needs of closely-held corporations and their shareholders.

**For example**, a corporation in the 15% tax bracket gets to keep 85 cents of every taxable dollar it makes, while an individual in the 35% tax bracket gets to keep only 65 cents of every taxable dollar he or she makes. Since **life insurance purchased to fund a buy-sell plan** must be paid for with after-tax dollars, it may make more sense to pay the premiums with 85 cent dollars as compared to 65 cent dollars.

### Impact of Tax Brackets on Buy-Sell Planning



**Lower bracket corporation** -- If the corporation is in a lower tax bracket than the shareholders, a stock redemption buy-sell plan can be funded with enhanced dollars, since premiums are paid by the corporation.

**Higher bracket corporation** -- If the corporation is in a higher tax bracket than the shareholders, a cross purchase buy-sell plan may be more cost effective since premiums are paid with enhanced dollars by each shareholder.

**Conversely**, the marginal tax brackets of the corporation and shareholder-employees can have an impact on the **total cost of a selective benefit plan**. Benefits provided to corporate employees on a selective basis generally are either tax-deductible by the corporation or are not currently taxable to the employee, but not both. **As a result, the relative impact of tax brackets should be considered in selecting a selective executive benefit plan that produces the most advantageous overall tax results.**

### Impact of Tax Brackets on Executive Benefit Planning

**Lower bracket corporation** -- When the corporation is in a lower tax bracket, selective benefits that are non-deductible by the corporation and non-taxable to the shareholder-employee generally produce the better overall tax results.

**Higher bracket corporation** -- When the corporation is in a higher tax bracket, selective benefits that involve tax-deductible corporate payments are generally more advantageous, even if taxable to shareholder-employees.

Give me a call – I would be happy to answer any questions regarding the worth or effectiveness of your current insurance coverages. Thanks, Victor Posod

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