

# Accounting guidelines for Key Person plans

Under a typical key person plan, the business is the owner and beneficiary of a life insurance policy on the key employee. The business pays all the premiums and receives all the policy proceeds upon the key employee's death to use as needed to cover losses and find and train a replacement.

### Journal transaction example

The employer is the owner and beneficiary of a \$1 million key person policy on a key employee. The annual premiums are \$20,000. Premiums for key person policies are not deductible. The employer obtained the key employee's notice and consent before acquiring the policy to comply with IRC Section 101(j). Each year the company must also file a completed IRS form 8925 and includes its employer-owned life insurance policies.

[This hypothetical example is for illustrative purposes only.](#)

1. The employer pays \$20,000 in life insurance premium out of company cash flow.
2. The cash surrender value (CSV) is accounted for as an asset and offsets the life insurance premium expense.
3. The key employee unexpectedly dies, and the employer collects a death benefit. The employer records a journal entry for the \$1,000,000 of key person coverage it receives.

	Balance Sheet		Income Statement	
	Debit	Credit	Debit	Credit
<b>1. Paying the annual premiums</b>				
Life insurance expense			\$20,000	
Cash		\$20,000		
<b>2. Booking the life insurance as an asset</b>				
Life insurance CSV	\$18,850			
Life insurance expense				\$18,850
<b>3. Death benefit received by company</b>				
Cash	\$1,000,000			
Life insurance CSV		\$18,850		
Life insurance proceeds				\$981,150



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