

WEALTH ON PURPOSE[®]

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Is it Possible to Actually Make a Profit, Giving it Away?

This question seems to be such an absolute contradiction of terms. Yet, this idea is not new. The Bible, written thousands of years ago, makes the same claim. Jesus said, "Give and it will be given to you. A good measure, pressed down, shaken together and running over, will be poured into your lap. For with the measure you use, it will be measured to you." (Luke 6:38)

Since our country was founded upon biblical principles, it should not surprise us to find out that our country maintains this financial principal through the design of our tax laws. But how can you actually become wealthier by giving away some of your wealth?

I will give you one example. Mr. Wilson, a senior executive with a major Fortune 500 company, just retired. During his 33 years with the company, he had exercised every one of his stock options and had accumulated over \$1,000,000 worth of company stock. Of course, his cost basis was minimal.

The stock was paying only about a 2.5% dividend, which was far below what he could generate in a well-balanced investment portfolio. He also found his portfolio far too heavy weighted in this one stock and realized that he needed to diversify.

If he sold the stock, he would pay \$310,000 in capital gains taxes. Additionally, the remaining \$690,000 would be included in his taxable estate, and the IRS would "lop off" another \$379,500 in estate taxes at the death of the other spouse. Therefore, the Wilsons would have had only \$690,000 to work with while their parents were alive, and their children would have only \$310,500 to work with after their parents were both gone. The cost for trying to keep it all for themselves and their family would exceed \$689,000 of the original \$1 million. Quite a penalty for neglecting philanthropy, wouldn't you agree?

The Wilsons decided to transfer their stock into an Charitable Remainder Trust (CRT). By doing so, they received a current charitable income tax deduction that saved them almost \$49,000 in income taxes that year. This was brand new cash money in their pocket.

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Then they had the trust sell their stock, avoiding all capital gains taxes on the sale. They then had an extra \$310,000 to invest and to live off of for the rest of their lives. In addition, they found themselves earning 300% more income than the stock was paying.

With a small portion of the extra \$1.2 million of life income they were now receiving, they established an Asset Replacement Trust and funded it with \$100,000. At their deaths, their children would receive a full \$1 million of cash, free of income and estate tax.

Since these assets were in the CRT when they died, they were not included in the Wilsons' taxable estate, avoiding over \$550,000 in estate taxes. The cherry on top of this cake was that at the death of the last spouse the CRT terminates and almost \$1.5 million would be given away to the charities of the Wilsons' choice.

Because the Wilsons were willing to give something away, they actually ended up substantially wealthier during their lifetimes (\$1.6 million of life income vs. \$400,000 of life income). Their children ended up wealthier (\$1 million inheritance vs. \$310,500 inheritance). Charity ended up wealthier (no charitable gift vs. \$1.5 million in charitable gifts) as well.

How do you think the Wilsons felt about this alternative? Do you think they minded being philanthropic? Of course not, they thoroughly enjoyed making a profit and then giving it away. Who wouldn't?