

Price & Farrington's Estate Planning

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Estate, Tax and Family Wealth Preservation Planning For Advisors

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The PFP 412(i) Defined Benefit Pension Plan: A Powerful Income Tax Planning Technique



“Joe always comes alive at taxtime....”

recent dive?) This arrangement very effectively protects your client's downside and equity upside. While the retirement benefits are calculated on the guaranteed part of the contract, the historic return on indexed annuities generally exceeds that rate.

The IRA “Rollback”. Your clients can “roll back” their conduit IRA (an IRA to which they have not made \$2000 annual contributions) into their PFP 412(i) Plan. They elect a Qualified Joint and Survivor Annuity. On their deaths the benefits are forfeited to the other plan members (presumably their children), with *no estate taxes owed* on the benefits forfeited back to the plan. The forfeiture also reduces future contributions required to be made by the surviving plan participants (the children). A *huge* tax savings.

Fair Warning. The PFP 412(i) Plan is a customized trust instrument which, along with implementation and administration of the plan, must strictly comply with the law or the deduction will be disallowed and the plan invalidated. *It is important that you consult with a competent tax attorney to establish and maintain a 412(i) plan.* ■

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The PFP 412(i) Plan presents an opportunity for you and your clients. If you would like to learn more about the PFP 412(i) Plan and receive a free handout, please contact us.

Comprehensive Estate, Tax,
Business and Retirement Plan-
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With the future of estate taxes uncertain, many of your clients will turn to you for advice on identifying *income* tax planning opportunities. Let's examine a powerful plan your clients can use that involves the sale of

life insurance and annuity products.

What is a little-known, under-utilized way for your clients to establish a pension plan (similar to the plan Boeing has in place for its employees) that offers incredible tax planning opportunities? The PFP 412(i) Plan is a proprietary, custom-designed defined benefit pension plan established under Section 412(i) of the Internal Revenue Code, offering the following benefits:

- ✓ The plan is inexpensive to create and maintain.
- ✓ You receive immediate income tax deductions.
- ✓ Your plan assets grow income tax-free.
- ✓ You can make large plan contributions.
- ✓ Your plan assets are creditor protected.
- ✓ Your plan benefits are fully guaranteed.
- ✓ Your FLP or LLC can adopt the plan.
- ✓ No plan actuary is required.
- ✓ Your plan is governed by ERISA rules.
- ✓ Your plan can eliminate estate taxes on an IRA.

Planning opportunities. For life insurance agents, here is a real opportunity to advance your business (especially if you are making fewer estate tax-driven life insurance sales)

while serving your clients: the PFP 412(i) Plan *is required to be funded with life insurance and annuity contracts.*

Benefits of the 412(i) Plan. The PFP 412(i) Plan is appropriate for small business owners or clients with FLPs or LLCs who want to take advantage of tax deductions granted in the Code to defined benefit pension plans. The plan is inexpensive to establish and maintain. And contributions are tax-deductible to the company.

How does the PFP 412 (i) Plan work? The plan is designed by determining how much retirement income your client will need and then calculating the amount which is required to be contributed annually to reach that goal. The plan permits a tax deduction for contributions which are made to the plan to meet this goal.

Tax-free growth. Plan assets grow income tax-free and taxes are paid only when benefits are distributed at retirement. Think of it this way: *for each dollar you contribute to a 412(i) plan, the government funds thirty to forty cents for your retirement through the available tax deduction.* While growing income tax-free, plan assets are also creditor protected. The most notorious example of this is the infamous O.J. Simpson's ongoing ability to protect his \$25,000 monthly retirement distributions from the \$30 million dollar civil judgment won against him.

Larger contributions. In addition, the government permits your client to contribute *substantially more money* to a 412(i) plan than to an IRA, 401(k) or profit sharing plan, allowing the client to fund for retirement benefits of up to \$140,000 annually! This makes it a uniquely powerful technique for a business owner to plan aggressively for retirement while enjoying large, immediate income tax deductions.

Guaranteed benefits. PFP 412(i) plan benefits are fully guaranteed by the life insurance or annuity contracts owned by the plan. The investor receives a *guaranteed* 2-4% interest on the account or 80-90% of the annual return of the Standard & Poor's 500, whichever is *greater*. (How does *that* sound after the stock market's

Quotables

- ♦ “There is no traffic jam on the extra mile.”
- ♦ “Retirement takes all the fun out of Saturdays.”
- ♦ “Good character, like good soup, is made at home.”
- ♦ “If the mind should go blank, don't forget to turn off the sound.”
- ♦ “April is the cruelest month. Tax returns are due.”