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NQDC Financing Options: Using Mutual Funds

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	No assets set aside at all (Employer simply pays benefits out of cash flow)	Mutual funds with no trust or with Rabbi trust	Mutual funds with Secular trust
Consequences of dollars contributed -- employer	<ul style="list-style-type: none"> No dollars are contributed prior to actual distribution NQDC accounts maintained on paper only 	<ul style="list-style-type: none"> Employer receives no deduction at time of contribution NQDC accounts maintained on paper only 	<ul style="list-style-type: none"> Employer will generally receive a deduction for amounts contributed* NQDC accounts reflect real assets
Consequences of dollars contributed -- employees	<ul style="list-style-type: none"> No dollars are contributed prior to actual distribution NQDC accounts maintained on paper only 	<ul style="list-style-type: none"> No current income tax to employees 	<ul style="list-style-type: none"> Employee generally considered to receive taxable income*
Tax consequences during accumulation period	<ul style="list-style-type: none"> Since no assets are contributed or set aside, there is no accumulation 	<ul style="list-style-type: none"> Employer pays tax on earnings and any realized gain 	<ul style="list-style-type: none"> Employee generally pays income tax on earnings and realized gain** The legal structure of some secular trusts results in taxation of unrealized appreciation, and taxation of otherwise tax-free or tax-deferred earnings Secular trust itself may be subject to tax on earnings and realized gain
Access to assets during accumulation period	<ul style="list-style-type: none"> There are no assets to access 	<ul style="list-style-type: none"> Assets held outside of trust can be accessed by employer Assets held within Rabbi trust generally are beyond the reach of employer, but subject to claims of employer's bankruptcy and insolvency creditors 	<ul style="list-style-type: none"> Employer cannot access amounts held in secular trust Amounts in secular trust are generally not subject to claims of employer's general creditors
Can employee direct investment of assets during accumulation period?	<ul style="list-style-type: none"> No assets to direct "Earnings" on paper account could be based on employee-directed investment of phantom dollars 	<ul style="list-style-type: none"> "Earnings" on paper account could be based on employee-directed investment of phantom dollars 	<ul style="list-style-type: none"> Employee can direct investment of assets

<p>How are distributions made from nonqualified deferred compensation plan?</p>	<ul style="list-style-type: none"> • Distributions made from employer cash flow on as-needed basis • If cash flow insufficient, employer may have to borrow to meet obligation 	<ul style="list-style-type: none"> • Assets held outside of Rabbi trust can be liquidated to meet obligation; if assets insufficient, employer may have to borrow • If assets are held within Rabbi trust, funds may be directly applied to distribution obligation 	<ul style="list-style-type: none"> • Funds in secular trust are directly applied to distribution obligation
<p>Tax considerations upon distribution -- employer</p>	<ul style="list-style-type: none"> • Employer may deduct full amount of NQDC plan benefit payments 	<ul style="list-style-type: none"> • Employer may deduct full amount of NQDC plan benefit payments 	<ul style="list-style-type: none"> • Employer may deduct amounts not previously deducted
<p>Tax considerations upon distribution -- employee</p>	<ul style="list-style-type: none"> • Amount received is taxable income to employee 	<ul style="list-style-type: none"> • Amount received is taxable income to employee 	<ul style="list-style-type: none"> • Taxation upon distribution depends upon structure of secular trust -- often tax due on earnings already taxed to trust, a form of "double taxation"
<p>Upon death of employee</p>	<ul style="list-style-type: none"> • Unpaid benefits paid to employee's beneficiary • Amount received is taxable income to beneficiary 	<ul style="list-style-type: none"> • Unpaid benefits paid to employee's beneficiary • Amount received is taxable income to beneficiary 	<ul style="list-style-type: none"> • Unpaid benefits paid to employee's beneficiary • Amount received is taxable income to beneficiary

* Provided amounts are not subject to a substantial risk of forfeiture

** Tax treatment depends upon whether secular trust is employer secular trust or employee secular trust, and whether participant is a highly compensated employee

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