

# Planning Memo: Key Person LLP

---

**Problem: Traditional Key Person Life Insurance is owned by the company.**

1. The premiums are non-deductible.
2. Proceeds are exposed to the claims of company creditors.
3. A transfer of the policy to the insured is a taxable event.
4. Proceeds taken out of the company by the surviving partner are taxable.

**Solution: A Key Person LLP fits many business owners' needs.**

1. Premiums can be deducted by the corporation as compensation, or
2. Premiums can be taxed to the company under a split dollar arrangement.
3. Proceeds are not exposed to creditors of the company or of the partners.
4. Proceeds received by the LLP are not taxable.
5. A transfer of the policy to the insured can be non-taxable.
6. Proceeds can be loaned to the company or kept by the partner.

**Additional Advantages:**

1. Provides an alternate investment opportunity for business owners.
2. Values accumulate and are withdrawn on a tax-favored basis.
3. Loans to company of proceeds create a source of future tax-free withdrawals.
4. Premiums and values can be adjusted annually to meet plan goals.
5. Future insurability will be protected for each insured partner.
6. The LLP can purchase other assets to provide future non-FICA income.
7. Cash value can be structured to be equal, regardless of age differences.
8. The deceased partner's share of the cash value account can be paid to heirs.

**Specific Application to Your Corporation:**

Most companies have corporate-owned key person life insurance – or none at all. You should consider the advantages, both short and long-term, of a Key Person LLP.