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Executive Bonus (Section 162) Plans



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Executive Bonus (Section 162) Plans

Definition

An executive bonus (Section 162) plan involves an addition to regular salary or compensation that is provided, usually near year-end, to enable employees to share in profits resulting from a successful year. Bonuses are often used for executives as an incentive-oriented form of compensation, based on the attainment of profit or other goals during the year.

Prerequisites

- You want to attract, motivate, and retain key employees
- You must stay within the parameters of "reasonable compensation" for tax purposes

Key Strengths

- Helps business to attract, motivate, and retain key employees
- Promotes increased productivity
- Tied to company performance
- Plan is flexible and easy to design
- Employee's income tax can be deferred to next year

Key Tradeoffs

- Deductibility limited to "reasonableness"

Variations from State to State

- Should be none, but it's wise to check the laws of your state to ensure that there are no unusual restrictions

How Is It Implemented?

- Simply pay bonuses to employees--the plan need not be in writing or filed with the government



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