Concept Overview

What is a Restricted Property Trust (RPT)? What are the objectives of an RPT?

The RPT is an employer sponsored plan for owners and/or key executives. The primary objective of an RPT is to provide tax favored long-term cash accumulation and income distribution in a conservative vehicle. An RPT can provide better results than an alternate investment earning 8%.

What are the tax characteristics of an RPT?

Each annual contribution is fully deductible by the employer and only partially taxable to the participant. Asset growth is in the cash value of a life insurance policy and therefore is tax-deferred. The policy is distributed to the participant at plan termination, at which time a portion of the cash value is taxable

How does an RPT achieve these results?

Fully tax deductible contributions are made by the business to an RPT for a select group of participants. Of this, a portion is considered current taxable income to the participant. The remaining contribution funds the life insurance and is not considered taxable income to the participant.

The RPT tax treatment depends in part on provisions of the life insurance contract and in part on the provisions of the trust. One key trust provision is that the employer must make the selected annual contribution each year for the restricted period. Failure to make the annual contribution causes both the policy to lapse and the surrender proceeds to be given to a pre-selected charity. This creates a critical "risk of forfeiture." After the policy is distributed, the participant can maintain it for the death benefit, use it to generate non-taxable cash flow, exchange it for a larger income stream (annuity) or potentially exchange it for a larger, guaranteed death benefit.

Who can participate in an RPT? Are there limits on participation?

This plan is available to anyone with earned income, whether from an S Corp, partnership or other business entity. An RPT is not a Qualified Plan, so participation limits and tests do not apply, and contributions to an RPT do not impact any Qualified Plan contributions. Participants in an RPT can each select their own level of contribution regardless of what other participants contribute.

Plan Highlights at a glance (A Restricted Property Trust)

PROS

- **100% of your contribution goes to you**
- **Corporation receives a 100% tax deduction**
- **60% of your contribution is non-taxable personally, i.e. (On a $50,000 annual contribution, you will only be taxed on $20,000. The net effect would be a $30,000 tax deduction.)**
- **You decide the annual contribution**
- **This annual contribution will not impact your current 401(k) or other pension**
- **Only available to owners/key employees**
- **NO "Top-Heavy" retirement plan headaches**
- **Your contribution is not limited by or tied to other participants**
- **Your plan will be specifically designed to meet your personal goals**
- **Death benefit provided for personal, estate, and business protection**
- **Your individual account is fully asset protected from lawsuits**
- **Fixed investment vehicle**

The CONS

- **5 year minimum commitment**
- **Must maintain current corporation for at least 5 years**
- **Once you decide your annual contribution the amount is fixed**
- **Cash is not accessible while participating**
- **Plan extensions must be at least 5 years, i.e. 5, 10, 15-year plan windows**

"The Set-Up"

- **Corporation implements a Restricted Property Trust**
- **Each owner/key employee meets with the plan designer, one on one, to determine a personal contribution amount, time frame, and rollout strategy.**
- **Contribution must be made no later than 12/31 for current year tax deduction.**
- **There is no requirement for participation**