Dynamic Chiropractic

Building, Cutting, and Generating

Kenneth Satin, JD

You work hard building your practice. While you have given small donations to various worthwhile charities over the years, the idea of giving away major assets for charitable purposes never made sense.

Times have changed.

There is a method in which you can gives away that highly appreciated asset and use the gift to generate substantial monthly income, increase the worth of your family estate, and cut your income tax liability.

The key is to own an asset which has appreciated in value but generates little or no return. For example, let's suppose you purchased some stock 15 years ago and that you have held it all of this time or, alternatively, that you have a free and clear piece of highly appreciated real property in a desirable location.

A device which is becoming increasingly popular is the "charitable remainder unitrust." Utilizing the appropriate guidelines and executing a charitable gift correctly, you transfer the stock to a trustee of that unitrust. The trustee then sells the stock or real estate, takes the funds generated by the sale and invests those funds in such a manner so that a more significant yield is generated. Trusts are tax exempt in and of themselves and, accordingly, capital gains tax is avoided at that level. The trust then makes monthly, semi-annual or annual payments (or whatever is arranged by the doctor of chiropractic) over the course of his life. Upon death, the remainder of the trust is transferred to the charity.

On the other hand, the doctor of chiropractic might think this is not a good idea because now the valuable asset is no longer in his estate and won't be transferred to his family upon his death.

A simple solution is that from the extra income generated from the trust, the DC can create an irrevocable life insurance trust naming the family as beneficiary. That life insurance should serve as the security blanket for the family in replacement of the asset given to the charity.

For example, Doctor I.M. Successful has three children. He owns stock in XYZ Corporation which he bought 15 years ago for $5,000 but which is now worth $75,000. The annual yield is poor because the company rarely, if ever, pays dividends. Dr. Successful has the charitable unitrust created and transfers the stock into that unitrust. The trustee markets the stock. Upon sale he invests the proceeds in an interest bearing investment yielding $7,500 per annum.

Dr. Successful now received the $7,500 per year as opposed to a small dividend or nothing at all. The trust (being tax exempt) avoids capital gains tax on the sale and, accordingly, there is a substantial savings. A huge benefit is that having given the remainder interest in the asset away, Doctor

Successful receives a charitable deduction in accordance with an IRS table. This generates significant additional tax savings to him.

Earlier we mentioned protecting heirs with insurance to replace the lost assets. To achieve this, Dr. Successful creates an irrevocable life insurance trust naming his three children as beneficiaries. He transfers $2,500 into that trust. This is only one-third of the extra annual income being realized as a result of the monthly payments. Having established the trust as irrevocable, the proceeds of the life insurance policy should be excluded from the doctor's taxable estate.

The ultimate effect is that the $2,500 should purchase well in excess of $100,000 worth of insurance-generating cash value with the growth not being income taxed. As the death benefits grow the payment of the insurance at death should also be free of estate tax.

Kenneth A. Satin, J.D.
Newport Beach, California

Editor's Note:

Mr. Kenneth A. Satin's law firm is located at 4000 McArthur Street, Suite #950, Newport Beach, CA. 92660 (714) 851-1163. We thank Mr. Satin for providing this series of articles for our readers.

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