

# Accounting guidelines for Bonus – LLC plans

The accounting effects of the financial transactions of these plans impact both the company and the LLC member's basis in the LLC. With this bonus plan, the accounting will vary depending on whether a member uses the guaranteed payment or the profit distribution design. However, the net effect on the basis of an LLC member's ownership interest in the LLC is basically the same regardless of the design used. The financial asset is owned by the LLC member, not by the company. As such, it's not an asset of the company, and does not appear on the company's balance sheet.

Here's an example of how the accounting varies between the two designs. It assumes an LLC member has an initial basis and is considering how to treat some current profits generated by the company.

## Journal transaction example:

This hypothetical example is for illustrative purposes only.

	Guaranteed Payment design	Profit distribution (K-1) design (active and non-active members)
Beginning member basis	\$200,000	\$200,000
Profit available	\$20,000	\$20,000
Guaranteed payment	\$20,000	\$0
Adjusted basis after profit	\$200,000	\$220,000
Profit distribution paid	\$0	\$20,000
Decrease in basis from profit distribution	\$0	\$20,000
Ending member basis	\$200,000	\$200,000

Note: This model does not reflect the deduction that may be available under the Tax Cuts and Jobs Act.



[principal.com](https://principal.com)

Insurance products issued by Principal National Life Insurance Company (except in NY) and Principal Life Insurance Company<sup>®</sup>. Plan administrative services offered by Principal Life. Principal Funds, Inc. is distributed by Principal Funds Distributor, Inc. Securities offered through Principal Securities, Inc., Member SIPC and/or independent broker/dealers. Referenced companies are members of the Principal Financial Group<sup>®</sup>, Des Moines, IA 50392.

The subject matter in this communication is educational only and provided with the understanding that Principal<sup>®</sup> is not rendering legal, accounting, investment, or tax advice. You should consult with appropriate counsel, financial professionals, and other advisors on all matters pertaining to legal, tax, investment, or accounting obligations and requirements.

No part of this presentation may be reproduced or used in any form or by any means, electronic or mechanical, including photocopying or recording, or by any information storage and retrieval system, without prior written permission from the Principal Financial Group<sup>®</sup>.

Principal<sup>®</sup>, Principal Financial Group<sup>®</sup> and the Principal logo design are registered trademarks of Principal Financial Services, Inc., a Principal Financial Group company, in the United States and are trademarks and service marks of Principal Financial Services, Inc., in various countries around the world.