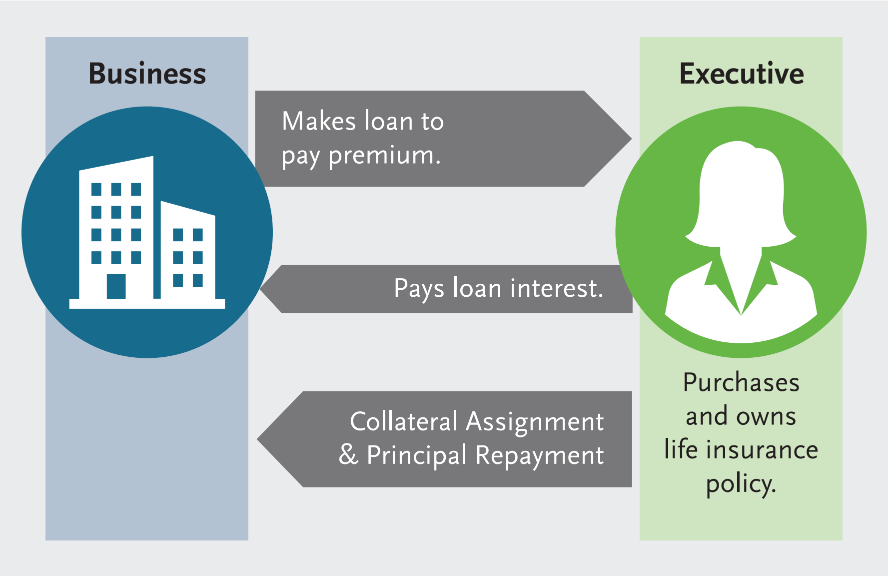
National Life Group®

How Split Dollar Loans Work

Split dollar is a way to use business funds to help pay for a personally owned permanent life insurance policy.

There are two ways to view how Split Dollar loan Plans work. One is through a basic flow chart, the other is on a balance sheet.

This flow chart represents the flow of funds and benefits in a Split Dollar Loan. The policy is personally owned by the Executive. The business pays the premium on the policy which is treated as a loan to the Executive. To protect the business' interest in the arrangement, the Executive collaterally assigns the policy to the business and pays interest to the business on the loan each year.



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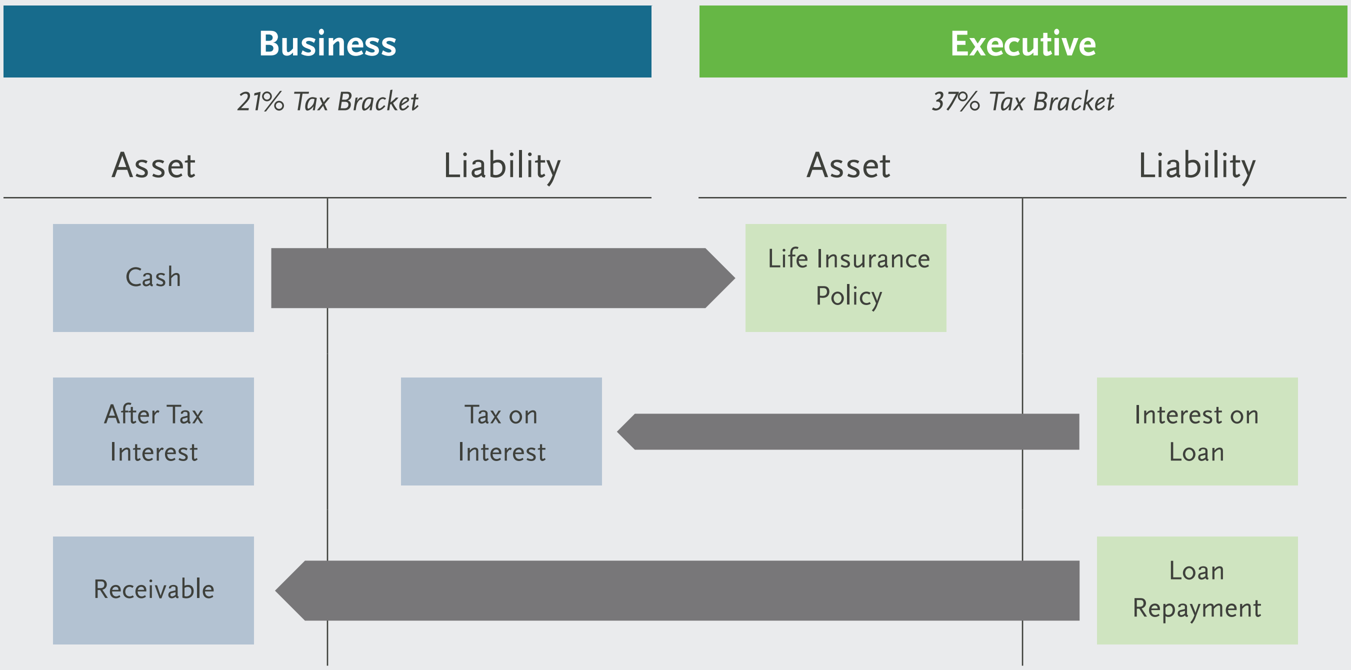
Split Dollar Loans on Your Business and Personal Balance Sheets



These simplified balance sheets show the business on the left and the Executive's personal balance sheet on the right. We note that the business is a C-Corporation in a 21% tax bracket and the Executive's personal tax bracket is 37%. In this example, the Executive acquires a personally owned permanent life insurance policy. By using split dollar, the business can pay the premium on the policy using their 21% tax bracket, and treat that payment as a loan to the Executive who will pay interest to the business. The interest received by the business is treated as taxable income and the after-tax interest is a business asset. Upon the death or retirement of the covered Executive, the loan is repaid to the business through either the policy benefit if there is sufficient cash value or out-of-pocket. At that point, the loan repayment retires the debt and the remaining receivable becomes cash available to the business.