Sold The Family Business

How a $10 Million Tax Liability Became a $20 million Charitable Gift

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A Recent Case

This strategy can also be applied prior to, or following, the sale of real estate or an investment portfolio.

Overview

A multi-generation family business was sold for $60 million, creating a tax liability of $10 million.

Objective

Mitigate the tax liability using Philanthropy and Life Insurance.

What We Did

Created a Donor Advised Fund (DAF) with a community foundation (could also be done with a private foundation).

Client's initial deposit of $20 million generated a $20 million charitable receipt, completely offsetting the $10 million tax liability.

We structured a $20 million Life Insurance policy on a joint-last-to-die basis to restore the donated funds to the family.

Using the IFA Strategy (Immediate Financing Arrangement) we arranged for a financial institution to finance all the premiums, so client's money would continue to be used for investment, not paying for the Life Insurance.

Client pays IFA loan interest only, fully tax-deductible.

When the parents die, the family will receive the $20 million death benefit tax-free and the IFA borrowings will be repaid.

Outcome

The income tax liability of $10 million was eliminated by the $20 million charitable donation.

$10 million of tax became a $20 million charitable gift.

The Life Insurance was obtained without having funds tied up paying insurance premiums.

The $20 million Life Insurance proceeds to surviving family members replaced the $20 million donated to charity, so the family was made 'whole'.

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