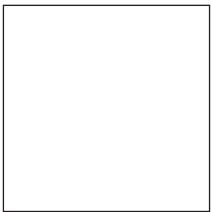


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Life Insurance for the Business Owner

In addition to personal life insurance, small business owners have specific needs that can be solved with the use of life insurance. There are several areas in which life insurance can be used to benefit the business owner. Three of these are:

- Key Person Life Insurance
- Funding of Buy Sell Agreement
- Life Insurance in the Sale of Your Practice



In this issue we address the need for Key Person Life Insurance. Key person life insurance helps reimburse a business for economic loss when a key employee dies. The insurance covers the life of an employee who is critical to the success and profitability of the business and can be used to offset business risk. In the event of a loss, proceeds can offset interrupted or lost cash flow, provide funds to hire a temporary substitute, and offset expenses for short term operations and the cost of hiring a qualified replacement.

A key employee generally is an employee or owner who has a significant impact on the revenues or functioning of the practice. If the loss of a key employee or partner would reduce your sales or business earnings, create a loss of a specialized skill, disrupt the daily operation of your business, or create concern among customers about the loss of expertise, then you should consider the need for key person coverage.

In purchasing key person insurance, the business applies for and is the beneficiary of a life insurance policy covering a key employee. If the insured employee dies, the business owner receives the policy proceeds. Premiums aren't deductible, but death proceeds are federal income tax free to the business if the policy is structured properly.

The benefits are that death proceeds are generally exempt from federal income tax. However, C-Corporations may be subject to the corporate alternative minimum tax on part of the death proceeds.

The policy generally demonstrates financial stability to creditors. If the key employee is an owner of the business, the policy can help fund a buy-out of his or her business interest when death occurs.

When using whole life or cash value life insurance, the cash value can be used to provide cash to the business or to provide compensation.

Term insurance is the least expensive and most flexible type of policy to provide coverage. However, it does not have any cash value buildup. Coverage, not cash value, is the most important aspect, so if cost is an issue, purchase term insurance.

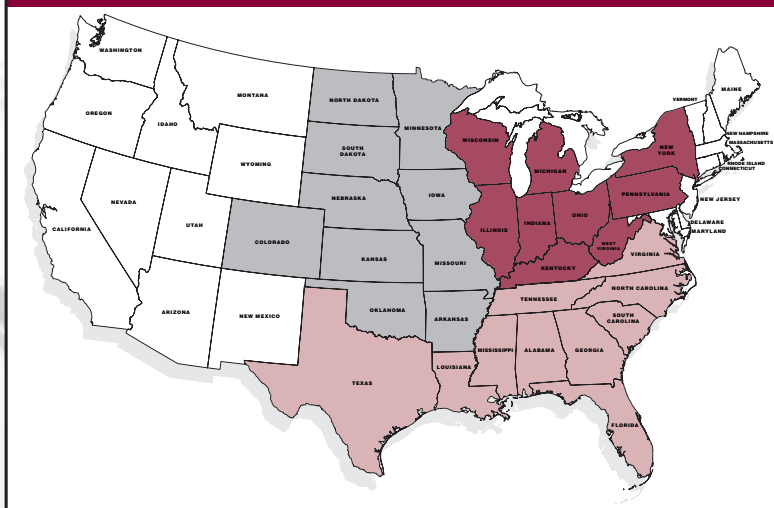
Careful consideration should be used to determine your company's specific needs, and the proper structure of the Key Person life insurance policy.

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