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ClientAdvisor

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Create a legacy that outlives you

Perpetually multiplying, inter-generational endowments for family members and non-profit organizations are managed through independent third-party administration.

How can productive individuals with substantial surplus income perpetually multiply their savings to support a non-profit organization with a mission close to their heart?

Alternatively, is it possible maximize the efficiency, control, and safety of the inter-generational multiplication of these savings for the benefit of the productive individual's families and heirs?

The **Permanent Endowment Program** was initiated was established in 1981 to achieve these goals.

Benefitting non-profit organizations

Non-profits participating in the Permanent Endowment Program work with specially trained Financial/Endowment consultants to obtain a written Permanent Endowment Creation Plan. "Significance Plans" are made available for potential donors who can make gifts of $1 million or more.

These affluent individuals are known to the non-profit organizations because of their past gifts or because of their reputations as donors to non-profit organizations. Gifts from Significance Plan donors fund the financial instruments that create the perpetually multiplying funding. Essentially, the Permanent Endowment buys life insurance policies on the lives of people whom the non-profit organization has an insurable interest. These include employees, directors, trustees, donors, and alumni of the organization. An average age of 45 for insureds is desirable.

At death, 80% of the death benefit is used by the charity for its charitable purposes. The other 20% buys more life insurance policies on new, additional individuals significant to the organization. Over several generations, the accumulated assets turn into billions of dollars.

The Permanent Endowment Program is managed by an independent third-party administrator to create the perpetually multiplying, intergenerational funding for the participating non-profit organizations. The perpetually multiplying funds received by the participating non-profit organizations are undesignated funds that can be used at the discretion of the organization to finance their infrastructure costs and their charitable project costs.

The second component of the permanent endowment program that creates perpetually multiplying funding for participating non-profit organizations is the full return of premium long-term care insurance program. Special design long term care insurance policies provide full return of premiums benefits that are paid to 501(c)(3) non-profit organizations that are designated as policy beneficiaries. These refunds of premiums create a source of funding for participating non-profit

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organizations to use to finance their infrastructure costs and their charitable project costs.

The premium costs of the long-term care insurance policies are deductible to the "C" status employer and do not create taxable income to the insured employees. Upon the death of the insured individuals, and irrespective of the amount of long-term care benefits received by the insured individuals during their lifetimes, 100% of the premiums paid by the employer to the plan are refunded to the named beneficiary of the policies (the non-profit organizations).

Benefitting Donor Advised Funds and Private Foundations

Any charitable structure can own the insurance policies. Accordingly, a Donor Advised Fund or Private Foundation can utilize a similar approach.

A **Donor Advised Fund (DAF)** is a charitable giving vehicle sponsored by a public charity created to manage charitable donations on behalf of organizations, families, or individuals. The DAF is a separately identified fund or account that is maintained and operated by a section 501(c)(3) organization.

A **Private Foundation**, by definition, is a 501(c)(3) organization, usually established for the purpose of granting money to charitable causes. It is the default category the IRS assigns a nonprofit seeking 501(c)(3) status, unless the applicant has requested and demonstrated suitability for public charity status.

In the case of a DAF or Private Foundation, the client simply makes charitable contributions to these entities. In all cases, the contributions are tax-deductible (subject to IRS limits), as the money will ultimately be allocated to charitable causes as designated by the IRS.

Private foundations also have the luxury of being independently managed and free of third parties who would otherwise be involved in a Donor Advised Fund.

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Benefiting family members and heirs

To provide an enduring economic safety net for the productive individual's families and heirs, a Trust or Family LLC can be used in place of a non-profit, DAF or Private Foundation. A tax deduction would not apply to these contributions, but important legacy planning is accomplished.

A perpetual endowment for family and heirs can provide peace of mind and implement critical estate planning. While the initial endowment may be subject to the annual Gift Tax exclusion limits, once the endowment is funded, the endowment's successive purchases of insurance policies (and the resulting death benefit proceeds) would be free of gift tax restrictions.

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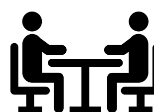

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IRS Tax-Deduction Limits

Individuals can claim deductions of both cash and non-cash items made to qualified organizations (public charities), with typical deductions not exceeding 60% of the taxpayer's adjusted gross income (AGI), or 50% of gifts of assets. Charitable deductions for contributions to foundations are limited to 30 percent of adjusted gross income for cash and 20 percent of adjusted gross income for long-term publicly traded appreciated securities. For contributions to a donor-advised fund, those limits are 60 percent and 30 percent, respectively.

Qualifying Charities

IRS Publication 78 is a document published by the Internal Revenue Service (IRS) that lists organizations that qualify to receive tax-deductible contributions, as described in Section 170(c) of the Internal Revenue Code of 1986.

The IRS offers an online version of IRS Publication 78 on its website, which allows taxpayers to quickly check to see if a charitable organization qualifies for tax-deductible contributions. The list is not all-inclusive and might not show every qualifying organization. So, an individual tax filer should check to see if an organization has a ruling or determination letter indicating that contributions to it are considered tax-deductible.

IRS Publication 78 should be viewed in conjunction with IRS Publication 561 and IRS Publication 526. Publication 526 provides instructions on how to claim a deduction for charitable contributions. IRS Publication 561 is designed to help donors determine the value of property (other than cash) that is given to qualified organizations, and what kind of information they are required to provide in order to verify the charitable contribution deduction they claim on their tax return.

Certain other eligible recipients of donations (i.e., churches, group ruling subordinates, and governmental units) are not listed in this database, according to the IRS, which states that you may deduct a charitable contribution made to, or for the use of, any of the following organizations that otherwise are qualified under section 170(c) of the Internal Revenue Code:

- A state or United States possession (or political subdivision thereof), or the United States or the District of Columbia, if made exclusively for public purposes
- A community chest, corporation, trust, fund, or foundation, organized or created in the United States or its possessions, or under the laws of the United States, any state, the District of Columbia, or any possession of the United States, and organized and operated exclusively for charitable, religious, educational, scientific, or literary purposes, or for the prevention of cruelty to children or animals
- A church, synagogue, or other religious organization
- A war veterans' organization or its post, auxiliary, trust, or foundation organized in the United States or its possessions
- A nonprofit volunteer fire company
- A civil defense organization created under federal, state, or local law (this includes unreimbursed expenses of civil defense volunteers that are directly connected with and solely attributable to their volunteer services)
- A domestic fraternal society, operating under the lodge system, but only if the contribution is to be used exclusively for charitable purposes
- A nonprofit cemetery company if the funds are irrevocably dedicated to the perpetual care of the cemetery as a whole and not a particular lot or mausoleum crypt

Beginning in the tax year 2019, taxpayers have been able to deduct up to 60% of their adjusted gross income (AGI) in charitable contributions.

Gift Tax Exclusion

The official estate and gift tax exemption climbed to $12.06 million per individual for 2022 deaths, up from $11.7 million in 2021. As the estate tax is assessed at 40% on the biggest estates, by transferring wealth to heirs early, clients can avoid the estate tax. They do so by making gifts—typically in the millions that eat up the $12 million exemption amount—and by making lots of $16,000 annual exclusion gifts that don't count against the $12 million.

In 2022, an individual can leave $12.06 million to heirs and pay no federal estate or gift tax, while a married couple can shield $24.12 million. For clients making big gifts, there are many ways to get money out of their estate: outright gifts, loans to family members and special trusts. The IRS does not levy gift taxes on trusts, nor does it consider payments from the trust to a beneficiary as a gift. The resulting accumulation may be taxable income to beneficiaries (heirs), however, if the trust purchases life insurance policies, the death benefit from life insurance is normally untaxed.

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