Loan Regime Split Dollar and Common Applications in Employment-Related Situations

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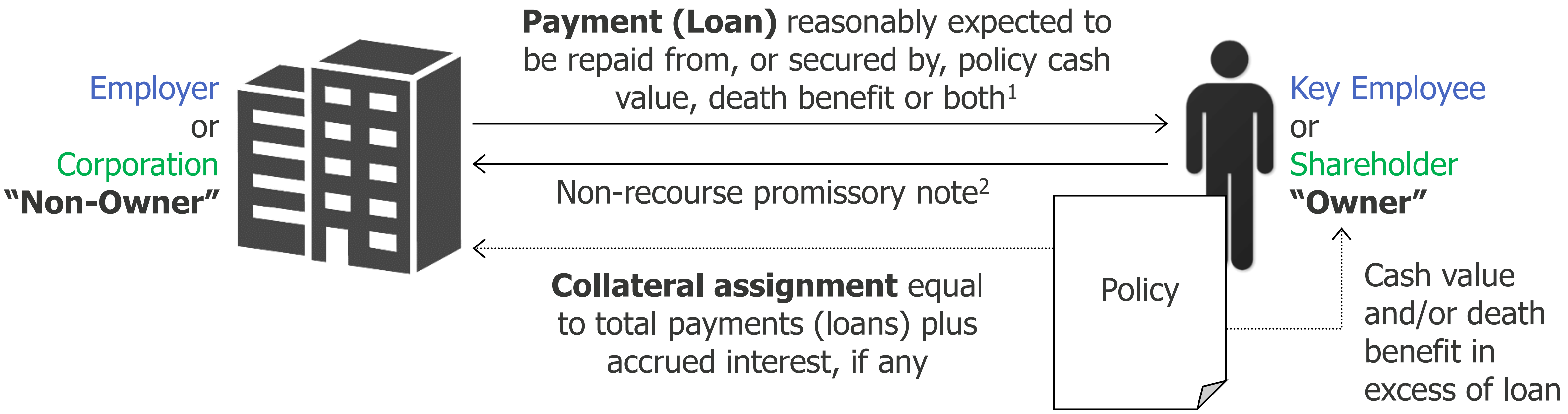
Outline

1. Loan regime split dollar basics
2. Applications with tax-exempt organizations
3. Applications with privately held for-profit companies

Loan Regime Split Dollar Basics

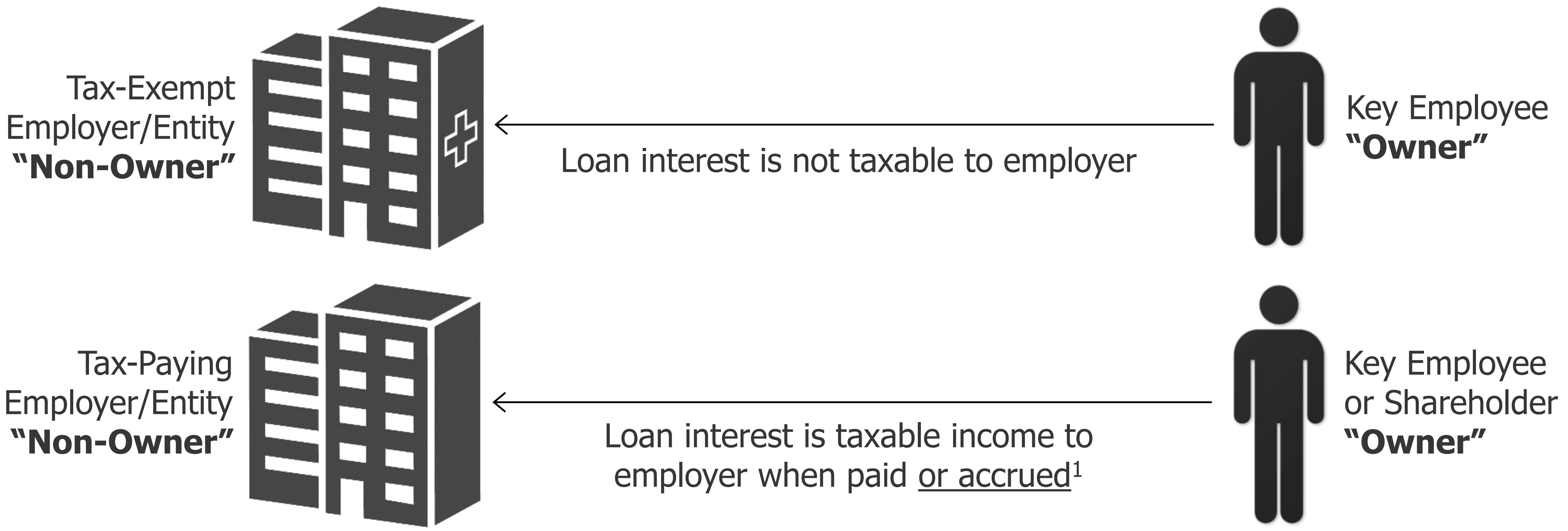
How It Works



[1]If structured properly, a loan itself is not considered a dividend to a corporation shareholder or compensation subject to 21% excise tax with a tax-exempt organization, thus it can be a tax-efficient option in either situation. Imputed transfers from below market loans would, however, be treated as a corporate dividend or taxable compensation. With C-corporations, if the shareholder retains his or her stock until death, the stock should receive a step-up in basis to the date-of-death fair market value under §1014 allowing the estate or heirs to redeem stock (including the proceeds of the loan receivable) with minimal or no capital gain, thus locking in the current lower tax rate of 21% on earnings used to fund the split dollar loan.

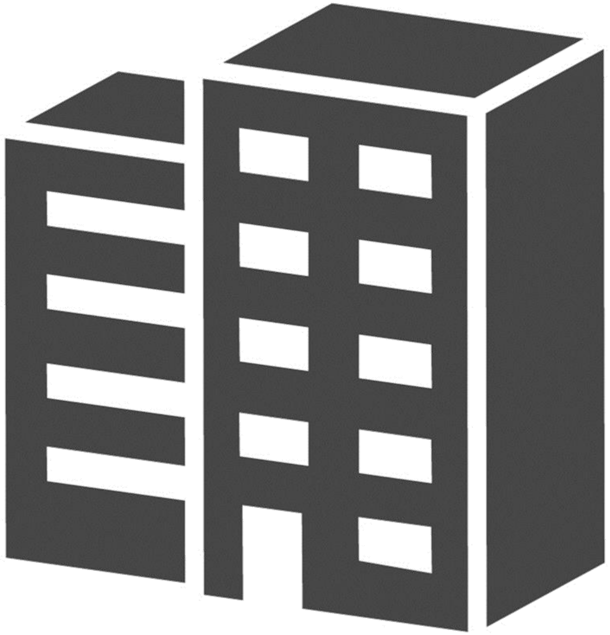
[2]Non-recourse loans are treated as providing for contingent payments unless the parties provide a signed, written representation attesting that a "reasonable person" would expect all payments under the loan to be made (Reg. §1.7872-15(d)). The technicalities of contingent payment loans are beyond the scope of this presentation but, generally, it adds complexity in calculating the tax consequences and testing for adequate interest. The written representation must be submitted with each party's tax return for each tax year in which a new loan is made.

How It Works



[1]Interest accrued is treated as Original Issue Discount (OID) under §1271-§1275 and is imputed/taxable to the lender annually to the extent not taken into account in a prior tax year. If the arrangement is between a grantor and his or her grantor trust then any interest paid or accrued is disregarded for income tax purposes and not taxable to the grantor under Rev. Rul. 85-13.

Key Advantages

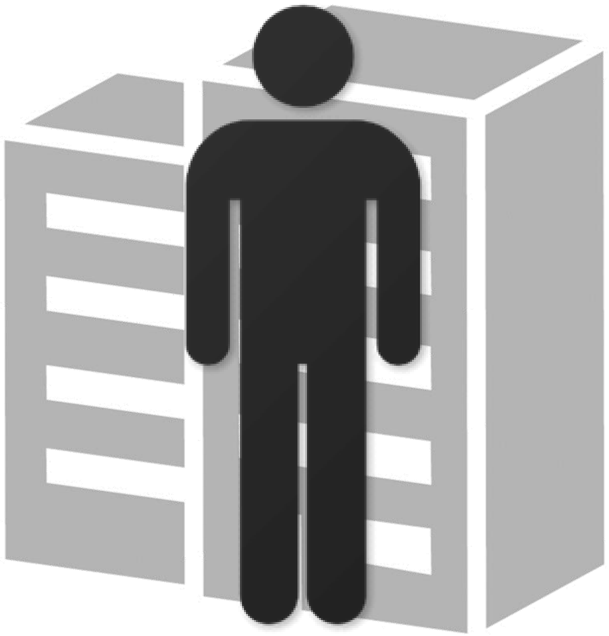


Employer (ER)

- Recruit, reward and retain key employee(s)
- Maintain receivable and eventually recover plan costs, possibly with interest
- Loans are generally not subject to §§ 409A and 457(f)[1]
- Simple to administer/cost effective vs. many options
- No taxable interest income to tax-exempt employer
- Loan advances generally not be subject to 21% excise tax payable by tax-exempt ERs in certain situations[2]

[1]Amounts on a split dollar loan that are waived, cancelled or forgiven may give rise to deferred compensation and be subject to §§ 409A and 457(f) pursuant to IRS Notice 2007-34. It is uncertain whether imputed income from below-market (forgone) interest would give rise to deferred compensation. To address this uncertainty, the loan can be structured as interest bearing with interest accruing at a rate equal to the Applicable Federal Rate (AFR).
[2]Any imputed taxable income arising from below-market loan status or debt forgiveness could be subject to the excise tax, if applicable.

Key Advantages



Employee (EE)

- Loan advances received are generally not taxable
- Equity grows and is accessible income tax free
- Loan principal and interest, if any, can be paid from income tax-free policy disbursements
- ER can increase EE salary to offset interest expense and/or provide a bonus to help repay the loan
- Residual death benefit payable income tax free
- Policy is not subject to employer’s creditors
- Flexibility to access equity at will

Below Market Split Dollar Loans – Taxation

Imputed transfer = annual forgone AFR interest or present value at inception of all forgone AFR interest over term, depending on loan type[1]

"Non-Owner"

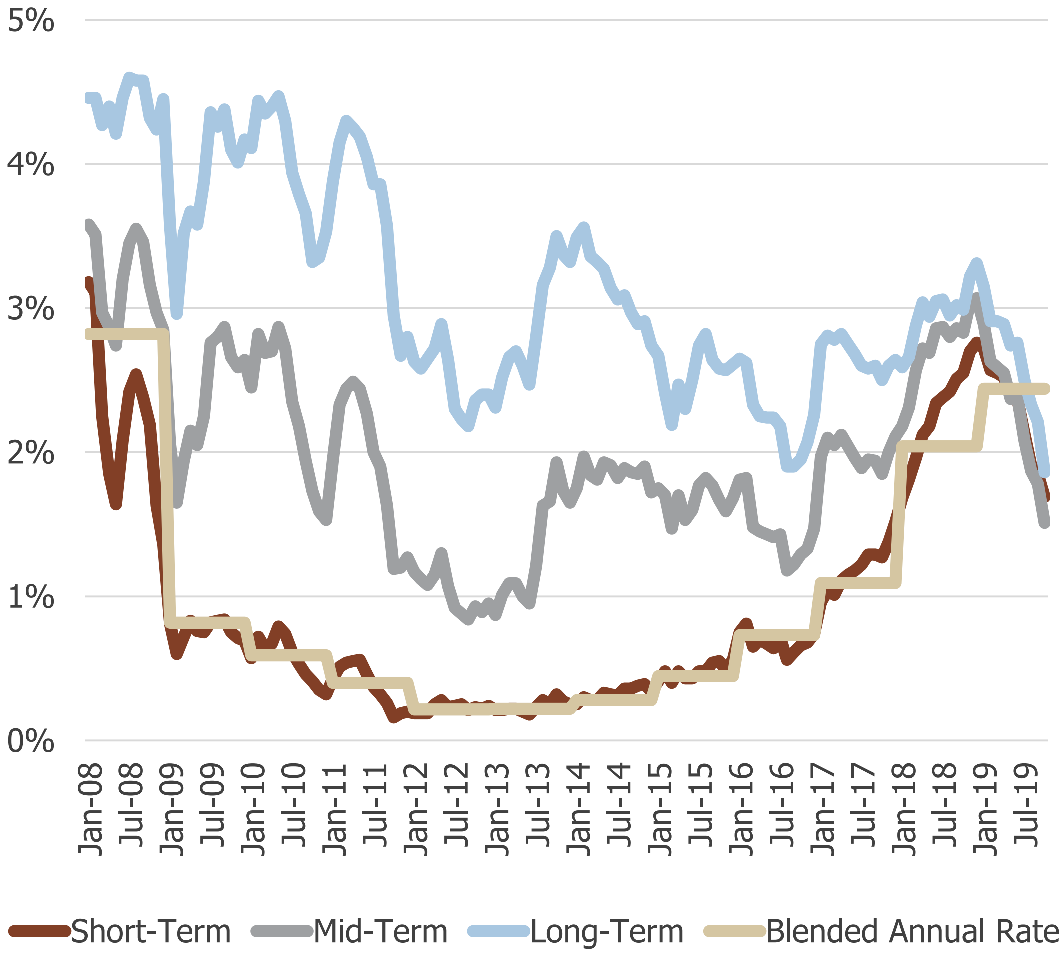
If interest paid or accrued at a rate less than the Applicable Federal Rate (AFR)

"Owner"

Imputed retransfer = annual forgone AFR interest or present value at inception of all forgone AFR interest over term accounted for as OID, depending on loan type[1]

[1]Reg. §1.7872-15. The timing, amount and characterization of the imputed transfers between the lender and the borrower depend upon the relationship between the parties (e.g. dividend to shareholders, compensation to employees, gift to donee, etc.) and upon whether the loan is a demand loan or term loan. If the arrangement is between a grantor and his or her grantor trust then any imputed transfer is disregarded for income tax purposes and not taxable to the grantor under Rev. Rul. 85-13.

Applicable Federal Rate (AFR)



	AFRs for October 2019			
	Period of Compounding			
Loan Term	Annual	Semiannual	Quarterly	Monthly
Short-Term	1.69%	1.68%	1.68%	1.67%
Mid-Term	1.51%	1.50%	1.50%	1.50%
Long-Term	1.86%	1.85%	1.85%	1.84%

	Blended Annual Rate for 2019
Demand Loan	2.42%

Short-Term AFR applies to loans with a term of not more than 3 years. Mid-Term AFR applies to loans with a term of greater than 3 years and not more than 9 years. Long-term AFR applies to loans with a term of greater than 9 years. Blended Annual Rate applies to demand loans.

Below Market Split Dollar Loans

	Demand Loan	Term Loan	Hybrid Term Loan	Gift Term Loans
Structure	Repayable on lender's demand	Repayable after a term certain	• Repayable on death • Repayable on the earlier of death or term certain • Repayable on termination of employment	Any term loan (including hybrid) where forgone interest is in the nature of a gift
AFR (Sufficient Interest)	Blended Short Term AFR declared annually in June for the calendar year	AFR in effect at inception based on, and fixed for, the term (Short, Mid or Long Term AFR)	AFR in effect at inception based on, and fixed for, the term (Short, Mid or Long Term AFR)	AFR in effect month loan is made based on term of loan (Short, Mid or Long Term AFR)
Imputed Transfer if Below Market	Annual forgone AFR interest, imputed annually	Present value of forgone AFR interest over entire term, imputed at inception	Annual forgone AFR interest, imputed annually (income tax purposes only)	Present value of forgone AFR interest over entire term, imputed at inception

If interest is paid or accrued at a rate at least equal to the AFR, the below market rules of §7872 do not apply and no additional interest is imputed. If all or a portion of the loan interest is to be paid directly or indirectly by the lender (or a person related to the lender), such as by way of gift of bonus, then the payment of such interest may be disregarded (possibly causing below market status). The loan term is based on its stated maturity date; for loans payable on the insured's death it is based on the lesser of LE or the stated term, if any (if the insured lives beyond LE, the loan is treated as a demand loan thereafter but the AFR in effect on the day the loan was originally made remains the appropriate AFR until death); and for loans payable on termination of employment it is based on its stated maturity date or, if none, 7 years (after which the loan is treated as a demand loan and retested for sufficient interest). Present value calculations for below market term loan imputed transfers use a discount rate equal to the AFR at inception.

If loan has a term certain maturity date only and is **non-interest bearing**, imputed transfer is equal to present value of all forgone interest over term.

If loan is **$100,000**, term is **10 years** and AFR the day loan is made is **3%**:

Imputed transfer is $25,591 at inception ($100,000 initial loan minus $74,409 present value of all payments to be made discounted at AFR) for income and gift tax purposes.

ARTICLE IV
REPAYMENT OF PREMIUM LOANS

A. Repayment Schedule. Except as provided on account of an event described in Paragraphs B or C of this Article IV (each referred to as an "Acceleration Event"), Coach shall repay the amount of the Liability in equal annual installments, as follows:

(i) Twenty percent (20%) of the Liability on June 30, 2029;

(ii) Twenty percent (20%) of the Liability on June 30, 2030;

(iii) Twenty percent (20%) of the Liability on June 30, 2031;

(iv) Twenty percent (20%) of the Liability on June 30, 2032; and

(v) Twenty percent (20%) of the Liability on June 30, 2033.

Adding this acceleration due to death clause makes it a hybrid loan payable on earlier of death or term certain (payable on death only or termination of employment can also be used).

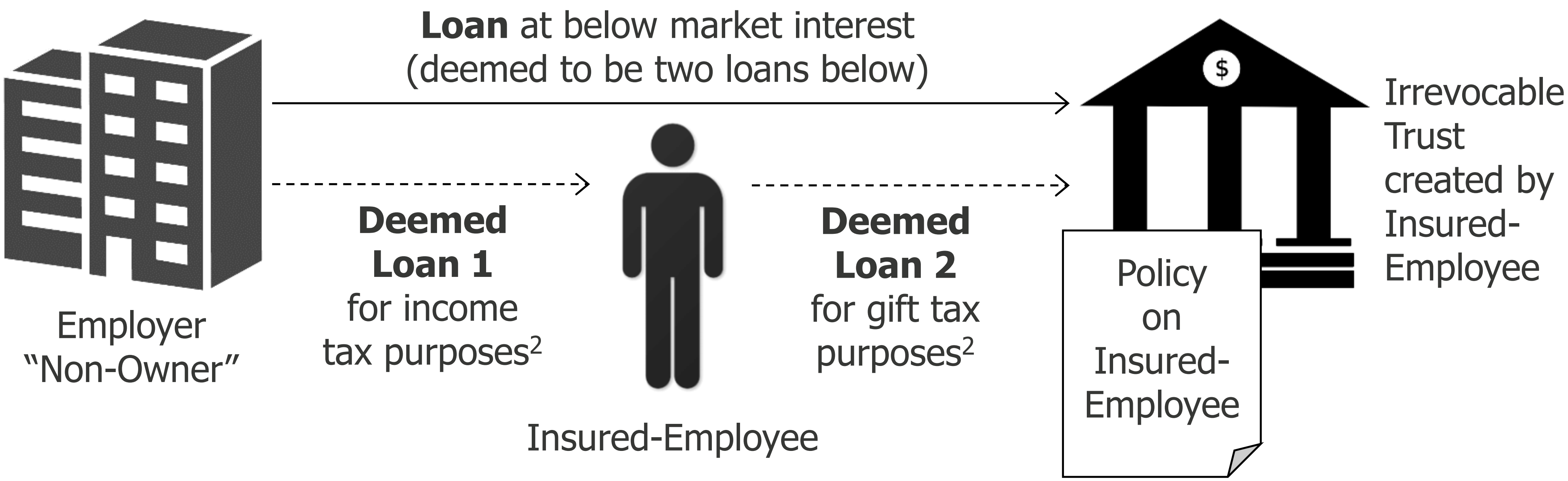
Imputed transfer is $3,000/year for the term and for income tax purposes only (for gift tax purposes it is the present value above).

B. Acceleration Due to Death. Notwithstanding anything herein to the contrary, in the event of Coach's death while this Agreement remains in effect, the proceeds of the Policy shall be divided into parts and paid by the Insurer as follows:

(i) the first part, in an amount equal to the then-outstanding Liability, shall be paid to the Foundation; and

(ii) the second part, consisting of the balance of the death benefit, shall be paid to the beneficiary(ies) designated by Coach to receive the balance of the proceeds as set forth in the Policy, to be paid in accordance with the settlement option elected by Coach.

Below Market Split Dollar Loans – Indirect Loans[1]



[1]Reg. §1.7872-15(e)(2).

[2]The relationship between the lender and insured and between the insured and third party owner determines the characterization of the below market imputed transfer between the two with respect to the deemed second loan. If a term loan is made from the employer to the employee's trust, it should bear interest (paid or accrued) at the AFR to avoid the adverse treatment of imputed transfers for below market gift term loans (present value of all future forgone interest treated as transferred at inception for gift tax purposes). Otherwise, a demand loan should be used if the forgoing of interest on a split dollar loan to an employee's trust is desired.

Terminating a Split Dollar Loan Arrangement

- Cancellation of debt is included in borrower's gross income[1]
  - Could give rise to deferred compensation if express or implied plan to forgive the debt[2]
  - Deferral charge could apply to accrued but unpaid interest on a recourse loan that is waived, cancelled or forgiven[3]
- Transferring policy to lender to satisfy debt could cause recognition of gain on policy and/or possibly cancellation of debt income[4]
  - Amount and character of income recognized depends on loan's recourse vs. nonrecourse status and amount relative to policy's FMV and cost basis

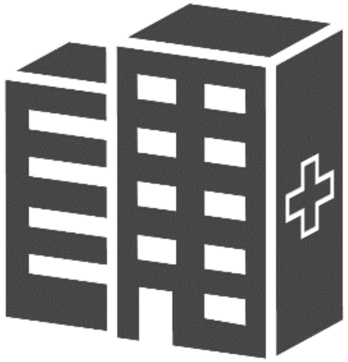
[1]IRC §61(a)(12). Reg. §1.61-22(b)(6). Debt that is cancelled as a result of bankruptcy or when the borrower is insolvent may be excluded from income but reduces the taxpayer's tax attributes (such as basis in other assets, net operating losses, passive active losses, etc.).
[2]IRS Notice 2007-34
[3]Reg. §1.7872-15(h). Accrued interest waived, cancelled or forgiven is generally treated as transferred from the borrower to lender and retransferred to the borrower.
[4]IRC §61(a)(12), IRC §1001 and Reg. §1.1001-2. Non-recourse debt discharged by sale or other disposition of an asset is included in the amount realized even if it exceeds the asset's fair market value (FMV). Recourse debt that is satisfied by sale or other disposition of an asset may give rise to cancellation of indebtedness income to the extent the debt exceeds the asset's FMV and recognition of gain may be required to the extent the asset's FMV exceeds its adjusted basis.

Applications with Tax-Exempt Organizations

New Excise Tax under Tax Cuts and Jobs Act

Tax equals the product of corporate tax rate (21%) and sum of remuneration (taxable compensation) in excess of $1,000,000 plus excess parachute payments paid to a "covered employee"*

"Covered employee" is any employee (or former employee) who is one of the top five highest paid employees for the taxable year or was a covered employee for any preceding taxable year beginning after 12/31/2016



"Applicable tax exempt organization" is any which for the taxable year

- is exempt from taxation under §501(a),
- is a farmers' cooperative organization under §521(b)(1)
- has income excluded from taxation under §115(1), or
- is a political organization under §527(e)(1)

*Taxable compensation and excess parachute payments paid to a licensed medical professional (including veterinarian) which is for the performance of medical or veterinary services by such professional is not subject to the excise tax. Please refer to the statute for a definition of "remuneration" and "excess parachute payments."

Male, age 50, preferred NT, highly compensated employee of a tax-exempt org. and "covered employee" for the purposes of the excise tax	Restrictive Bonus for Life Insurance Subject to Excise Tax		Split Dollar Term Loan Payable on Death	
	Nonprofit Employer	Key Employee	Nonprofit Employer	Key Employee
Years 1-10 Totals:				
After-tax bonus -paid or +received	-1,000,000	570,000	0	0
Excise tax -paid	-210,000	n/a	0	n/a
Loan advances -made or +received	0	0	-1,210,000	1,210,000
Premiums -paid	n/a	-570,000	n/a	-1,210,000
Gross cash flow	**-1,210,000**	0	**-1,210,000**	0
Age 66 (Year 16)+:				
Loan receivable (3% AFR accrued)[1]	0	0	1,656,305	0
Annual policy income	0	**82,265**	**49,689** (Interest)	**116,601** (Residual)
At Age 85 (Year 35):				
Total gross cash flow during life	-1,210,000	0	-1,210,000	0
Total policy income received	+ 0	1,645,300	+ 993,783 (Interest)	2,332,020 (Residual)
Total net cash flow during life	= -1,210,000	1,645,300	= -216,217	2,332,020
Death benefit	+ 0	859,884	+ 1,656,305 (Receivable)	627,975 (Residual)
Total gain at death	= **-1,210,000**	**2,505,184**	= **1,440,088**	**2,959,995**

Policy Assumptions: John Hancock, Accumulation IUL 18, 6.00% illustrated rate, Option B switch year 11, withdrawals to basis, fixed loans, $57,000 annual premium and income solve to $1,000 at age 100 (bonus), $121,000 annual premium and income solve to $1,660,000 at age 100 (split dollar), 37% federal + 6% state income tax rate.

[1]Assumes average AFR for all loans is 3%. Each premium advance is a new term loan with its own AFR.

Male, age 50, preferred NT, highly compensated employee of a tax-exempt org. and "covered employee" for the purposes of the excise tax	Restrictive Bonus for Life Insurance NOT Subject to Excise Tax		Split Dollar Term Loan Payable on Death	
	Nonprofit Employer	Key Employee	Nonprofit Employer	Key Employee
Years 1-10 Totals:				
After-tax bonus -paid or +received	-1,000,000	570,000	0	0
Excise tax -paid	0	n/a	0	n/a
Loan advances -made or +received	0	0	-1,000,000	1,000,000
Premiums -paid	n/a	-570,000	n/a	-1,000,000
Gross cash flow	**-1,000,000**	0	**-1,000,000**	0
Age 66 (Year 16)+:				
Loan receivable (3% AFR accrued)[1]	0	0	1,368,847	0
Annual policy income	0	**82,265**	**41,065** (Interest)	**96,225** (Residual)
At Age 85 (Year 35):				
Total gross cash flow during life	-1,000,000	0	-1,000,000	0
Total policy income received	+ 0	1,645,300	+ 821,308 (Interest)	1,924,500 (Residual)
Total net cash flow during life	= -1,000,000	1,645,300	= -178,692	1,924,500
Death benefit	+ 0	859,884	+ 1,368,847 (Receivable)	517,151 (Residual)
Total gain at death	= **-1,000,000**	**2,505,184**	= **1,190,155**	**2,441,651**

Policy Assumptions: John Hancock, Accumulation IUL 18, 6.00% illustrated rate, Option B switch year 11, withdrawals to basis, fixed loans, $57,000 annual premium and income solve to $1,000 at age 100 (bonus), $100,000 annual premium and income solve to $1,370,000 at age 100 (split dollar), 37% federal + 6% state income tax rate.

[1]Assumes average AFR for all loans is 3%. Each premium advance is a new term loan with its own AFR.

Case Study – Background

- XYZ Hospital – 501(c)(3) medical center with 2,000+ employees and $1 billion of revenue
- Gets funding from reimbursements from private insurance, government programs, and gifts
- Operates in highly competitive market for talented executives and medical professionals, which is experiencing significant consolidation
- CEO currently participates in 457(f) defined contribution SERP

Case Study – Objectives

- Provide competitive total rewards program allowing hospital to compete successfully for talented executives and professionals
- Restructure CEO’s SERP to mitigate exposure to the 21% excise tax

EOY Age	Cal Year	Plan Year	(1) 457(f) Contribution	(2) 457(f) Contrib Grows at Endowment Rate of 6.50%	(3) EOY Balance	(4) Federal & State Tax Rate in Year of Distrib 48.16%	(5) After-tax Balance	(6) BOY Account Balance After Distrib	(7) Annual Distribs	(8) After-tax Investment Earnings at 4.55%	(9) EOY Account Balance	(10) Annual 990 Disclosure	(11) 990 Disclosure EOY 5 Upon Vesting
			Current Projected 457(f) Plan										
48	2015	1	300,000	19,500	319,500	0	0	0	0	0	0	300,000	0
49	2016	2	300,000	40,268	659,768	0	0	0	0	0	0	300,000	0
50	2017	3	300,000	62,385	1,022,152	0	0	0	0	0	0	300,000	0
51	2018	4	300,000	85,940	1,408,092	0	0	0	0	0	0	300,000	0
52	2019	5	300,000	111,026	1,819,118	876,087	943,031	0	0	0	943,031	300,000	1,819,118
53	2020	6	0	0	0	0	0	943,031	0	42,908	985,939	0	0
54	2021	7	0	0	0	0	0	985,939	0	44,860	1,030,799	0	0
55	2022	8	0	0	0	0	0	1,030,799	0	46,901	1,077,700	0	0
56	2023	9	0	0	0	0	0	1,077,700	0	49,035	1,126,736	0	0
57	2024	10	0	0	0	0	0	1,126,736	0	51,266	1,178,002	0	0
58	2025	11	0	0	0	0	0	1,178,002	0	53,599	1,231,601	0	0
59	2026	12	0	0	0	0	0	1,231,601	0	56,038	1,287,639	0	0
60	2027	13	0	0	0	0	0	1,287,639	0	58,588	1,346,227	0	0
61	2028	14	0	0	0	0	0	1,346,227	0	61,253	1,407,480	0	0
62	2029	15	0	0	0	0	0	1,407,480	0	64,040	1,471,520	0	0
63	2030	16	0	0	0	0	0	1,471,520	0	66,954	1,538,475	0	0
64	2031	17	0	0	0	0	0	1,538,475	0	70,001	1,608,475	0	0
65	2032	18	0	0	0	0	0	1,608,475	143,746	66,645	1,531,374	0	0
66	2033	19	0	0	0	0	0	1,531,374	143,746	63,137	1,450,765	0	0
67	2034	20	0	0	0	0	0	1,450,765	143,746	59,469	1,366,489	0	0
68	2035	21	0	0	0	0	0	1,366,489	143,746	55,635	1,278,377	0	0
69	2036	22	0	0	0	0	0	[illegible]	143,746	51,626	1,186,257	0	0
70	2037	23	0	0	0	0	0	1,186,257	143,746	47,434	1,089,945	0	0
71	2038	24	0	0	0	0	0	1,089,945	143,746	43,052	989,251	0	0
72	2039	25	0	0	0	0	0	[illegible]	143,746	38,470	883,975	0	0
73	2040	26	0	0	0	0	0	883,975	143,746	33,680	773,910	0	0
74	2041	27	0	0	0	0	0	773,910	143,746	28,672	658,836	0	0
75	2042	28	0	0	0	0	0	658,836	143,746	23,437	538,527	0	0
76	2043	29	0	0	0	0	0	538,527	143,746	17,963	412,743	0	0
77	2044	30	0	0	0	0	0	412,743	143,746	12,239	281,236	0	0
78	2045	31	0	0	0	0	0	281,236	143,746	6,256	143,746	0	0
79	2046	32	0	0	0	0	0	143,746	143,746	(0)	(0)	0	0

Prior contributions

Issue: Lack of incentive after end of year 5

Issue: Lump sum benefit taxation to CEO and excise tax exposure to XYZ

Issue: Unfavorable Form 990 reporting

After-tax income to CEO from 457(f) plan

- **$300,000 contribution for 5 years**
- **Interest tied to XYZ's investments (≈ 4.0%)**
- **100% ("cliff") vesting end of year 5 – 100% forfeiture upon voluntary (or involuntary with cause) termination**
- **Balance to be paid as lump sum within 2½ months of end of year 5**
- **In year 6, a new, similar arrangement is expected to be implemented**

Hypothetical and for illustrative purposes only. Actual results will vary.

		Frozen 457(f) Program - Year 5 Payout and Reinvestment						CompPlus Program											
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)
		457(f) Program @ 6.50%						Executive's Accumulation Policy @ 6.50%					Institute's Recovery Policy @ 6.50%						
Year	Age	457(f) Contribution	EOY Balance with Interest @ 6.50%	Tax on Distribution to Executive @ 47.67%	After Tax Withdrawal	Investment Earnings @ 6.50% (4.55% After 30% Blended Tax Rate)	EOY Investment Account	Annual Premium	Non-Taxable Withdrwl	Cash Accum Value	Cash Surrender Value	Death Benefit	Annual Premium	Cash Accum Value	Cash Surrender Value	Death Benefit	Loans to Executive	Cum Loans with Interest @ 3.00%	Excess Recovery (Col 15-17)
1	49	300,000	319,500	0	0	0	0												
2	50	300,000	659,768	0	0	0	0												
3	51	0	702,652	0	0	0	0	180,098	0	[illegible]	180,098	3,940,287	71,941	59,487	[illegible]	[illegible]	252,039	259,601	1,255,033
4	52	0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	180,098	[illegible]	[illegible]	[illegible]	[illegible]	71,941	[illegible]	[illegible]	[illegible]	252,039	526,989	987,644
5	53	0	796,966	383,819	0	0	413,147	180,098	0	[illegible]	540,295	4,280,567	71,941	195,897	[illegible]	[illegible]	252,039	802,399	712,234
6	54	0	0	0	0	18,798	431,945	[illegible]	0	497,566	497,566	4,280,567	71,941	273,033	273,033	1,514,633	71,941	900,570	614,063
7	55	[illegible]	[illegible]	[illegible]	0	19,654	451,599	0	0	505,559	505,559	4,280,567	71,941	355,530	355,530	1,514,633	71,941	1,001,687	512,947
8	56	[illegible]	0	0	0	20,548	472,147	0	0	520,991	520,991	4,280,567	[illegible]	373,568	373,568	1,514,633	[illegible]	1,031,737	482,896
9	57	[illegible]	0	0	0	21,483	493,629	0	0	536,371	536,371	4,280,567	0	392,582	392,582	1,514,633	[illegible]	1,062,690	451,944
10	58	[illegible]	0	0	0	22,460	516,089	0	0	562,831	562,831	914,989	0	414,228	414,228	1,124,773	[illegible]	[illegible]	30,202
11	59	[illegible]	0	0	0	23,482	539,571	0	0	591,134	591,134	914,989	0	436,907	436,907	1,151,003	0	[illegible]	23,596
12	60	[illegible]	0	0	0	24,551	564,122	0	0	624,030	624,030	914,989	0	462,062	462,062	[illegible]	[illegible]	[illegible]	19,933
13	61	[illegible]	0	0	0	25,668	589,789	0	0	669,200	669,200	914,989	0	493,296	493,296	1,224,104	0	1,196,066	28,037
14	62	[illegible]	0	0	0	26,835	616,625	0	0	717,857	717,857	933,215	0	526,535	526,535	1,268,802	[illegible]	1,231,948	36,854
15	63	0	0	0	0	28,056	644,681	0	0	770,263	770,263	985,937	0	561,900	561,900	1,315,282	0	1,268,907	46,376
16	64	0	0	0	0	29,333	674,014	0	0	826,490	826,490	1,041,378	0	599,513	599,513	[illegible]	0	[illegible]	56,645
17	65	0	0	0	0	30,668	[illegible]	0	0	886,830	886,830	1,099,669	0	639,523	639,523	1,413,946	0	1,346,183	67,762
18	66	0	0	0	62,976	29,198	670,904	0	90,943	853,969	853,969	1,041,843	0	682,076	682,076	1,466,316	0	1,386,569	79,747
19	67	0	[illegible]	[illegible]	62,976	27,661	[illegible]	0	90,943	[illegible]	[illegible]	982,487	0	727,386	727,386	1,520,862	0	1,428,166	92,696
20	68	0	0	0	62,976	26,054	598,666	0	90,943	780,767	780,767	929,168	0	775,623	775,623	[illegible]	[illegible]	1,471,011	106,789
21	69	0	0	[illegible]	62,976	24,374	[illegible]	0	90,943	[illegible]	[illegible]	873,313	0	826,970	826,970	1,637,240	0	1,515,141	122,098
22	70	0	0	[illegible]	62,976	22,618	519,706	0	90,943	696,386	696,386	814,772	0	881,611	881,611	[illegible]	0	1,560,595	138,706
23	71	0	0	[illegible]	62,976	20,781	[illegible]	0	90,943	[illegible]	[illegible]	754,282	0	939,751	939,751	1,764,161	0	1,607,413	156,748
24	72	0	0	0	62,976	[illegible]	433,396	0	90,943	599,107	599,107	704,061	0	1,001,603	1,001,603	[illegible]	[illegible]	1,655,636	176,338
25	73	0	0	[illegible]	62,976	[illegible]	[illegible]	[illegible]	90,943	[illegible]	[illegible]	641,775	0	1,067,364	1,067,364	[illegible]	0	1,705,305	197,545
26	74	0	0	0	62,976	14,756	339,054	0	90,943	486,846	486,846	573,698	0	1,137,259	1,137,259	[illegible]	[illegible]	1,756,464	220,578
27	75	0	0	[illegible]	62,976	[illegible]	[illegible]	0	90,943	[illegible]	[illegible]	499,549	0	1,211,551	1,211,551	2,054,853	[illegible]	1,809,158	245,695
28	76	0	0	0	62,976	10,268	235,932	0	90,943	357,470	357,470	419,047	0	1,290,514	1,290,514	[illegible]	[illegible]	1,863,432	272,996
29	77	0	0	[illegible]	62,976	7,869	[illegible]	0	90,943	[illegible]	[illegible]	331,882	0	1,374,192	1,374,192	[illegible]	[illegible]	1,919,335	302,275
30	78	0	0	0	62,976	5,362	123,211	0	90,943	208,358	208,358	256,798	0	1,462,608	1,462,608	[illegible]	[illegible]	1,976,916	333,331
31	79	0	0	[illegible]	62,976	2,741	[illegible]	0	90,943	[illegible]	[illegible]	175,765	0	1,555,978	1,555,978	[illegible]	[illegible]	2,036,223	366,246
32	80	0	0	0	62,976	(0)	(0)	0	90,943	35,566	35,566	88,303	0	1,654,472	1,654,472	[illegible]	0	2,097,310	401,027
33	81	0	0	0	0	(0)	[illegible]	0	0	36,831	36,831	91,772	0	1,758,183	1,758,183	[illegible]	[illegible]	2,160,229	441,017
34	82	0	0	0	0	(0)	(0)	0	0	37,948	37,948	95,176	0	1,867,102	1,867,102	[illegible]	[illegible]	2,225,036	475,584
35	83	0	0	0	0	(0)	[illegible]	0	0	38,865	38,865	98,463	0	1,981,395	1,981,395	[illegible]	[illegible]	2,291,787	515,083
36	84	0	0	0	0	(0)	(0)	0	0	39,557	39,557	101,612	0	2,101,677	2,101,677	[illegible]	[illegible]	2,360,541	557,874
37	85	0	0	0	0	(0)	[illegible]	0	0	39,971	39,971	104,568	0	2,228,274	2,228,274	[illegible]	[illegible]	2,431,357	604,452
38	86	0	0	0	0	(0)	(0)	0	0	40,012	40,012	107,241	0	2,361,208	2,361,208	3,158,350	0	2,504,297	654,052
39	87	0	0	0	0	(0)	(0)	0	0	39,509	39,509	109,452	0	2,499,804	2,499,804	[illegible]	[illegible]	2,579,426	705,681
40	88	0	0	0	0	(0)	(0)	0	0	38,395	38,395	111,138	0	2,644,848	2,644,848	3,417,124	0	2,656,809	760,314

457(f) plan frozen and remaining cash flow reallocated to Split Dollar Loans

$900,000 reallocated to Split Dollar Loans

After-tax income to CEO from frozen 457(f) plan

More annual income ($153,919 vs. $143,746), more tax efficiency, and no forfeiture risk

Tax-free income to CEO from Loan Regime Split Dollar

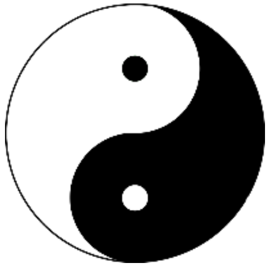
Hospital's 457(f) Expense turned into a bond-like receivable with more favorable Form 990 reporting

Hypothetical and for illustrative purposes only. Actual results will vary. Life insurance values are based on non-guaranteed credited interest rates and non-guaranteed policy charges. Considerations applicable to split dollar loans include the employer's opportunity cost of money (if greater than the AFR paid or accrued), policy performance risk (especially regarding early termination and possible cancellation of debt income to the employee), inclusion of vesting characteristics, and compliance with the regulations (including the need for a reasonable expectation of repayment to be treated as a split dollar loan under the regulations if it otherwise would not be treated as a loan for federal tax purposes due to non-recourse status or otherwise).

Securing Loan with Death Benefit Only and Allowing Unlimited Access to Cash Value

Opponents may argue the loan advances, whether to fund one policy or two, could be attacked as sham loans and recast as taxable compensation if cash value shortfall is unsecured (i.e. non-recourse) and distributions are allowed; primary question possibly being whether it is an arms-length transaction and respected as a loan for Federal tax law purposes?

Proponents may argue the Treasury regs explicitly state that a split dollar loan is one where the repayment is to be made from, or secured by, the policy's cash value, death benefit, *or* both. Additionally, the loan must be treated as a loan under Federal tax law or, if it is not treated as such (e.g. due to non-recourse nature *or otherwise*), a reasonable person would nevertheless expect the loan to be repaid in full (1.7872-15(a)(2)(i)); primary question possibly being whether there is a reasonable expectation of repayment?

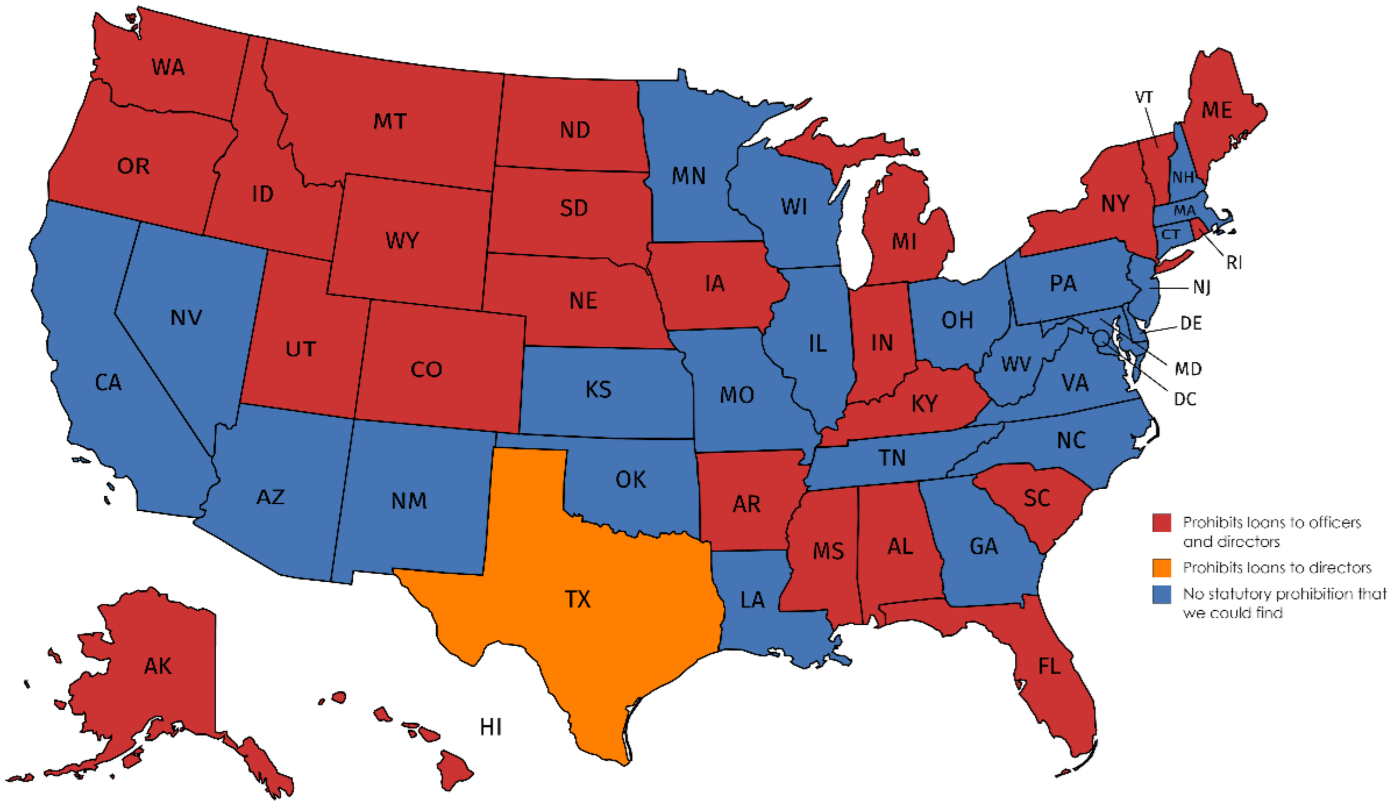


To be conservative, it can be designed so that cash value *and* death benefit are sufficient to secure the loan (and still produce a very attractive benefit in most cases).

Loans from Nonprofit Organizations to their Officers and/or Directors

Roughly half of the States have general statutes prohibiting loans from nonprofit organizations to their "officers" and/or "directors"

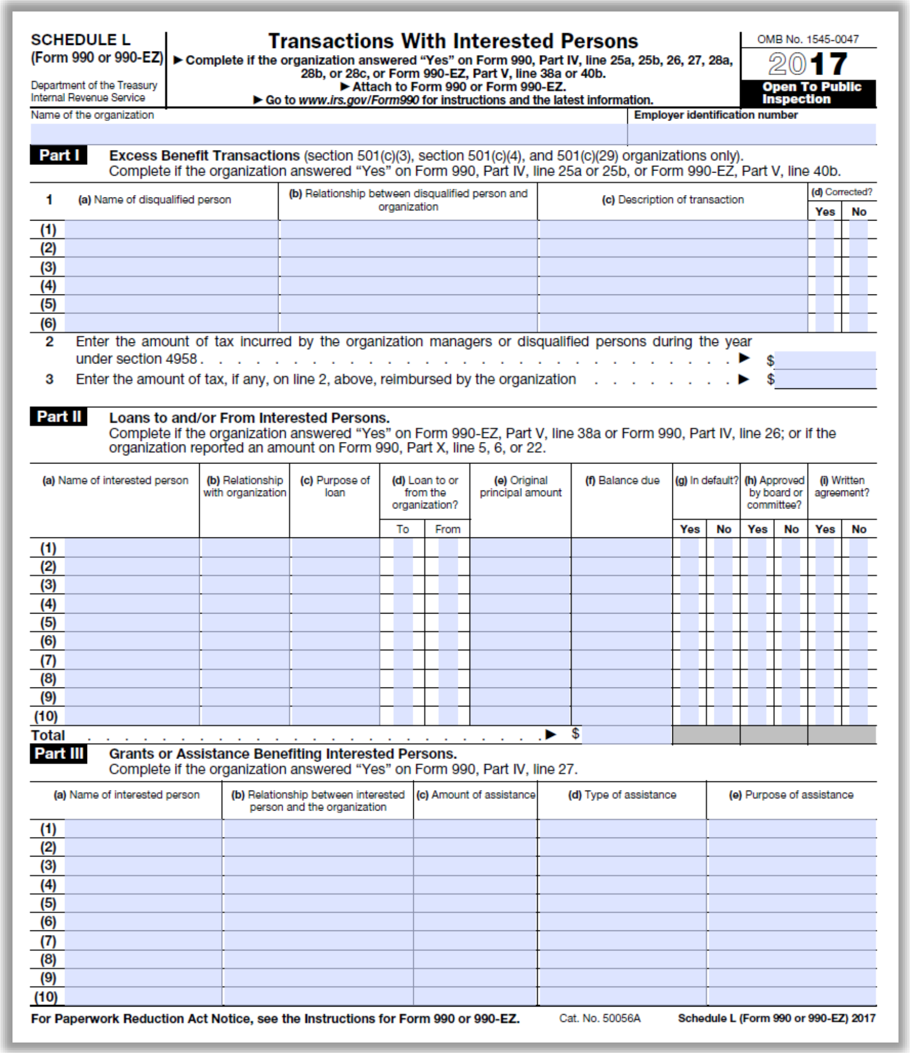
Consult a local attorney to ascertain State-specific laws regarding loans to employees, officers and directors and the application of any general prohibitive statutes to split dollar loans



The States are identified above based on research of States' Codes in early 2018 (changes may have occurred since) for statutes that expressly prohibit or allow loans, generally, from nonprofit companies to their officers and directors. With most States, our search found specific general statutes to this effect. Some are assumed to have no such prohibitions by negative inference from not finding specific prohibitive statutes, with some it was more vague and some have certain conditions or restrictions not reflected in the above chart. The above chart does not account for any court cases or rulings interpreting the corresponding statutes in a manner contrary to what is shown, or any statutory changes that may have occurred since the initial research was conducted. It also does not account for any state-specific guidance regarding the lack of application of any general loan prohibitive statutes to split dollar loans specifically. In all cases, local legal counsel should be engaged to confirm the accuracy of the information shown and to ascertain State-specific laws. This information should not be construed or used as tax or legal advice nor to support any other advice given to a client. Note, California and Iowa prohibit loans to officers and directors, in general, but allow loans made to pay life insurance premiums for a policy on the life of an officer or director as long as the repayment is secured by the policy's proceeds and cash surrender value.

Form 990 Disclosure of Loans to/from Interested Persons

- Form 990 – required public disclosure by nonprofit organizations of compensation information for officers, directors, key employees and other highly compensated employee
- Outstanding split dollar loan balances reported on Schedule L
- Annual forgone interest compensation, if any, reported on Part VII and Schedule J



SCHEDULE L (Form 990 or 990-EZ)
Department of the Treasury
Internal Revenue Service

Transactions With Interested Persons
▶ **Complete if the organization answered "Yes" on Form 990, Part IV, line 25a, 25b, 26, 27, 28a, 28b, or 28c, or Form 990-EZ, Part V, line 38a or 40b.**
▶ **Attach to Form 990 or Form 990-EZ.**
▶ **Go to *www.irs.gov/Form990* for instructions and the latest information.**

OMB No. 1545-0047
2017
Open To Public Inspection

Name of the organization | **Employer identification number**

Part I **Excess Benefit Transactions** (section 501(c)(3), section 501(c)(4), and 501(c)(29) organizations only).
Complete if the organization answered "Yes" on Form 990, Part IV, line 25a or 25b, or Form 990-EZ, Part V, line 40b.

1	(a) Name of disqualified person	(b) Relationship between disqualified person and organization	(c) Description of transaction	(d) Corrected?	
				Yes	No
(1)					
(2)					
(3)					
(4)					
(5)					
(6)					

2 Enter the amount of tax incurred by the organization managers or disqualified persons during the year under section 4958 . . . ▶ $

3 Enter the amount of tax, if any, on line 2, above, reimbursed by the organization . . . ▶ $

Part II **Loans to and/or From Interested Persons.**
Complete if the organization answered "Yes" on Form 990-EZ, Part V, line 38a or Form 990, Part IV, line 26; or if the organization reported an amount on Form 990, Part X, line 5, 6, or 22.

	(a) Name of interested person	(b) Relationship with organization	(c) Purpose of loan	(d) Loan to or from the organization?		(e) Original principal amount	(f) Balance due	(g) In default?		(h) Approved by board or committee?		(i) Written agreement?	
				To	From			Yes	No	Yes	No	Yes	No
(1)													
(2)													
(3)													
(4)													
(5)													
(6)													
(7)													
(8)													
(9)													
(10)													
Total . . . ▶							$						

Part III **Grants or Assistance Benefiting Interested Persons.**
Complete if the organization answered "Yes" on Form 990, Part IV, line 27.

	(a) Name of interested person	(b) Relationship between interested person and the organization	(c) Amount of assistance	(d) Type of assistance	(e) Purpose of assistance
(1)					
(2)					
(3)					
(4)					
(5)					
(6)					
(7)					
(8)					
(9)					
(10)					

For Paperwork Reduction Act Notice, see the Instructions for Form 990 or 990-EZ. Cat. No. 50056A **Schedule L (Form 990 or 990-EZ) 2017**

Other Considerations with Split Dollar Loans

- Does future imputed income on a below market hybrid term loan give rise to deferred compensation under §409A and §457(f)?[1,2]

- Does State law prohibit loans from State government employers to their employees?[2]

[1]A plan provides for deferred compensation if the employee has a legally binding right during a taxable year to compensation that, pursuant to the terms of the plan, is or may be payable to (or on behalf of) the employee in a later taxable year. See Treas. Reg. §1.409A-1(b)(1). Pursuant to IRS Notice 2007-34, split-dollar loans generally will not give rise to deferred compensation under §409A. However, in certain situations, they may give rise to deferred compensation, for example, if amounts on a split-dollar loan are waived, cancelled, or forgiven. Although imputed interest is generally thought to be treated as current (not deferred) compensation, there is no clear guidance therefor. If it's a concern, possible solutions can include structuring the loan to be conditioned on the future performance of substantial services (the future imputed compensation from which may be eligible for the short-term deferral exception under §409A and/or may be subject to a substantial risk of forfeiture for §457(f) purposes), or to bear adequate interest (possibly with an increase salary to help offset interest cost while employed and use of policy withdrawals/loans to pay interest post-separation).
[2]Clients should consult with their own legal counsel accordingly.

Alternatives when Split Dollar Loans Not Viable

Defined Contribution SERP – defer the 21% tax?

- Performance-based
- Alternative approaches to vesting

Voluntary Deferral Plan – defer the 21% tax?

- Performance-based ER contribution/retention bonus

Life insurance-based supplemental benefits programs

- Section 162 "Bonus" Plans – coordinate with $1,000,000 limit?
- Endorsement split dollar/future policy transfer – defer the 21% tax?

Applications with Privately Held For-Profit Companies

Who is Benefit for and What is(are) Goal(s)?

Recruit, Reward, Retain a Key Employee

Alternative to Traditional SERP or Bonus Arrangement

Tax-Efficiently Transfer Earnings to Shareholder

Alternative to Taxable Dividend from **C Corporation**

Common Tradeoffs in Plan Design

Retain control for ER	Current tax deduction for ER
Keep asset on ER balance sheet	Minimize future EE taxes
Cost recovery for ER	Maximize future EE benefits
Tax deferral for EE	Benefit security and flexibility

Loan Regime Split Dollar can provide an attractive balance (except current deductibility)

For illustrative purposes only. Not meant to be an exhaustive list of all factors and considerations that can affect plan design.

Case Study – Background

Employer (ER)

- XYZ Company, Inc. (S-Corp.)
- Ultra-precision surface finishing business
- Founded in 2004

Employee (EE)

- Mr. Executive, EVP of Sales
- Founder wants to reward and retain him for at least 15 years

Case Study – Objectives

- Allocate $1,000,000 in total (pre-tax) to a 15 year stay-bonus plan
- Maintain strong control to tie Mr. Executive to the business
- Not necessary to keep the "asset" on the balance sheet
- Cost recovery not important after 15 years – expecting the benefit will be paid at that point
- Expecting a tax deduction would not be realized until benefit is paid
- Wants option that best lines up with objectives and has the better overall tax treatment and benefits for Mr. Executive

Case Study – Options

✓ Split Dollar Loans with a Stay-Bonus Repayment Agreement

✗ Endorsement Split Dollar with a Stay-Bonus Transfer Agreement

✗ § 162 Bonus Arrangement with a 15-Year Repayment Agreement

✓ Option the client ultimately chose

✗ Other options compared or considered

Split Dollar Loan with a Stay-Bonus Repayment Agreement

1. Loan payable on termination of employment or 15 years, if earlier
2. EE taxes on imputed AFR income
3. Loan is repaid via single bonus within 2½ months of the end of 15th tax year (no liability accrual accounting if payable pre-retirement)
4. ER tax savings
5. ER after-tax net cost
6. EE tax on bonus to paid via withdrawal
7. ECV Rider minimizes EE's exposure and maximize ER's asset

Employer's Tax Bracket	Executive's Tax Bracket	AIUL 18 Interest Rate	Initial Policy Death Benefit	Assumed AFR for All Years Illustrated	Promissory Note Interest Rate
40.00%	40.00%	6.00%	2,675,889	3.00%	0.00%

		Employer				Executive				
Year	Male Age	(1) Net Payment*	(2) Cumulative Net Payments	(3) Portion of Col. (2) Due as a Loan Receivable	(4) Cumulative Charge to Earnings (2) - (3)	(5) Net Payment*	(6) After Tax Policy Cash Flow** Available for Taxes or Income	(7) Year End Policy Cash Value***	(8) Year End Policy Cash Value*** Net of Loan Due Employer	(9) Year End Policy Death Benefit Net of Loan Due Employer
1	45	125,000	125,000	125,000	0	1,500	0	105,503	-19,497	2,663,209
2	46	125,000	250,000	250,000	0	3,000	0	220,069	-29,931	2,659,313
3	47	125,000	375,000	375,000	0	4,500	0	336,685	-38,315	2,663,729
4	48	125,000	500,000	500,000	0	6,000	0	472,157	-27,843	2,679,191
5	49	125,000	625,000	625,000	0	7,500	0	616,644	-8,356	2,705,032
6	50	125,000	750,000	750,000	0	9,000	0	774,356	24,356	2,742,313
7	51	125,000	875,000	875,000	0	10,500	0	954,042	79,042	2,792,138
8	52	125,000	1,000,000	1,000,000	0	12,000	0	1,146,816	146,816	2,855,690
9	53	0	1,000,000	1,000,000	0	12,000	0	1,231,811	231,811	2,855,690
10	54	0	1,000,000	1,000,000	0	12,000	0	1,319,995	319,995	2,855,690
11	55	0	1,000,000	1,000,000	0	12,000	0	1,415,093	415,093	2,855,690
12	56	0	1,000,000	1,000,000	0	12,000	0	1,516,390	516,390	2,855,690
13	57	0	1,000,000	1,000,000	0	12,000	0	1,625,622	625,622	2,855,690
14	58	0	1,000,000	1,000,000	0	12,000	0	1,742,897	742,897	2,855,690
15	59	0	1,000,000	1,000,000	0	12,000	0	1,868,819	868,819	2,855,690
16	60	-400,000	600,000	0	600,000	400,000	400,000	1,598,279	1,598,279	2,600,000
17	61	0	600,000	0	600,000	0	0	1,719,868	1,719,868	2,600,000
18	62	0	600,000	0	600,000	0	0	1,851,139	1,851,139	2,600,000
19	63	0	600,000	0	600,000	0	0	1,992,945	1,992,945	2,600,000
20	64	0	600,000	0	600,000	0	0	2,146,216	2,146,216	2,600,000

Split Dollar Loan with a Stay-Bonus Repayment Agreement

7. EE total tax cost ($138,000 on imputed interest and $400,000 bonus to repay loan)
8. Annual withdrawals and policy loans in years 21-40
9. Total policy disbursements ($400,000 to pay tax on bonus and $4,446,520 for retirement income)

Employer's Tax Bracket	Executive's Tax Bracket	AIUL 18 Interest Rate	Initial Policy Death Benefit	Assumed AFR for All Years Illustrated	Promissory Note Interest Rate
40.00%	40.00%	6.00%	2,675,889	3.00%	0.00%

		Employer				Executive				
Year	Male Age	(1) Net Payment*	(2) Cumulative Net Payments	(3) Portion of Col. (2) Due as a Loan Receivable	(4) Cumulative Charge to Earnings (2) - (3)	(5) Net Payment*	(6) After Tax Policy Cash Flow** Available for Taxes or Income	(7) Year End Policy Cash Value***	(8) Year End Policy Cash Value*** Net of Loan Due Employer	(9) Year End Policy Death Benefit Net of Loan Due Employer
21	65	0	600,000	0	600,000	0	222,326	2,099,875	2,099,875	2,498,851
22	66	0	600,000	0	600,000	0	222,326	2,049,958	2,049,958	2,418,950
23	67	0	600,000	0	600,000	0	222,326	1,995,452	1,995,452	2,346,344
24	68	0	600,000	0	600,000	0	8 222,326	1,936,684	1,936,684	2,293,784
30	74	0	600,000	0	600,000	0	222,326	1,496,021	1,496,021	1,659,110
35	79	0	600,000	0	600,000	0	222,326	945,665	945,665	1,150,472
40	84	0	600,000	0	600,000	0	222,326	117,579	117,579	358,365
45	89	0	600,000	0	600,000	0	0	80,977	80,977	347,576
50	94	0	600,000	0	600,000	0	0	12,865	12,865	12,865
55	99	0	600,000	0	600,000	0	0	17,464	17,464	17,464
		600,000				7 538,000	4,846,520 9			

Assumptions: Male, age 45, preferred non-tobacco, John Hancock Accumulation IUL 18, 6.00% illustrated rate, non-guaranteed policy charges, withdrawals to basis then standard (fixed) loans. Note, the analysis assumes the employer's and employee's tax rates are the same all years, which is done intentionally for illustrative and conceptual purposes to help illustrate the tax economics of the various strategies. In reality, tax rates will vary over time particularly as the individual income tax and pass-through business income tax provisions of the Tax Cuts and Jobs Act expire in 2026.

Endorsement Split Dollar with a Stay-Bonus Transfer Agreement

Form of Transaction	Employer's Tax Bracket	Executive's Tax Bracket	AIUL 18 Interest Rate	Year Transfer is Illustrated
(Endorsement)	40.00%	40.00%	6.00%	16

1. Death benefit endorsed to EE
2. EE taxes on Economic Benefit
3. Policy is bonused to EE
4. ER tax savings
5. ER after-tax net cost
6. Withdrawal to pay tax on transfer

	Employer					**Executive**					
Male Age	**(1) Net Payment**	**(2) Cumulative Net Payments**	**(3) Share of Policy Account Value***	**(4) Share of Policy Cash Value***	**(5) Share of Policy Death Benefit**	**(6) Net Payment**	**(7) After Tax Cash Flow Applied to Transfer**	**(8) Retirement Income After Tax Cash Flow**	**(9) Share of Policy Account Value***	**(10) Share of Policy Cash Value***	**(11) Share of Policy Death Benefit**
45	125,000	125,000	112,320	105,503	125,000	1,630	0	0	0	0	2,663,209
46	125,000	250,000	233,424	220,069	250,000	1,776	0	0	0	0	2,659,313
47	125,000	375,000	362,840	336,685	375,000	1,950	0	0	0	0	2,663,729
48	125,000	500,000	503,302	472,157	500,000	2,122	0	0	0	0	2,679,191
49	125,000	625,000	654,143	616,644	625,000	2,305	0	0	0	0	2,705,032
50	125,000	750,000	816,424	774,356	774,356	2,500	0	0	0	0	2,717,957
51	125,000	875,000	991,249	954,042	954,042	2,735	0	0	0	0	2,713,096
52	125,000	1,000,000	1,179,801	1,146,816	1,146,816	3,045	0	0	0	0	2,708,874
53	0	1,000,000	1,256,810	1,231,811	1,231,811	3,358	0	0	0	0	2,623,879
54	0	1,000,000	1,340,480	1,319,995	1,319,995	3,702	0	0	0	0	2,535,695
55	0	1,000,000	1,431,412	1,415,093	1,415,093	4,051	0	0	0	0	2,440,597
56	0	1,000,000	1,529,175	1,516,390	1,516,390	4,379	0	0	0	0	2,339,300
57	0	1,000,000	1,634,302	1,625,622	1,625,622	4,638	0	0	0	0	2,230,068
58	0	1,000,000	1,747,411	1,742,897	1,742,897	4,783	0	0	0	0	2,112,793
59	0	1,000,000	1,869,166	1,868,819	1,868,819	4,816	0	0	0	0	1,986,871
60	-400,000	600,000	0	0	0	0	747,666	0	1,238,065	1,238,065	2,602,334
61	0	600,000	0	0	0	0	0	0	1,330,539	1,330,539	2,602,334
62	0	600,000	0	0	0	0	0	0	1,430,193	1,430,193	2,602,334
63	0	600,000	0	0	0	0	0	0	1,537,642	1,537,642	2,602,334
64	0	600,000	0	0	0	0	0	0	1,653,532	1,653,532	2,602,334

Endorsement Split Dollar with a Stay-Bonus Transfer Agreement

Form of Transaction	Employer's Tax Bracket	Executive's Tax Bracket	AIUL 18 Interest Rate	Year Transfer is Illustrated
(Endorsement)	40.00%	40.00%	6.00%	16

7. Same total after-tax net cost to ER as Split Dollar Loan Design[1]
8. More total tax cost to EE than Split Dollar Loan ($795,456 vs. $538,000, or 48% more)
9. Less income than Split Dollar Loan ($173,189 vs. $222,326, or 22% less)

	Employer					Executive					
Male Age	(1) Net Payment	(2) Cumulative Net Payments	(3) Share of Policy Account Value*	(4) Share of Policy Cash Value*	(5) Share of Policy Death Benefit	(6) Net Payment	(7) After Tax Cash Flow Applied to Transfer	(8) Retirement Income After Tax Cash Flow	(9) Share of Policy Account Value*	(10) Share of Policy Cash Value*	(11) Share of Policy Death Benefit
65	0	600,000	0	0	0	0	0	173,189	1,613,469	1,613,469	2,429,145
66	0	600,000	0	0	0	0	0	173,189	1,666,002	1,569,939	2,255,277
67	0	600,000	0	0	0	0	0	173,189	1,797,539	1,524,022	2,077,822
68	0	600,000	0	0	0	0	0	173,189	1,931,256	1,476,292	1,896,376
74	0	600,000	0	0	0	0	0	173,189	2,769,997	1,137,330	1,275,830
79	0	600,000	0	0	0	0	0	173,189	3,465,589	723,993	897,272
84	0	600,000	0	0	0	0	0	173,189	4,080,929	99,906	303,953
89	0	600,000	0	0	0	0	0	0	4,518,294	68,794	294,708
94	0	600,000	0	0	0	0	0	0	4,984,043	10,936	10,936
99	0	600,000	0	0	0	0	0	0	5,572,958	14,627	14,627
	7 600,000					8 47,790	747,666	3,463,780			

[1]When an employer transfers property to an employee, it is treated as though the employer sold the property and distributed the cash to the employee, hence requiring the employer to recognize any built-up gain in the transferred property. The employer then can deduct the full fair market value of the property transferred as compensation (if reasonable) resulting in a net income tax deduction equal to its cost basis. Note, the analysis assumes the employer's and employee's tax rates are the same all years, which is done intentionally for illustrative and conceptual purposes to help illustrate the tax economics of the various strategies. In reality, tax rates will vary over time particularly as the individual income tax and pass-through business income tax provisions of the Tax Cuts and Jobs Act expire in 2026.

§ 162 Bonus Arrangement with a 15-Year Repayment Agreement

1. After-tax net cost to ER of annual (grossed up) bonuses
2. Premium equal to after-tax bonus plus tax cost of the Split Dollar Loan Design
3. Annual after-tax net cost to EE equal to Split Dollar Loan tax cost

Employer's Tax Bracket	Executive's Tax Bracket	AIUL 18 Interest Rate	Initial Payment	Initial Death Benefit
40.00%	40.00%	6.00%	76,500	1,748,035

		Employer's Costs		Executive's Costs				Executive's Values		
Year	Male Age	(1) Bonus to the Executive	(2) Cost of the Bonus (Net Payment)	(3) Policy Premium	- (4) Bonus from Employer	+ (5) Income Tax on Column (4)	= (6) Executive's Net Payment	(7) Retirement Income After Tax Cash Flow	(8) Year End Cash Value*	(9) Death Benefit
1	45	125,000	75,000	76,500	125,000	50,000	1,500	0	23,784	1,816,581
2	46	125,000	75,000	78,000	125,000	50,000	3,000	0	99,762	1,891,647
3	47	125,000	75,000	79,500	125,000	50,000	4,500	0	182,389	1,973,362
4	48	125,000	75,000	81,000	125,000	50,000	6,000	0	281,462	2,063,584
5	49	125,000	75,000	82,500	125,000	50,000	7,500	0	383,142	2,161,958
6	50	125,000	75,000	84,000	125,000	50,000	9,000	0	493,615	2,269,275
7	51	125,000	75,000	85,500	125,000	50,000	10,500	0	613,900	2,386,368
8	52	125,000	75,000	87,000	125,000	50,000	12,000	0	744,440	2,514,135
9	53	0	0	12,000	0	0	12,000	0	811,656	2,514,135
10	54	0	0	12,000	0	0	12,000	0	881,860	2,514,135
11	55	0	0	12,000	0	0	12,000	0	958,126	2,514,135
12	56	0	0	12,000	0	0	12,000	0	1,039,558	2,514,135
13	57	0	0	12,000	0	0	12,000	0	1,127,392	2,514,135
14	58	0	0	12,000	0	0	12,000	0	1,221,801	2,514,135
15	59	0	0	12,000	0	0	12,000	0	1,323,296	2,514,135
16	60	0	0	0	0	0	0	0	1,423,291	2,514,135
17	61	0	0	0	0	0	0	0	1,530,881	2,514,135
18	62	0	0	0	0	0	0	0	1,646,970	2,514,135
19	63	0	0	0	0	0	0	0	1,772,300	2,514,135
20	64	0	0	0	0	0	0	0	1,907,672	2,514,135

§ 162 Bonus Arrangement with a 15-Year Repayment Agreement

4. Less income than Split Dollar Loan Design ($193,264 vs. $222,326, or 13% less)
5. Same total after-tax net cost to ER as both Split Dollar Designs[1]
6. Total tax cost to EE equal to Split Dollar Loan tax cost

Employer's Tax Bracket	Executive's Tax Bracket	AIUL 18 Interest Rate	Initial Payment	Initial Death Benefit
40.00%	40.00%	6.00%	76,500	1,748,035

		Employer's Costs		Executive's Costs				Executive's Values		
Year	Male Age	(1) Bonus to the Executive	(2) Cost of the Bonus (Net Payment)	(3) Policy Premium -	(4) Bonus from Employer +	(5) Income Tax on Column (4) =	(6) Executive's Net Payment	(7) Retirement Income After Tax Cash Flow	(8) Year End Cash Value*	(9) Death Benefit
21	65	0	0	0	0	0	0	193,264	1,864,250	2,320,871
22	66	0	0	0	0	0	0	193,264	1,819,476	2,146,982
23	67	0	0	0	0	0	0	193,264	1,773,012	2,074,424
24	68	0	0	0	0	0	0	193,264	1,723,239	2,004,718
30	74	0	0	0	0	0	0	193,264	1,328,979	1,459,570
35	79	0	0	0	0	0	0	193,264	835,241	999,847
40	84	0	0	0	0	0	0	193,264	94,679	287,867
45	89	0	0	0	0	0	0	0	65,168	279,057
50	94	0	0	0	0	0	0	0	10,323	10,323
55	99	0	0	0	0	0	0	0	13,723	13,723
		1,000,000	600,000	738,000	1,000,000	400,000	138,000	3,865,280		

[1]Note, in the 162 bonus design the income tax deduction is realized as the premiums are paid vs. after 15 years with the split dollar loan and stay-bonus repayment design. Hence, the present value of the employer's cost might be lower with the bonus design since the tax savings are realized sooner. The total nominal dollar cost is the same assuming the employer's tax rate is the same all years which may not be the case in reality. Note, the analysis assumes the employer's and employee's tax rates are the same all years, which is done intentionally for illustrative and conceptual purposes to help illustrate the tax economics of the various strategies. In reality, tax rates will vary over time particularly as the individual income tax and pass-through business income tax provisions of the Tax Cuts and Jobs Act expire in 2026.

§ 162 Bonus Arrangement with a 15-Year Repayment Agreement

1. Repayment schedule designed in this example so the cash value net of repayment of the pre-tax bonuses is roughly equal to EE's own payments to the policy plus income taxes due on gain if policy is surrendered (actual repayment schedule can be customized per the preferences of the ER and EE)[1]

[1]Employee may be able to deduct the repayment under IRC § 1341 (computation of tax where taxpayer restores an amount held under a claim of right) which can be factored into the arrangement.

Male Age	AIUL 18 Interest Rate	Initial Death Benefit
45	6.00%	1,748,035

Year	Male Age	(1) Bonus Paid to the Executive	(2) Cumulative Bonus Paid to the Executive	(3) % of Bonus Due if Executive Terminates	(4) Amount of Repayment Due by Executive	(5) Executive's Policy Cash Value*	(6) Executive's Net Gain/Loss** (5) - (4)	(7) Executive's Policy Death Benefit †
1	45	125,000	125,000	17.83%	22,288	23,784	1,496	1,816,581
2	46	125,000	250,000	38.10%	95,250	99,762	4,512	1,891,647
3	47	125,000	375,000	46.24%	173,400	182,389	8,989	1,973,362
4	48	125,000	500,000	53.29%	266,450	281,462	15,012	2,063,584
5	49	125,000	625,000	57.70%	360,625	383,142	22,517	2,161,958
6	50	125,000	750,000	60.97%	457,275	493,615	36,340	2,269,275
7	51	125,000	875,000	63.22%	553,175	613,900	60,725	2,386,368
8	52	125,000	1,000,000	65.43%	654,300	744,440	90,140	2,514,135
9	53	0	1,000,000	68.74%	687,400	811,656	124,256	2,514,135
10	54	0	1,000,000	72.23%	722,300	881,860	159,560	2,514,135
11	55	0	1,000,000	76.09%	760,900	958,126	197,226	2,514,135
12	56	0	1,000,000	80.25%	802,500	1,039,558	237,058	2,514,135
13	57	0	1,000,000	84.80%	848,000	1,127,392	279,392	2,514,135
14	58	0	1,000,000	89.75%	897,500	1,221,801	324,301	2,514,135
15	59	0	1,000,000	95.12%	951,200	1,323,296	372,096	2,514,135
16	60	0	1,000,000	0.00%	0	1,423,291	1,423,291	2,514,135
17	61	0	1,000,000	0.00%	0	1,530,881	1,530,881	2,514,135
18	62	0	1,000,000	0.00%	0	1,646,970	1,646,970	2,514,135
19	63	0	1,000,000	0.00%	0	1,772,300	1,772,300	2,514,135
20	64	0	1,000,000	0.00%	0	1,907,672	1,907,672	2,514,135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