

**DISABILITY TAXGUIDE TABLE**

POLICY OWNER	PREMIUM PAYER	BENEFITS PAYABLE TO (Loss Payee)	TAX RESULTS	
			PREMIUMS	BENEFITS
<b>INDIVIDUAL DISABILITY INCOME</b>				
Individual	Individual	Individual	Non-deductible (IRC § 213, 262 § 265)	Tax free (IRC § 104 (a)(3))
<b>FORMAL SALARY CONTINUATION PLAN USING DISABILITY POLICIES</b>				
Sole Proprietor	Sole Proprietor	Sole Proprietor	Any form of business entity may establish a plan. However, since sole proprietors, partners and owners with greater than 2% interest in S corporations are not considered employees (IRC § 1372), they cannot participate in the plan. (They can, however, establish a plan for their employees.) On the other hand, owners of C corporations are considered owner employees and may participate in the plan	N/A
Partner, Limited Liability Company (LLC)/Member	Partnership/Limited Liability Company (LLC)	Partner/Limited Liability Company (LLC) Member		
S-Corporation owner (more than 2% Ownership)	S-Corporation	S-Corporation owner		
C-Corporation owner/employee	C-Corporation	C-Corporation owner/employee	Deductible by employer (IRC § 162) and non-taxable to employee (IRC § 106)	Taxable (IRC § 105 (a)) with tax credit possible (IRC § 22)
Employee with no ownership	Any business entity	Employee	Deductible by employer (IRC § 162) and non-taxable to employee (IRC § 106)	Taxable (IRC § 105(a)) with tax credit possible (IRC § 22)
Employee with no ownership	Any business entity shared by employer and employee	Employee	Employer share deductible to employer (IRC § 162) and non-taxable to employee (IRC § 106). Employee share non-deductible (IRC § 213).	Employer share taxable (IRC § 105(a)) with tax credit possible (IRC § 22). Employee share tax free (IRC § 104(a)(3)).
<b>EXECUTIVE BONUS PLAN USING DISABILITY POLICIES</b>				
Sole Proprietor	Sole Proprietor	Sole Proprietor	Non-deductible (IRC § 213, 262 & 265)	Tax free (IRC § 104(a)(3))
Partner/LLC Member	Partnership/LLC	Partner/LLC Member	Deductible by Partnership; includible in income of partner as guaranteed payments (Rev. Rul. 91-26)	Tax free (IRC § 104(a)(3))
S-Corporation Owner (more than 2% ownership)	S-Corporation	S-Corporation owner	Deductible by S-Corporation; includible in W-2 income of Shareholder/Employee (Rev. Rul. 91-26)	Tax free (IRC § 104(a)(3))
C-Corporation Owner/Employee	C-Corporation	C-Corporation Owner/Employee	Deductible by C-Corporation as regular compensation (IRC § 162); taxable as income to Employee	Tax free (IRC § 104(a)(3))
Employee with no ownership	Any entity	Employee	Deductible by business as regular compensation (IRC § 162); taxable as income to Employee	Tax free (IRC § 104(a)(3))
<b>PREMIUM ONLY PLAN USING DISABILITY POLICIES</b>				
Employee	Employee	Employee	Non-deductible by Employer. However premiums are paid by the employee with before-tax dollars, resulting in federal, state and FICA tax savings for the employee and FICA tax savings for the employer (IRC § 105(5)).	Taxable (IRC § 104 (a)(3))
<b>OVERHEAD EXPENSE</b>				
Sole Proprietorship	Sole Proprietorship	Sole Proprietorship	Deductible (Rev. Rul. 55-264, 1955-1 C.B. 11)	Reportable as income (Rev. Rul. 55-264, 1955-1 C.B. 11). Although the benefits are taxable as income, the actual business expenses are deductible.
Partnership/LLC	Partnership/LLC	Partnership/LLC		
Corporation	Corporation	Corporation		
<b>DISABILITY BUY-OUT - NOTE: THE INSURED MAY NOT BE THE POLICYOWNER</b>				
Partnership/Limited Liability Company (LLC)	Partnership/Limited Liability Company (LLC) - Entity Purchase	Partnership/Limited Liability Company (LLC)	Non-deductible (IRC § 265; Rev. Rul. 66-262, 1966-2 C.B. 105)	*Tax free (IRC § 104 (a)(3)); Rev. Rul. 66-262, 1966-2 C.B. 105)
Partner/LLC Member	Partner/LLC Member - Cross Purchase	Partner/LLC Member		
Corporation	Corporation - Entity Purchase	Corporation		
Individual Shareholder	Individual Shareholder - Cross Purchase	Individual Shareholder		