

The Difference Between Ownership and Control

The idea of distinguishing between ownership and control is a new concept for many wealthy families. Ownership and control have always been seen as two sides of the same coin. I control what I own, and I own what I control.

The reality is that these two aspects of wealth not only can be divided, but the federal government has given us compelling reasons why they should be divided.

Before we look at the major advantages of splitting up ownership and control, consider this intriguing but rather provocative question: If you had to choose between owning wealth but not having any control over it, or controlling wealth but not having any ownership of it, which would you prefer? It's an interesting idea isn't it? When we ask this question, affluent people always choose the latter because they know that it is the control of wealth that gives you power and influence.

What makes this issue so critically important is how the federal government chooses to tax wealth. Ownership carries with it maximum taxation. Control without ownership carries with it no taxation. And to the extent you are willing to give up ownership while retaining control, you can have even more wealth to control because you will not be losing a significant portion of the wealth you have accumulated to taxes (income, capital gains, and estate). So, if you pay minimal or no taxes, you retain control over more wealth. Control over more wealth gives you greater power and influence.

Consider this choice: If you had to choose between personally owning and controlling \$10 million, or personally owning and controlling only \$2 million, but also having total control over an additional \$25 million in various entities owned by others, which would give you the most power and influence? Actually, the latter would.

This is a critically important paradigm shift in thinking if you want to maximize the leverage of your wealth. In order to control greater wealth, you must be willing to give up ownership. You never want to give up control.

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Here is one illustration of how this idea would work. Let's assume you own \$2 million in highly appreciated publicly traded stocks. It is time to diversify. If you sell them, you could pay up to \$300,000 in capital gains taxes, leaving you with only \$1.7 million. Then you die; the government levies the estate tax, and your family ends up owning and controlling as little as \$850,000 of the original \$2 million because you continued to own it at all times.

But if you were to transfer that same \$2 million of stock to a Charitable Remainder Trust (CRT), you would immediately get a substantial income tax deduction for the transfer, giving you more wealth to own and control. Then when you sell the stock, the stock is sold tax free (since you no longer own the stock even though you still control the trust), and you retain control of the full \$2 million. This is over \$300,000 more wealth and about \$32,000 more annual income to you because you gave up ownership, but not control, of the asset. Assume you use some of the extra income to set up an Asset Replacement Trust and fund it. Then, when you die, your children still retain the full \$2 million of wealth you originally owned, and the other \$2 million in the CRT passes to your Family Foundation. Your family retains 100% control over the money as well.

What does this all mean? It means that, instead of paying \$1.28 million in taxes, you pay no taxes. It means you will retain control of the entire \$2 million for the rest of your life instead of only \$1.7 million. It means, instead of your children ending up with only \$850,000, they will end up with the full \$2 million. At your death, your heirs will have control over \$2 million more in the family foundation, a total of \$4 million of controlled wealth. That means your heirs end up owning and controlling 5.1 times more wealth because you were willing to give up ownership while retaining control.

This is just one of the numerous strategies that can be employed allowing you and your family to actually increase the amount of wealth you control. The first step is to become comfortable distinguishing between control and ownership. Once you have achieved an adequate comfort level while continuing to maintain 100% control of all your wealth, you can begin transferring its ownership to other entities or to your heirs, tax free. The planning opportunities are now exponentially increased in your favor.

The Family Wealth Counseling process will help you explore these and other kinds of creative, unique, and powerful planning opportunities.

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It will help empower you to control even more wealth, pay fewer taxes, and have more influence than the traditional approach to planning could ever achieve. It is simply a matter of thinking beyond...

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