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RESTRICTED PROPERTY TRUST (RPT)

Concept Overview & Illustrations

BEFORE WE GET STARTED...

The Restricted Property Trust (RPT) is a vehicle for successful business owners to mitigate income taxes and appreciate assets. This plan offers considerable Pre-Tax Contributions, Tax Deferred Growth and Tax Advantaged Distributions.

What is a Restricted Property Trust (RPT)?
What are the objectives of an RPT?

The RPT is an employer-sponsored plan for owners and/or key executives. The primary objective of an RPT is to provide tax-favored long-term cash accumulation and income distribution in a conservative vehicle. An RPT can provide better results than an alternate investment earning 8%.

What are the tax characteristics of an RPT?

Each annual contribution is fully deductible by the employer and only partially taxable to the participant. Asset growth is in the cash value of a life insurance policy and therefore, is tax-deferred. The policy is distributed to the participant at plan termination, at which time a portion of the cash value is taxable.

What are the tax characteristics of an RPT?

Fully tax-deductible contributions are made by the business to an RPT for a select group of participants. Of this, a portion is considered current taxable income to the participant. The remaining contribution funds the life insurance and is not considered taxable income to the participant.

The RPT tax treatment depends on two things: the provisions of the life insurance contract and the provisions of the trust. One key trust provision is that the employer must make the selected annual contribution each year for the restricted period. Failure to make the annual contribution causes both the policy to lapse and the surrendered proceeds to be given to a pre-selected charity. This creates a critical "risk of forfeiture." After the policy is distributed, the participant can maintain it for the death benefit, use it to generate non-taxable cash flow, exchange it for a larger income stream (annuity) or potentially exchange it for a larger guaranteed death benefit.

Who can participate in an RPT? Are there limits on participation?

This plan is available to anyone with earned income, whether from an S-Corp, Partnership or other business entity. An RPT is not a Qualified Plan, so participant limits and tests do not apply, and contributions to an RPT do not impact any Qualified Plan contributions. Each participant in an RPT can select their own level of contribution regardless of what other participants contribute.

CASE STUDY: MALE, AGE 50

BREAKOUT

$100,000 Contribution to Restricted Property Trust

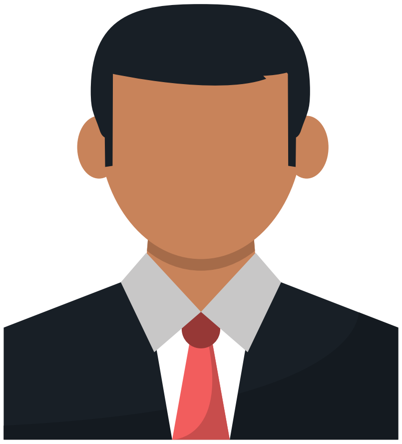
- Deductible Contribution from Business
- 10 Year Plan: 5 Year Commitment at a Time
- $700,000 Total Net Deductible Contributions

Supplemental Income | Flexible and Optional

- Illustrated from Age 65-84 (20 Years)
- $1,659,140 of Supplemental Income Illustrated Income Tax Free

Residual Benefit to Age 100

- $344,038 Income Tax Free Death Benefit
- $227,495 Policy Cash Value



$3,230,273 Initial Policy Death Benefit

- Payable to Participant's Chosen Beneficiary
- Increases to $4,271,048 by End of Year 10
- $1,863,635 (if) RPU after Distribution, Net of Tax

Immediate Tax Efficiency

- Tax rate during Plan Participation 15.4% vs 45.0%
- $296,248 Net tax savings during Plan Participation
- $100,000 Annual Deduction for Business
- $30,000 Taxable to Participant under 83(b) Election
- $2,907 Initial Taxable Economic Benefit to Participant
- $5,427 Final Year Taxable Economic Benefit to Participant

CASE STUDY: MALE, AGE 50
CONTINUED

Business Entity

Business Entity makes deductible contribution of $100,000 annually to Restricted Property Trust for 10 years. Asset grows tax-deferred.

Participant recognizes income on $30,000 of contribution (making 83(b) election) and on Economic Benefit cost of death benefit.

Restricted Property Trust

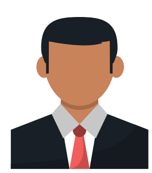
$3,230,273
Whole Life Policy

If Business Entity fails to make an annual contribution, the Restricted Property Trust surrenders policy and distributes trust corpus to charity.

Death benefit distributed to trust beneficiary named by Participant if death occurs during trust period.

Restricted Property Trust distributes policy to Participant at end of trust period. After distribution and withdrawal for tax payment, the death benefit is still in force.

Participant recognizes income on policy cash value in excess of value created by 83(b) elections and any growth attribute, Tax due is paid from Policy Values.



Individually Controlled Whole Life Policy

Non-taxable disbursement of $220,959 to Participant to fund estimated tax cost of trust distribution.

1. Non-Taxable disbursements to Participants of $1,659,140.
2. Tax-free Death Benefit to Beneficiary.
3. Non-taxable exchange to other insurance products.

RESTRICTED PROPERTY TRUST
CASH FLOW COMPARISON

Whole Life Insurance in Restricted Property Trust versus a 8%
Taxable Investment at 43% Tax Rate
Pre-Tax Equivalent of $124,545

		Restricted Property Trust Current Assumption Whole Life					Taxable Investment Comparison 8% Rate of Return		
Year	Age	Premium	Income	Income Taxes	Cash Value	Death Benefit	Contribution	Investment Balance	Net Income
1	51	100,000	-	-	27,005	3,305,581	68,500	71,514	-
2	52	100,000	-	-	72,471	3,386,371	68,500	146,175	-
3	53	100,000	-	-	170,177	3,466,722	68,500	224,120	-
4	54	100,000	-	-	278,071	3,553,475	68,500	305,496	-
5	55	100,000	-	-	391,957	3,652,969	68,500	390,451	-
6	56	100,000	-	-	511,976	3,758,040	68,500	479,145	-
7	57	100,000	-	-	642,402	3,872,791	68,500	571,742	-
8	58	100,000	-	-	780,354	3,999,104	68,500	668,412	-
9	59	100,000	-	-	926,306	4,131,975	68,500	769,336	-
10	60	100,000	-	-	1,080,657	4,271,048	68,500	874,701	-
11	61	-	-	(220,959)	910,085	1,863,635	-	913,188	-
12	62	-	-	-	963,119	1,916,492	-	953,368	-
13	63	-	-	-	1,019,168	1,971,993	-	995,317	-
14	64	-	-	-	1,078,340	2,030,284	-	1,039,110	-
15	65	-	(82,957)	-	1,053,001	1,930,510	-	998,224	(82,957)
16	66	-	(82,957)	-	1,026,040	1,832,821	-	955,539	(82,957)
17	67	-	(82,957)	-	997,219	1,736,713	-	910,976	(82,957)
18	68	-	(82,957)	-	966,505	1,641,763	-	864,451	(82,957)
19	69	-	(82,957)	-	933,764	1,547,730	-	815,880	(82,957)
20	70	-	(82,957)	-	898,823	1,454,292	-	765,172	(82,957)
21	71	-	(82,957)	-	861,487	1,361,246	-	712,232	(82,957)
22	72	-	(82,957)	-	821,701	1,268,543	-	656,963	(82,957)
23	73	-	(82,957)	-	779,152	1,201,807	-	599,263	(82,957)
24	74	-	(82,957)	-	733,592	1,138,135	-	539,023	(82,957)
25	75	-	(82,957)	-	684,836	1,071,364	-	476,133	(82,957)
26	76	-	(82,957)	-	632,660	1,001,281	-	410,476	(82,957)
27	77	-	(82,957)	-	576,622	935,050	-	341,930	(82,957)
28	78	-	(82,957)	-	516,401	866,417	-	270,367	(82,957)
29	79	-	(82,957)	-	451,675	792,642	-	195,656	(82,957)
30	80	-	(82,957)	-	382,069	713,555	-	117,658	(82,957)
31	81	-	(82,957)	-	307,179	628,824	-	36,228	(82,957)
32	82	-	(82,957)	-	226,565	538,159	-	-	(36,228)
33	83	-	(82,957)	-	139,823	441,108	-	-	-
34	84	-	(82,957)	-	46,484	337,187	-	-	-
Totals		**1,000,000**	**1,659,140**	**220,959**			**685,000**		**1,446,497**

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The views expressed are those of the author/presenter and all data is derived from sources believed to be reliable.

FREQUENTLY ASKED QUESTIONS

Benefits of Restricted Property Trusts include annual income tax savings, tax-deferred asset growth, fully deductible contributions for employers, creditor protection, flexible participation parameters, death benefit protections and greater returns on plan assets.

What is Restricted Property Trust (RPT)?

The RPT is an employee benefit plan that provides a 100% corporate tax deduction and only a partial current income inclusion, resulting in a significant net current deduction to owner-employees.

Is the RPT a qualified plan?

No. The RPT is governed under other Tax Code sections.
These code sections do have certain limitations.

What types of corporate entities are able to fund an RPT?

C-Corporations, S-Corporations, LLCs, and Partnerships may set up a Restricted Property Trust.
Sole proprietorships cannot.

Is a Restricted Property Trust a form of Deferred Compensation?

No. In a Deferred Compensation Plan the corporation only receives a deduction equal to the inclusion of the participant. In other words, Deferred Compensation cannot provide for a net current tax deduction.

Can the RPT be set up in favor of owners and key employees?

Yes. Unlike Qualified Plans, the Restricted Property Trust may be used exclusively to benefit the owners of the company. It is fully discriminatory.

What is the annual contribution limit?

The annual contribution limit is tied to "reasonable compensation." This would typically allow a high-income-earning business owner to contribute several hundred thousand dollars per year or more.

Does the Restricted Property Trust have a death benefit?

Yes. Should a participant die prior to completing the funding, a death benefit will be paid to the named beneficiaries, thereby self-completing the plan design.

Why doesn't everyone set up an RPT?

The RPT is not for everyone. First, the planned funding period and any plan extensions must be for no less than five years. If the company is unable to make the annual contribution to the RPT, the assets inside the plan are forfeited to a predetermined charity of the owners' choice.

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Contact us to learn more and find out if a Restricted Property Trust strategy may be right for your high-net worth client.

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