Section 79 Plans

The theory behind a 79 plan is simple: Get permanent life insurance and a business deduction for the premiums. Can this be true? Is it really possible to use pre-tax dollars to buy life insurance?

Many payroll companies already offer deductible *non-discriminatory* inexpensive term insurance on employees' lives routinely. In 79 Plans, we try to buy a *discriminatory* cash-building policy for your key employee(s) and you. Then, theoretically, you can use the cash value to supplement retirement income.

Prior to the new 412(i) regulations (see the article on this), this plan was perhaps more tax-favorable. Now, 79 Plans may be more favorable. The rules are quite complex and violation of these rules can have serious consequences.

You may be a candidate for a 79 Plan if you are the owner, or key employee, of a company with fewer than five owners, and 40 employees. The term-insurance costs could be prohibitive if your company has more than 40 employees and five owners – unless every owner wants to take part.

Also, you may be a candidate if you seek a plan that does not have maximum funding limits, because there is no maximum to the premium for the purchase of a life policy other than the insurance carrier limits. (Usually this is a combination of death benefit exceeding 20 times earned income plus some net worth factor).

<u>Discriminatory 79 Plans</u>

It is possible to have what is deemed a Discriminatory Section 79 Plan. Your other employees receive and maintain their free term insurance benefit whether or not the plan is discriminatory. What if you have fewer than 10 employees? You probably will have to incur term insurance cost for them too.

Be careful about 79 Plans that are marketed too aggressively with regards to the tax advantage. Any amount over the limit is deemed a 'permanent benefit', and certain employees may have to recognize this benefit as taxable income and pay applicable taxes.

Contact us to determine your eligibility and the feasibility of a 79 Plan.