TRENDS 360

Success Has a Tax – An Investor's Legacy Doesn't Have To

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BACKGROUND

A major liquidity event (e.g., business exit, transaction bonus, or retirement lump sum) can be optimized in ways that significantly alter the long-term trajectory of a family legacy. It's a time when families can reposition wealth so that future family generations have a larger family balance sheet to capitalize.

For such successful investors, a combination of life insurance and charitable planning can punctuate this successful moment in time. Interestingly, even the most life insurance reluctant investor will find solace in this strategy as the income-tax deduction and/or increased cash flow generated by the planning strategy can create an opportunity to fund life insurance without requiring additional outside assets. Still interested? If so, read on.

Charitable remainder trusts (CRTs) and grantor charitable lead annuity trusts (G-CLATs) create meaningful income tax benefits, preserve investment capital for future compounding, and even improve personal cash flow, while advancing philanthropic objectives.

These tools are largely the only ones sanctioned by the IRS to afford a willing participant an enhanced personal outcome while including their favorite charity (they could even be a personal donor advised fund or private foundation). It's hard to believe, but true – some of these strategies offer great income tax and estate-planning benefits, are on solid footing with the IRS, and may work favorably even with conservative designs and assumptions.





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In turn, those economic benefits can be used to support wealth-transfer planning through life insurance. This offers several tax-advantaged features under current law including potential income-tax-free death benefits, and (when properly structured) estate-planning advantages. When combined with charitable planning strategies, life insurance may help families pursue long-term legacy and wealth-transfer objectives.

A CRT defers and spreads the recognition of capital gain associated with an asset sale. A G-CLAT creates a substantial charitable income-tax deduction during a year of unusually high taxable income. In both cases, after considering trust design, investment performance, tax rules, costs, and the family's long-term objectives, the planning implications may extend beyond the immediate tax benefit, especially when used in tandem with life insurance.

Those benefits raise a foundational question for the truly intentional: Can dollars otherwise lost to income taxes be redirected toward family philanthropy (deeper family aims) and long-term generational wealth creation? The short answer is yes.

THE CONTEXT

However, the answer depends on timing. A now retired public company executive has a concentrated stock position in her former company with an exceptionally low basis. Her investment goal is simple – diversify. A CRT defers her gain recognition, preserving a larger pool of capital for investment, and consequently, personal cash flow.

If on the other hand, that same executive reaches mandatory retirement age and will now receive a lump sum payout, a G-CLAT offers a substantial income-tax charitable deduction recapturing those (IRS-bound) dollars. In both instances, we increased the family's available capital.

Let's take a deeper dive and learn more about what each approach is, and how it can work for different investors.





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The Strategies: Matching the Tool to the Transaction

The Charitable Remainder Trust – The Pre-Transaction Strategy

A CRT is a so-called split-interest irrevocable trust. The donor typically contributes a highly appreciated asset before it's sold, and agrees to both receiving an income stream for a specified term, while donating the remaining balance to a qualified charitable organization(s).

Because there's a charitable component, the trust is in effect, tax-exempt. This means that the trust asset can be sold without the frictional income tax cost, despite the low basis. And since there's a larger pool of capital post sale, the income produced by this trust is substantially higher than it would be otherwise if the individual only invested the net after taxes (rather than the gross), which isn't an inconsequential point. Additional cash flow may provide planning flexibility for some investors, although its effect on an investor's overall financial position should be evaluated in light of charitable commitments, investment risk, liquidity needs, costs, and alternative uses of capital.

Example: Using CRT cash flow to multiply the family legacy. Henry and Laura, both age 50, have two children in their twenties, and possess a net worth of approximately $70 million.

They own $10 million of closely held stock, with essentially no income-tax basis, and expect the company to be sold. If the stock is sold outright, approximately $2.38 million could be due in federal capital gains tax and net investment income tax, leaving approximately $7.62 million available for reinvestment. Assuming a 6% return, those proceeds generate approximately $457,000 annually.

If the stock is contributed to a CRT before the sale, the CRT may invest the full $10 million of proceeds, generating approximately $600,000 annually, or roughly $143,000 of added annual cash flow.

LIFE INSURANCE: CONVERTING ADDITIONAL CASH FLOW INTO LEGACY

Let's assume Henry and Laura qualify for standard life insurance underwriting. The added cash flow generated by the CRT may be directed to an irrevocable life insurance trust (ILIT) that buys a survivorship life policy for a dynasty trust.

The CRT accomplishes far more than just income tax deferral by:

- Advancing family philanthropy as part of a legacy.
- Creating added family cash flow.
- Providing a funding source to enhance a family personal legacy on a multigenerational basis.

This combination of a CRT, plus an ILIT, advances a family's financial position without needing a capital infusion from the family's existing balance sheet. The life insurance is bought from and by the strategy itself.

Important considerations: While a CRT can provide charitable and tax-planning benefits, it also involves important trade-offs. Assets transferred to a CRT are generally irrevocable, and beneficiaries may still face capital gains, or other tax consequences, depending on how distributions are received. Charitable remainder trusts also require ongoing administration, tax filings, and adherence to IRS rules, which can increase their complexity and costs over time.

Life Insurance: Converting Additional Cash Flow into Legacy

The Grantor Charitable Lead Annuity Trust: The Post-Transaction Strategy

A Grantor Charitable Lead Annuity Trust (G-CLAT) reverses the economics of a CRT. In this irrevocable trust, the charity receives annual annuity payments during the term of the trust, and any remaining assets pass transfer tax free to the chosen beneficiaries (children).

The donor receives an upfront charitable income tax deduction equal to the present value of the charitable interest, even though the charity receives its annuity over time. And again, the charity can be a donor-advised fund or private foundation. This means, depending on the donor's tax situation, the economic value of an income-tax deduction may create additional planning flexibility for some investors.

Example: A tax deduction to increase the family legacy. Using a similar example to Henry and Laura from before...

Henry receives a $10 million bonus in 2026. Rather than making a $10 million outright charitable gift, he contributes $10 million to a 20-year G-CLAT.

Let's assume the G-CLAT is structured as a near-zeroed-out CLAT using a 5.2% Section 7520 rate. Zeroed-out in this context means the annuity is sized so the present value of the charitable payments nearly equals the amount contributed, reducing the taxable gift to the family to almost nothing. The 7520 rate is the IRS's assumed hurdle rate. Beat it, and the excess belongs to the family. Under those assumptions, the present value of the charitable interest approaches the amount contributed, generating an approximately $10 million charitable income tax deduction.

Assume further that the deduction is used and produces approximately $4 million of cumulative federal income tax savings. Those are dollars that otherwise may have been paid to the IRS.





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LIFE INSURANCE: CONVERTING TAX SAVINGS INTO LEGACY

Henry and Laura redirect the preserved capital to an ILIT for the benefit of their descendants. The approximately $4 million of cumulative premium funding supports a $10 million survivorship life insurance policy.

The following example illustrates how the strategy may work under the assumptions shown:

- Charitable deduction created – $10 million.
- Estimated cumulative federal income tax savings – $4 million.
- Aggregate premium funding – $4 million.
- Survivorship policy benefit – $10 million.
- Illustrated legacy for descendants under the assumptions shown – $10 million.

Viewed from that perspective, the G-CLAT does more than create a charitable tax deduction. It creates a source of capital that may be used to support family legacy objectives. And once a family legacy is increased, that's the (new) capital base for future compounding over multiple generations.

Important considerations: A G-CLAT can help support charitable goals while potentially transferring wealth to future beneficiaries, but it's a complex strategy that may not be appropriate for every situation. Assets transferred to the trust are generally irrevocable, charitable payments are made before any remainder passes to family members, and the grantor may remain responsible for taxes associated with the trust's income. The strategy's effectiveness also depends on factors such as trust design, investment performance, and prevailing tax rules.

PARTING THOUGHTS

1. Look for concentrated (highly appreciated) stock positions, exits, lump-sum payments.
2. Start with timing.
3. Match the strategy to the tax recognition.
4. Quantify both tax savings and cash flow.
5. The charitable deduction is only one aspect of the overall planning discussion.
6. Coordinate the charitable vehicle, ILIT, insurance strategy, and legacy plan.
7. Most successful families have some charitable bent for creating meaning to their legacy and training their heirs.

IN CONCLUSION

For successful families, the most effective life insurance strategies often begin long before a policy is discussed. They begin by naming the family's legacy goals, the potential headwinds, and by offering an integrated strategy.

While these strategies can offer meaningful charitable, tax, and legacy-planning benefits - the results are highly dependent on individual circumstances, trust design, investment performance, tax rules, and proper implementation. Not every strategy is appropriate for every family, and actual economic and tax outcomes may differ significantly from hypothetical illustrations.

The opportunity isn't simply to create a charitable trust. For some families, these strategies may help align charitable goals, tax considerations, and family legacy planning.

These strategies have the potential to extend planning benefits to future generations. Life insurance can be used alongside these strategies to support wealth-transfer and legacy-planning objectives.



The charitable strategy creates the **economic opportunity.** Life insurance can be used alongside these strategies to support **wealth-transfer** and **legacy-planning objectives.**

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Life insurance products are subject to underwriting, fees, expenses, and policy limitations, and policy benefits are contingent on the claims-paying ability of the issuing insurance company. Product availability and features may vary by state and carrier.

A Grantor Charitable Lead Annuity Trust (G-CLAT) is an irrevocable trust that makes fixed annual payments to one or more charitable organizations for a specified term. The term "annuity" refers to the fixed payment amount made by the trust and does not represent or involve the purchase of an insurance company annuity contract or other annuity product. The use of a G-CLAT is subject to firm approval.

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