

Key person indemnification

The concept

The loss of a key person may adversely impact the value and viability of a business. Consequently, the business owner should consider purchasing life insurance on key persons who are important to the business's bottom line.

Benefits

The business receives income tax-free funds at the key person's death to offset lost revenue and increased expenses in the form of the cost of finding, hiring and training a replacement. In addition, while the key person is alive, the business has access to the policy's cash value if need.

Tax considerations

The premium contributions are nondeductible, but the death proceeds are received income tax free.

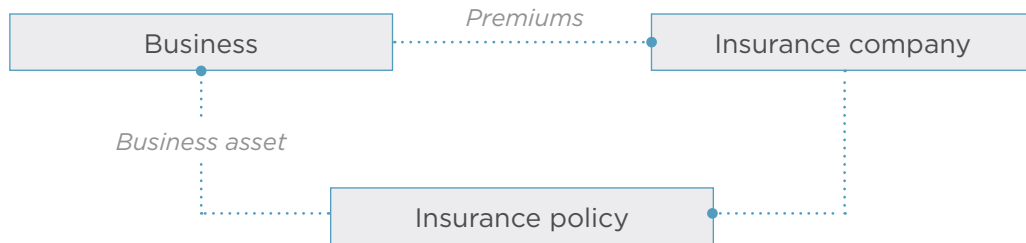
Steps

- The business purchases and owns a policy on the life of a key person
- The amount of insurance should equal the estimated lost revenue and additional expenses associated with the key person's premature death
- The business makes nondeductible premium payments
- The business has access to cash value that grows inside the policy tax free
- If the key person dies, the business receives income tax-free death proceeds*

* Pursuant to IRC Section 101(j), certain requirements must be met for the death proceeds to be income tax free.

How it works

During lifetime of key person



Upon death of key person

