



## **Split Dollar in the 21st Century**

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What follows is a summary of the features of the split dollar arrangements that survived the final split dollar regulations issued in September 2003 along with illustration resources for each one.

a) Endorsement Split Dollar is an arrangement in which the policy owner is an employer and a portion of the policy death benefit is assigned to the insured participant's family. For illustrations of this variation, see the module named Endorsement Split Dollar available under the Split Dollar tab in Version 15.0 (and higher) of the InsMark Illustration System. There should be no adverse tax consequences associated with the policy cash values caused by the final split dollar regulations. Documents for this variation have been included in Version 18.0 (and higher) of InsMark's Documents On A Disk<sup>®</sup> System and Documents On The Net System<sup>™</sup>.

b) Endorsement Split Dollar with Optional Transfer is a powerful planning technique particularly for sole and majority shareholders. With this plan, the employer owns the policy but has the *option* to transfer the policy to the insured participant at a future point. While this tends to limit the use of this plan for non-shareholder key executives due to the uncertainty of the transfer, it still leaves substantial use of this strategy for sole and majority shareholders. (Owners need no contractual certainty.) This plan also allows great flexibility in determining the best tax environment in which to make the transfer. A spike in income taxes by the employer coupled with an unexpected dip in the executive's tax bracket could make for perfect transfer timing. For illustrations of this variation, see the module named Endorsement Split Dollar with Optional Transfer available under the Split Dollar tab in Version 15.0 (and higher) of the InsMark Illustration System. Documents for this variation have been included in Version 18.0 (and higher) of InsMark's Documents On A Disk<sup>®</sup> System and Documents On The Net System<sup>™</sup>.

c) Endorsement Split Dollar with Salary Continuation is an arrangement in which the policy owner is an employer and policy values are loaned or withdrawn by the employer to fund the after tax cost of a taxable retirement income payment to the executive. For illustrations of this variation, see the module named Endorsement Split Dollar with Salary Continuation available under the Split Dollar tab in Version 15.0 (and higher) of the InsMark Illustration System. Documents for this variation have been included in Version 18.0 (and higher) of InsMark's Documents On A Disk<sup>®</sup> System and Documents On The Net System<sup>™</sup>.

d) Limited Collateral Assignment Split Dollar is an arrangement in which the policy owner is typically a trust that assigns all cash values to the sponsoring employer. For illustrations of this variation, see the module named Limited Collateral Assignment Split Dollar available under the Split Dollar tab in Version 15.0 (and higher) of the InsMark Illustration System. Documents for

this variation have been included in Version 18.0 (and higher) of InsMark's Documents On A Disk<sup>®</sup> System and Documents On The Net System<sup>™</sup>.

e) Private Limited Collateral Assignment Split Dollar is an arrangement in which the policy owner is typically a trust that assigns all cash values to the sponsoring parent. For illustrations of this variation, see the module named Private Limited Collateral Assignment Split Dollar available under the Split Dollar tab in Version 15.0 (and higher) of the InsMark Illustration System. Documents for this variation have been included in Version 18.0 (and higher) of InsMark's Documents On A Disk<sup>®</sup> System and Documents On The Net System<sup>™</sup>.

**Note:** We recommend that you no longer have the executive pay any portion of the policy premium in any form of employer-owned Endorsement or Limited Collateral Split Dollar since, under the final split dollar regulations issued in September 2003, such payments represent income to the employer. Instead, design your plans so the economic benefit is imputed to the executive. In any of the employer-sponsored split dollar illustration modules in the InsMark Illustration System, you can zero out the executive's *out-of-pocket* income tax costs on the imputed income by selecting a gross-up bonus. This should not be an issue with trust-owned plans providing the trust is a grantor trust as income tax consequences on transactions between the trust and its grantor are ignored. (IRC Secs. 671 & 675, IRS Reg. 1.671-2(c), and Rev. Rul. 85-13.)

f) Loan-Based Split Dollar is a high-powered arrangement involving employer-sponsored loans that fund an executive-owned policy. In the InsMark design, the loans are illustrated bearing interest at the Applicable Federal Rate ("AFR") established under IRC Sections 7872 and 1274(d). This overall strategy produces substantial cash value equity for the insured participant and is a powerful replacement for employer-sponsored equity split dollar plans that were eliminated by the final split dollar regulations. For illustrations of this variation, see the module named Loan-Based Split Dollar available in Version 2.1 (and higher) of the InsMark Loan-Based Split Dollar System. Documents for this variation have been included in Version 18.0 (and higher) of InsMark's Documents On A Disk<sup>®</sup> System and Documents On The Net System<sup>™</sup>.

g) Loan-Based Private Split Dollar is designed for use by wealthy parents and irrevocable trusts formed on behalf of their children. Utilizing a grantor trust as policy owner (see IRC Sections 671, 675, IRS Reg. 1.671-2(c), and Rev. Rul. 85-13), this System features loans from the grantor that allow virtually unlimited funding of irrevocable trusts. Loan-Based Private Split Dollar is one of the most efficient, parent-funded, trust-owned, wealth preservation strategies available. Documents for this variation have been included in Version 18.0 (and higher) of InsMark's Documents On A Disk<sup>®</sup> System and Documents On The Net System<sup>™</sup>.

h) Loan-Based Deferred Compensation uses split dollar principles that fund an executive-owned policy. The structure is similar to Loan-Based Split Dollar except the employer's cost is funded via a compensation reduction by the insured participant thus trading current taxable compensation for tax free retirement income (via policy loans). Any profit-making or tax exempt organization can use this arrangement, and the concept provides an irresistible executive benefit that typically produces a powerful credit to earnings for the employer in all years. For illustrations of this variation, see the module named Loan-Based Deferred Compensation available in Version 4.1 (and higher) of the InsMark Loan-Based Deferred Compensation System. Documents for this variation have been included in Version 18.0 (and higher) of InsMark's Documents On A Disk<sup>®</sup> System and Documents On The Net System<sup>™</sup>.

To review split dollar illustrations described in **a)** through **e)**, click here:

<http://insmark.com/ProductCenter/InsMarkIllustrationSystem/output.html>

To review loan-based split dollar illustrations described in **f)** and **g)**, click here:

<http://insmark.com/ProductCenter/LBSD/index.html>

To review a loan-based deferred compensation illustration described in **h)**, click here:

<http://insmark.com/ProductCenter/LBDC/output.html>

Note: There should be no adverse tax consequences associated with the policy cash values of any of the above variations that are caused by the final split dollar regulations.

Note: Data from each of the above listed split dollar strategies can be imported into Wealthy and Wise<sup>®</sup>, InsMark's wealth preservation planning system.

If you are not licensed for any of the above-referenced InsMark Systems and would like more information, please contact an InsMark Account Executive at 1-888-InsMark (467-6275). Institutional inquiries should be made to David A. Grant, Sr. V.P. - Sales at 1-925-543-0513 or [dag@insmark.com](mailto:dag@insmark.com).

**Important Notice:** The information in this article is for education purposes only. The approval of a client's legal and tax counsel must be secured before implementing any form of split dollar.

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