

### Combining Discounts with Charitable Planning

One of the most effective and creative techniques in the world of *Family Wealth Planning* is combining discounts with charitable planning. Each of these two techniques by themselves are quite effective, but when combined, the financial leverage created is hard to believe. Here's a hypothetical story of how these two techniques could be combined into one very powerful strategy.

Wayne Timmons owns a prime office building in Phoenix, Arizona, with his business partner Bill Ratliff. The office building is currently valued at \$4.8 million and is presently enjoying a long-term, triple net lease with the Billows Corporation. Wayne and his wife, Barb, are extremely well off, and the passive income that is being thrown off by the building lease is not needed to maintain their lifestyle.

Consequently, the Timmons must pay tax on the income and then reinvest the net proceeds in other passive investments that will continue to build their already sizeable estate. The Timmons wanted to pass the office building to their two children, but the annual gifting of \$20,000 per year would be totally inadequate in trying to transfer the building to them prior to their deaths. Since they had already used both of their \$600,000 lifetime exclusions, this transfer alternative was not possible either.

The value of the building continued to appreciate annually, so the Timmons were anxious to make the transfer as soon as possible to get the growth out of their estate. They had been advised by their attorney and accountant to make the transfer now, pay the million dollars in gift taxes, and get it out of their estate. Wayne and Barb weren't very excited about making the transfer if that meant a \$1 million tax bill.

Wayne kept looking for a better alternative. Shortly thereafter, his brother was invited to attend an advanced, *Family Wealth Planning* seminar, and Wayne asked if he could go along. At this seminar, he learned about another totally different transfer option that no one had ever mentioned to him before. As soon as it was explained, the lights went off for Wayne. At the end of the seminar, he realized he had found the solution to his dilemma.

## *Combining Discounts...continued from page one...*

Wayne and Barb had a comprehensive *Family Wealth Plan* developed that included transferring their half interest in the office building to their children. When they saw the results of how this innovative planning technique would work in their situation, they and their advisors were both pleasantly surprised and impressed. Here's what they saw:

The transfer technique required that the Timmons give a 1% interest in their half of the office building to their children through annual gifting. Now the Timmons' children were minority owners of the property. A new appraisal was done taking into account the new minority interest, and the appraised value of Wayne and Barb's interest in the office building dropped by 30%. The office building had not changed, but, now about \$750,000 of its value had vanished into thin air right before their very eyes.

The next step was to put the remaining 49% into a Charitable Lead Trust (CLT). The triple net lease was producing an 8% return on the building based upon its full fair market value that translated into a 12% return on the new, discounted value. This allowed the CLT to set its payout rate at a whopping 12% and to substantially shorten its term of years to only 15.

The final step was for the Timmons to establish their own Family Foundation. For the next 15 years the CLT would pay the office building income to their Family Foundation. At the conclusion of the fifteen-year term, the building would be transferred, gift-tax free, to the Timmons' children.

Based upon the current appreciation of the building, their share of the building at that time would actually be worth about \$4.8 million. Not only did the original \$2.4 million value of the building totally escape all gift and estate taxation, the entire \$2.4 million in appreciation did as well. Since the Timmons' joint life expectancy was actually 22 years, the children should actually receive the inheritance considerably earlier than they would have if Wayne and Barb had transferred it to them at the death of the second spouse.

Additionally, the Timmons now have nearly \$3 million of Social Capital to give away directly to charity instead of millions in Social Capital being confiscated by the federal government through gift and/or estate taxes.

## *Combining Discounts...* continued from page two...

Everyone ends up a winner. The Timmons are able to effectively transfer the office building, intact, to their children. The children end up with a substantially larger inheritance, and the Timmons' family gets to vote their Social Capital directly to the causes that are near and dear to their hearts, instead of simply relinquishing these funds to the federal government to be used as they see fit.

There are only three places that people's wealth can go when they die: (1) to their heirs, (2) to the government, or (3) to charity. Consider the striking contrast in the distribution allocation between the *Family Wealth Planning* technique the Timmons used and the traditional approach of transferring assets at death:

	<b>Family Wealth Planning</b>	<b>Traditional Planning</b>
<b>To Heirs</b>	\$4,800,000	\$2,200,000
<b>To Government</b>	\$0	\$2,600,000
<b>To Charity</b>	\$3,000,000	\$0

The differences are so staggering it makes these types of complex decisions quite easy to make.