



Business Planning Techniques

Business Planning Strategies

BUSINESS PLANNING TECHNIQUES

Plan	Objective	Payor	Owner	Beneficiary
Buy-sell cross purchase	Disposal of business interest by transferring ownership to surviving co-owners who continue business.	Each partner or stockholder pays premiums for policy on the life of partner(s) or co-stockholder(s).	Each partner or stockholder owns policy on the life of partner(s) or co-stockholder(s).	Each partner or stockholder is beneficiary of the policy that party owns on life of partner(s) or co-stockholder(s); proceeds used to buy interest from deceased owner's estate.
Buy-sell stock redemption or entity purchase	Disposal of business interest by having business purchase deceased's interest.	Business	Business	Business – proceeds used to buy interest from deceased owner's estate.
Partial stock redemption under § 303 of the Internal Revenue Code (IRC)	Transfer ownership of close corporation to heirs but also convert some shares to cash for estate clearance costs.	Corporation	Corporation	Corporation – proceeds used to purchase stock from estate of deceased stockholder in amount limited to estate settlement costs.
Key employee life insurance	Provide protection to offset financial losses to a business due to death of valuable employee.	Business	Business	Business – proceeds offset reduced profits and help pay for replacement upon key employee's death.
Disability income for key employees (sick pay plan)	Provide salary continuation plan for selected employee during period of disability.	Business	Covered employee	Covered employee – benefits offset salary lost while unable to work.

The information provided is not written or intended as specific tax or legal advice. MassMutual®, its subsidiaries, employees and representatives are not authorized to give tax or legal advice. Individuals are encouraged to seek advice from their own tax or legal counsel. Individuals involved in the estate planning process should work with an estate planning team, including their own personal legal or tax counsel.

NOT A BANK OR CREDIT UNION DEPOSIT OR OBLIGATION • NOT FDIC OR NCUA INSURED • NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY • NOT GUARANTEED BY ANY BANK OR CREDIT UNION

Federal Income Tax Aspects

Business	Employee	Deceased's Family	Federal Estate Tax Aspects
	Premiums not deductible. Proceeds not taxable.	"Step-up" in basis usually applies. If purchase price does not exceed stepped-up basis, there is no tax.	The value of the decedent's business interest is included in his or her estate.
Premiums not deductible – proceeds not taxable.		"Step-up" in basis usually applies. If purchase price does not exceed stepped-up basis, there is no tax.	The value of the decedent's business interest is included in his or her estate.
Premiums not deductible – proceeds not taxable.		"Step-up" in basis usually applies. If purchase price does not exceed stepped-up basis, there is no tax.	The value of the decedent's business interest is included in his or her estate.
Premiums not deductible – proceeds not taxable. IRC § 101(j) rules required for death benefit to be income tax free: <ul style="list-style-type: none"> • Employer must give notice • Employee must consent in writing • Employee must meet status requirement* • Employer must file an annual Form 8925 			Considered a relevant factor in valuing shares of stock if deceased was an owner.
Premiums deductible.	Employer-paid premiums need not be included in gross income. Benefits then taxable to employee. If the employer pays the premium but the employer-paid premiums are included in the employee's taxable income (i.e., included in W-2 wages), then it is considered employee-paid, and benefits will be received income tax free.		

* Insured was employee at any time during 12 months before death or at time of issue, insured was: a director, 5% or greater owner, highly compensated, one of five highest paid officers, among the highest paid 35% of all employees.

Either employment status requirement must be met, not both.

BUSINESS PLANNING TECHNIQUES

Plan	Objective	Payor	Owner	Beneficiary
Split Dollar (Conventional non-equity)	Retention of key selected employee by helping employee purchase life insurance.	Business	Business or insured or third party (i.e., trust)	Business receives greater of premium costs or cash value – balance to employee's beneficiary.
Split Dollar loan arrangement	Retention of key selected employee by helping employee purchase life insurance.	Business pays all or part of premium payment	Insured or third party (i.e., trust)	Business interest in policy equal to its cumulative premiums.
Nonqualified deferred compensation	Retention of key executive by deferring taxable income and/or providing salary continuation plan.	Business	Business	Business – proceeds used to fund key executive's salary continuation plan.
Section 162 executive bonus plan	Retention of key selected employee by providing death and/or retirement benefits.	Business	Covered employee	As designated by covered employee.
Pension plan	Provide retirement benefits for employees, including stockholder-employees, on a tax-favored basis.	Business	Trustee – vesting schedule determines covered employee's ownership rights.	Usually trustee of plan with beneficiary under the plan as designated by covered employee, subject to qualified joint and survivor and pre-retirement survivor annuity requirements.
Profit sharing plan	Provide retirement benefits for employees, including stockholder-employees, on a tax-favored basis.	Business	Trustee – vesting schedule determines covered employee's ownership rights.	Usually trustee of plan with beneficiary under the plan as designated by covered employee, subject to qualified joint and survivor and pre-retirement survivor annuity requirements.

Federal Income Tax Aspects

Business	Employee	Deceased's Family	Federal Estate Tax Aspects
Premium paid not deductible. Proceeds received not taxable. Deduction for term cost taxable to the employee.	Taxed on economic benefit (one-year term costs).	Proceeds not taxable.	Proceeds received included in employee's gross estate if there are incidents of ownership, e.g., right to designate and change beneficiary.
Premium paid not deductible. Proceeds received not taxable. Business taxable on any interest payments received by policyowner.	Unless paid, employee taxed on imputed interest income equal to Applicable Federal Interest Rate (AFR) times loan balance.	Proceeds not taxable.	Proceeds received included in employee's gross estate if there are incidents of ownership, e.g., right to designate and change beneficiary.
Premiums not deductible. Death proceeds not taxable. Benefit payments deductible if reasonable compensation. Must comply with IRC § 409A rules.	Employer-paid premiums not treated as taxable income. Taxes deferred until executive receives benefits, which are considered ordinary income.	Benefit payments taxable as ordinary income when received.	Commuted value of remaining benefit payments included in executive's gross estate.
Premium deductible.	Employer-paid premiums considered taxable income. Benefits not taxable (except gain on surrender).	Proceeds not taxable.	Proceeds included in covered employee's gross estate due to policy ownership.
Contributions deductible provided they do not exceed the limits of IRC § 415.	Employer contributions not considered taxable income, except one-year term cost of insurance protection. Taxes deferred until benefits received. Benefits taxable as ordinary income.	Plan distributions are taxable as ordinary income; for a plan with life insurance, the death benefit in excess of the cash value is income tax free.	Qualified plan funds are included in the employee's gross estate.
Contributions deductible provided they do not exceed the limits of IRC § 415.	Employer contributions not considered taxable income, except one-year term cost of insurance protection. Taxes deferred until benefits received. Benefits taxable as ordinary income.	Plan distributions are taxable as ordinary income; for a plan with life insurance, the death benefit in excess of the cash value is income tax free.	Qualified plan funds are included in the employee's gross estate.

BUSINESS PLANNING TECHNIQUES

Plan	Objective	Payor	Owner	Beneficiary	Business
Individual Retirement Account (IRA)	Provide retirement benefits. Possible current tax deduction.	Individual participant (or spouse)	Individual	As designated by the owner.	
Nondeductible Individual Retirement Account (Roth IRA)	Provide tax-free withdrawals. No current tax deduction.	Individual participant	Individual	As designated by the owner.	
Group life insurance	Provide life insurance death benefit for employee's family.	Business	Business	As designated by covered employee. Employers cannot be a named beneficiary in most states.	The nondiscrimination rules require that the total employer-paid coverage provided to any key employee (as a multiple of compensation) must also be provided to at least: (1) 70% of all employees; (2) a group of employees of whom at least 85% are not key employees; or (3) a fair cross-section classification of employees that does not discriminate in favor of key employees.

Federal Income Tax Aspects

Employee	Deceased's Family	Federal Estate Tax Aspects									
<p>Deductible contributions up to specified amounts (see below) and also same permissible limits for nonworking spouse. Contribution limits are:</p> <table border="1"> <thead> <tr> <th style="text-align: left;">Years</th> <th style="text-align: center;">Regular</th> <th style="text-align: center;">Over Age 50</th> </tr> </thead> <tbody> <tr> <td>2020</td> <td style="text-align: center;">\$6,000</td> <td style="text-align: center;">\$7,000</td> </tr> <tr> <td>2021</td> <td style="text-align: center;">\$6,000</td> <td style="text-align: center;">\$7,000</td> </tr> </tbody> </table>	Years	Regular	Over Age 50	2020	\$6,000	\$7,000	2021	\$6,000	\$7,000	<p>IRA distributions are taxed as ordinary income. A surviving spouse can rollover the IRA into his or her own IRA.</p>	<p>IRA funds are included in the employee's gross estate.</p>
Years	Regular	Over Age 50									
2020	\$6,000	\$7,000									
2021	\$6,000	\$7,000									
<p>Nondeductible contributions up to specified amounts (see below) with income limitations. Contribution limits are:</p> <table border="1"> <thead> <tr> <th style="text-align: left;">Years</th> <th style="text-align: center;">Regular</th> <th style="text-align: center;">Over Age 50</th> </tr> </thead> <tbody> <tr> <td>2020</td> <td style="text-align: center;">\$6,000</td> <td style="text-align: center;">\$7,000</td> </tr> <tr> <td>2021</td> <td style="text-align: center;">\$6,000</td> <td style="text-align: center;">\$7,000</td> </tr> </tbody> </table> <p>After 2008, the \$5,000 contribution may be indexed for inflation in \$500 increments. "Qualified" distributions are income tax free.</p> <p>Roth contributions vary according to tax filing status, income levels, and age. Your total contributions to Roth and traditional IRAs cannot exceed the dollar limits above.</p>	Years	Regular	Over Age 50	2020	\$6,000	\$7,000	2021	\$6,000	\$7,000	<p>Qualified distribution not includible in gross income.</p>	<p>IRA funds are included in the employee's gross estate.</p>
Years	Regular	Over Age 50									
2020	\$6,000	\$7,000									
2021	\$6,000	\$7,000									
<p>Employer-paid premiums under nondiscriminatory plans not taxable income for up to \$50,000 of coverage. Coverage in excess of \$50,000 is taxable under IRC Table I values.</p>	<p>Proceeds not taxable.</p>	<p>Proceeds included in employee's gross estate, unless an absolute assignment of all incidents of ownership has been made more than three years before death.</p>									

MassMutual...

Helping you secure what matters most.

Since 1851, our business decisions have been guided by our customers' needs. Today, we offer a wide range of financial products and services to help people secure their future and protect the ones they love.

Learn more at www.MassMutual.com.

