

Executive Trifecta

Details of the Tax Consequences

When the Policy is Transferred to the Non-Member Executive

Tax Details Page: 1
Date: [Current date appears here]

Presented By: [Licensed user's name appears here]

Insured: Tom Hamilton
Plan Sponsor: Acme Ford, LLC
Limited Liability Company

	Form of Transaction	Policy Transfer to Executive is Illustrated at Beginning of Year 8		
Male	(Key Executive Coverage with Deferred Transfer of Policy to Executive as Compensation)		Members' Tax Bracket	Executive's Tax Bracket
Age			40.00%	40.00%
40				

Transfer Details:

Year the transfer is illustrated: Beginning of year 8
Accumulation value of policy when transferred: \$444,275
LLC's cumulative premiums prior to transfer: \$420,000
Executive's cumulative premiums prior to transfer: \$0

Members' Transfer Tax Consequences:

When the policy is transferred, LLC Members must recognize gain to the extent that the policy value exceeds the LLC's premium payments; however, members are entitled to a deduction equal to the amount the executive includes in income on the transfer -- which is generally approximated by the policy value without regard to any surrender charges (IRS Refv. Proc. 2005-25).

Therefore, for this case:

1. Members have a taxable gain of the difference between \$444,275 (accumulation value of policy) and \$420,000 (LLC's cumulative premium share) which equals \$24,275 in taxable gain. $\$24,275 \times 40.00\%$ (assumed tax bracket of members) = \$9,710 of income tax due.
2. In addition, the members have an income tax deduction of the difference between \$444,275 (policy accumulation value) and \$0 (Executive's cumulative premium share) which equals \$444,275 in taxable gain. $\$444,275 \times 40.00\% = \$177,710$ of income tax savings.
3. $\$177,710$ of income tax savings less $\$9,710$ of income tax due = $\$168,000$ of net income tax savings to the members at transfer.

Executive's Transfer Tax Consequences:

The executive has taxable income to the extent of the policy's fair market value (IRC Section 83) which is generally approximated by the policy's accumulation value without reduction for surrender charges (IRS Rev. Proc. 2005-25).

Therefore, for this case:

1. The executive has a taxable income of \$444,275 (the policy accumulation value).
2. $\$444,275 \times 40.00\% = \$177,710$ of income tax due.
3. The executive has basis in the policy of \$444,275 (the amount of taxable income).



Note: Any premium payments, increase in policy values, or policy activity (loans, withdrawals, etc.) in the year of transfer are presumed to occur after the transfer takes place.

Executive's Cost Analysis

Executive Trifecta Using Indexed Universal Life

Executive's Cost Analysis Page: 1
Date: [Current date appears here]

Presented By: [Licensed user's name appears here]

Insured: Tom Hamilton
Plan Sponsor: Acme Ford, LLC
Limited Liability Company



Male Age 40	Form of Transaction (Key Executive Coverage with Deferred Transfer of Policy To Executive)	Policy Transfer to Executive is Illustrated at Beginning of Year 8	Executive's Tax Bracket 40.00%	Indexed UL Interest Rate 7.50%
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Year	(1) Premium Payment	(2) Bonus Income Received	(3) Income from Transfer*	(4) Taxable Income (2) + (3)	(5) Income Tax Due on Col (4)	(6) Net Payment (1)-(2)+(5)
1	0	0	0	0	0	0
2	0	0	0	0	0	0
3	0	0	0	0	0	0
4	0	0	0	0	0	0
5	0	0	0	0	0	0
6	0	0	0	0	0	0
7	0	0	0	0	0	0
8	0	296,183	444,275	740,458	296,183	0
9	0	0	0	0	0	0
10	0	0	0	0	0	0
11	0	0	0	0	0	0
12	0	0	0	0	0	0
13	0	0	0	0	0	0
14	0	0	0	0	0	0
15	0	0	0	0	0	0
16	0	0	0	0	0	0
17	0	0	0	0	0	0
18	0	0	0	0	0	0
19	0	0	0	0	0	0
20	0	0	0	0	0	0
	0	296,183	444,275	740,458	296,183	0

This is an InsMark supplemental illustration for indexed universal life. In an actual presentation, this footnote refers to an accompanying basic illustration from a specific life insurance company with important details, caveats, and guarantees.

*The key executive coverage and the survivor income benefit are presumed terminated at the beginning of year 8 via a transfer of the policy to the executive. The transfer produces taxable income to the executive equal to the accumulation value transferred without regard to surrender charges. (See the report entitled "Details of the Tax Consequences When the Policy is Transferred to the Executive".)