Principal® Retirement+

The Need For Tax Diversification

As business owners prepare their retirement platform, they realize much of their retirement income will be taxable. Bonus plans from the Principal Financial Group® offer a number of different options for the timing and characterization of income taxes that may minimize the amount of income subject to tax at retirement.

Below is a chart addressing the general income taxation of a 401(k) plan and the potential tax implications of bonus plans. This chart only provides an overview of possible tax outcomes. It is merely intended to demonstrate that the nature and timing of taxation varies with the financial vehicle chosen. Consult with your professional tax advisor for specific tax outcomes as they relate to your specific situation.

Tax diversification

		BONUS PLANS FROM THE PRINCIPAL®		
	401(k) plan	Mutual fund financing	Annuity financing	Life insurance financing
Contribution				
Income Tax	No	Yes	Yes	Yes
FICA Taxes	Yes[1]	Yes[2]	Yes[2]	Yes[2]
Growth				
Tax-deferred	Yes	No	Yes	Yes
Distribution				
Income Tax	Yes	Yes[3]	Yes (LIFO)[4]	No (FIFO)[5]
Capital Gains	No	Yes[3]	No	No
Income taxable to heirs?	Yes	No	Yes	No

[1] Employer contributions to a qualified plan are excluded from the definition of "wages" under Social Security and are not subject to Social Security taxes.

[2] If business is an S corporation, FICA applies only if W-2 compensation is used.

[3] Mutual funds are taxed on income as distributed and can be treated as ordinary or capital gains in nature. To the extent the funds are invested in tax-exempt entities such as municipal bonds, income may be tax-free.

[4] If the contract has surrender charges, withdrawals beyond the free withdrawal provision may be charged. Withdrawals are taxable as ordinary income to the extent of the gain, and if taken before age 59½, a 10% penalty may apply.

[5] Withdrawals and loans taken from life insurance policies classified as modified endowment contracts may be subject to income tax and may also be subject to federal tax penalty if the withdrawal or loan is taken prior to age 59½. Withdrawals and loans from life insurance policies may reduce the amount payable to your beneficiaries at your death. Withdrawals and loans will also reduce the policy cash surrender value and may cause the policy to lapse. Lapse of a life insurance policy can cause loss of death benefit and adverse income tax consequences.

FOR MORE INFORMATION

Contact your financial representative.

WE'LL GIVE YOU AN EDGE®

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