Foundation Twist: How Families Use Nonprofit Groups to Cut Taxes

Continued From First Page

Prospects get invited to an introductory meeting. An ABC representative spends three to four hours explaining the plan. If the prospect decides to join ABC, he makes an initial payment of $1,050. This pays for 30 hours of instruction in how to use the complex legal web of foundations and trusts that ABC can create for him. But he is supposed to promise never to divulge any of the "methods, procedures or techniques" used, or the identity of any other member.

After instruction, the new member has the option of paying $4,200 more to have a nonprofit foundation created for his benefit, or paying $9,540 more for the entire ABC "package" that would take over his business and assets. The package normally would include several related foundations and trusts.

A recent prospect for membership in ABC describes what took place at his introductory meeting. He first was introduced by an ABC member who told him the ABC plan was "not a program to evade or avoid taxation, but rather a philosophy, a veritable way of life, by which one through serving himself and his family would ultimately render a greater than normal benefit to mankind."

Then the prospect was given a paper of quotations about citizenship, including an excerpt from a decision by the late Federal Judge Learned Hand on taxation: "Anyone may arrange his affairs that his taxes shall be as low as possible; he is not bound to choose that pattern which best pays the Treasury; there is not even a patriotic duty to increase one's taxes."

The prospect says the ABC package plan was explained something like this—First, you establish a trust for a "recognized beneficial purpose" under your state's law. You give your home and car and possibly a money endowment to the trust; these assets are no longer subject to state or local real or personal property taxes.

The trust establishes a nonprofit corporation, or foundation. You sign a contract with the non-profit corporation that permits it to sell your services as a doctor, lawyer, engineer or whatever. Your patients, clients or employers pay the nonprofit corporation for your services; the income to the corporation isn't taxable income.

The nonprofit corporation pays you a small salary and reimburses you for most of your living expenses ("just about everything except your booze and cigarets," says one man familiar with the setup). The rest of its income is transferred to a second nonprofit organization. The transaction by which it is transferred supposedly changes the income into capital, which is invested.

The capital accumulated by the second nonprofit organization presumably could be used from time to time for your benefit or your family's—as in Dr. Saxon's case, for example, in the form of educational grants to children in college.

Joining ABC brings other benefits. If one member can convince another individual to join, his foundation receives a $2,000 "endowment" out of the fees paid by the new member. The first member's foundation also gets $1,000 of the fees paid by any members attracted by the second member, and $500 of the fees paid by the next "generation" of members.

This arrangement, says ABC's Mr. Walsh, is much like the "referral system" in many professions. "The incentive (to bring in new members) had to be strong," he says.

An Eastern lawyer critical of ABC says, on the other hand, "It's the chain letter idea on a big scale." An Illinois doctor who is a member of ABC says, "I thought this (endowment plan) was not very professional."

Legal services in setting up a new member's foundation or foundations, and his trusts are handled by lawyers in his state who are recommended by Barrington Institute, a nonprofit organization that is itself a member of ABC. Mr. Walsh says the legal instruments that these lawyers tailor to each member's individual situation are an "amalgam" of knowledge that he—and an associate he declines to name—pieced together over 40 years. Some of the legal expertise, he says, came indirectly from lawyers involved in some well-known foundations and trusts.

Mr. Walsh figures it would take the average lawyer a year to duplicate the ABC package, and it would cost between $25,000 and $50,000 in legal fees.

One ABC member says a significant number of its members are medical men—chiropractors, dentists, general practitioners, and osteopaths. He says that members are able to turn over their assets to the ABC-created trust, yet still control them.

ABC members, however, say that salaried individuals also could utilize the ABC concept by assigning future earnings to their foundation and having it "vend" their services to their employer. The key is to relate the foundation's tax-exempt purpose to the business or profession of the member. For example, an insurance man who is a member of ABC controls a foundation created for "research and development in the utilization and insuring of human life values, both material and non-material. . . ." This, he says, describes his insurance sales work for a California insurance agency.

Mr. Walsh says nonprofit "civic organizations" are to be set up in every county in Illinois. These civic organizations would recruit members, many of them farmers who would set up foundations for research and development in food nutrition and related areas such as cattle-feeding and soil improvement.

Of the $10,500 membership fee paid to ABC, Mr. Walsh says, $3,500 goes in the form of an endowment to Barrington Institute and $3,500 for ABC. ($3,500 is reserved for "endowments") Mr. Walsh says that Mr. Hayes and the two other trustees—Richard J. Stephenson and J. Alton Lauren, both of Chicago—use the $3,500 paid to ABC to achieve the "highest and best good" for ABC's members. None of the trustees receives any money from ABC, says Mr. Walsh. However, Mr. Walsh says his own foundation, a member of ABC, receives money from ABC for certain services that his foundation provides. He declines to say how much money.

Mr. Hayes' foundation is called Sales Analysis Institute Foundation of Illinois Inc. Its employes teach the 30-hour course for new ABC members around the country. The foundation offices are in the same building in Barrington as ABC. The institute is much older than ABC, and much of its business consists of providing training services for large companies such as General Motors Corp.