

Case #1: Small business owner

Facts:

This business owner runs a small manufacturing company with stable market but narrow margins. He has moved to out sourced contract employees and has zero W-2 employees. At age 51 he can see the business surviving with small but steady growth. The entity structure is Sub-S Corporation. The company set up a profit sharing qualified plan but was never funded. He is spending \$18,000 after tax per year for Life insurance.

Problem

He has no retirement money set aside. He is worried that the only funds that will be available for him at retirement will be from the proceeds of a sale of the business. This is troublesome to him because he is aware that the sale of the business will produce significant income tax liability and the net proceeds would not give him a decent livable income flow. He is also fearful of the sale coming in the form of cash (owe taxes) and payout from new owner over time. This happened to a friend of his after 4 years into the buy-out. The guy now in his 70's has to go back to work!

Outcome

Improved cash flow with an immediate \$35,000 tax deduction. Reduced his after tax Life insurance premium to \$3,500 but kept intact the full amount of life insurance he was paying \$18,000 out of his pocket for!

This year's savings in personal cash flow will equal \$14,500 for premium and \$35,000 income tax deduction or \$12,950 at 37% bracket for a total of **\$27,450!** If he lowers his income takeout from the company and makes minor adjustments a sizable amount could be contributed to the profit sharing plan for his retirement. Of course he could just enjoy spending the \$2,287 a month on a new boat instead?