

Understanding Your Family's Wealth: Avoiding the Two Greatest Misconceptions

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It seems presumptuous to suggest that people who have accumulated large amounts of wealth might not fully understand it, but this is often the case.

For an affluent family to make optimal choices regarding their wealth, they must be clear in their understanding of all their possible planning options - what can and cannot be done. Assume the box below represent your family's accumulated wealth. It does not matter whether you are worth \$2 million, \$20 million, \$200 million, or even \$2 billion dollars.

My Multimillion Dollar Wealth
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This is how most wealthy people see their wealth while they are alive. They see their wealth as one block of wealth-owned and controlled by them. This, however, is not the case. Wealth is actually divided into two distinct categories as shown in the box below.

Social Capital	Personal Capital
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Personal capital is the portion of wealth over which there is unrestricted control and ownership. You may sell it, consume it, or pass it on to your heirs. You may do whatever you like with it. It is yours.

Social capital is the portion of accumulated wealth that does not belong to you, even though you temporarily have control over it. This is the portion of wealth that according to our laws must be allocated to provide benefits to the general welfare of this country.

When first received, this revelation usually comes as somewhat of an unpleasant surprise to members of wealthy families. The idea that the Internal Revenue Service already has a "lien" on their wealth of up to 55 % of their net worth and up to 75% of their qualified retirement plan is often something individuals have not grasped fully. The IRS is merely waiting for you to die, or even just sell an appreciated asset, to collect its share of wealth. The IRS particularly like the sale option, because they get two contributions—once when you sell it, and then again when you die.

While you are alive, you may see your accumulated wealth like the first box above. Once you die, everyone who survives you—your children, your attorney, your accountant, and the IRS—will see your wealth like the second set of boxes.

It serves no one's best interest to ignore this fact. It is true, whether you like it or not. However, this revelation is relatively easy to deal with once you get, as Paul Harvey would say, "the rest of the story."

Misconception # 1: All My Social Capital Must Go to the IRS

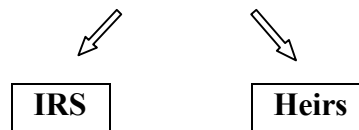
Many wealthy individuals look at their assets with this unfortunate misconception. Nearly everyone, when asked to complete the following statement, knows exactly how it ends. "There are only two things in life that are inevitable: _____ and _____." Do you know how it ends? Of course you do. "There are only two things in life that are inevitable, death and taxes."

The saying goes back to our nation's beginning. Our own Benjamin Franklin first made this statement. It seems as American as apple pie. However, while the saying is very old and comes from a well-respected man, it is not necessarily true—at least the part about taxes.

The figure below depicts the way a typical wealthy family views the passing of the family's wealth after death.

Social Capital	Personal Capital
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At the first blush, one might think, What is so disastrous about that misconception? You will see as



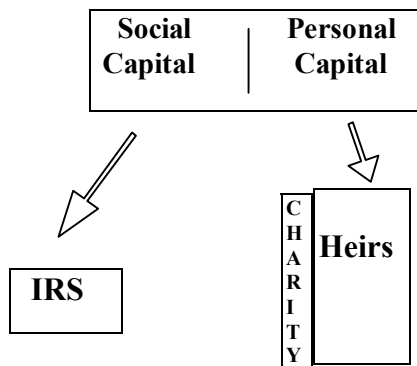
we examine the second misconception.

Misconception #2: Anything I Give to Charity Will Reduce My Children's Inheritance

This second misconception is also pervasive and leads some wealthy families to draw false conclusions

and make inferior choices. The prevailing attitude among wealthy families is, “If I give any of my wealth to charity, it will reduce the amount going to my children, and I love my children more than I do charity. After all, the IRS is going to take half of what we have when we die. We at least want our children to get the other half.”

Because of this misconception, few parents plan for major gifts to charity at their deaths. This is the primary reason parents decide not to give to charity. While this statement is not based on a formal study, experience shows that very few wealthy parents have included some type of major transfer to charity in their current plans. It seems contrary to their objectives of maintaining their own lifestyles and providing an adequate inheritance to their children. This is how they view the result of including gifts to charity in their planning.



I often hear parents express an overriding affection for their children that preclude any gifts to charity. They say, “Well, you know charity begins at home.” Actually, this statement is not exactly true. Charity does not begin at home—responsibility begins at home. When we feed and clothe our children, we are not being charitable; we are being responsible. When we make sure they get a good education, we are not being charitable; we are being responsible. The fact of the matter is charity begins outside the home—when you start doing these things for others.

“Every wealthy person knows the power and influence of wealth is not in how much of it they own; it is in how much of it they control.”

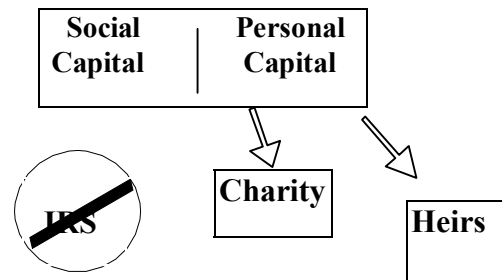
Fortunately, what wealthy people mean when they make this statement is that they love their children more than they love charity.

Debunking the Misconceptions

What if, instead of an individual relinquishing all their social capital to the IRS, they could somehow **disinherit the IRS**? What if they could choose to self-

direct that same social capital to worthwhile charitable causes and organizations they genuinely care about and want to help—to charities they believe do important work? Now, wouldn’t that make for some interesting planning options? Consider this scenario as an alternative.

If charity must compete with heirs for personal capital, charity will almost always lose. However, when charity is put in competition with the IRS for the family’s social capital, charity will almost always win. If charities and wealthy families understood this, the amount of wealth flowing to worthwhile charitable organizations would stagger the imagination.



For wealthy persons that begin conversations about the distribution of their wealth with, “I’m not charitably inclined,” my response is always the same: “You are not charitably inclined? Based upon your current plan you seem to be very charitable. What is surprising is just how philanthropic you will be.”

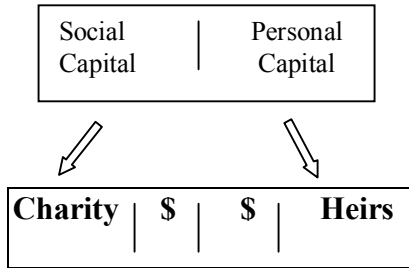
Everyone with wealth is going to be a philanthropist in one form or another. In fact, many of America’s affluent donate more than half of their collective wealth to a nonprofit organization with headquarters in Washington, DC and a fundraising office in every major city in America. However, you can have charitable organizations, other than the federal government, be the beneficiary of your social capital.

Something significant often results when a family chooses to self-direct their social capital to their chosen charities instead of the IRS. In many situations, the parents actually end up with an increase in their net spendable income for the rest of their lives.

This increase in the parents’ income can translate to a larger inheritance for their heirs. In fact, if the parents believe it is in their family’s best interest, there are ways to pass the full value of their wealth on to their heirs with no shrinkage whatsoever.

There is still one final exciting benefit to this unique planning approach. When you self-direct your social capital to your chosen charities instead of making tax payments to the IRS, the charities you support actually receive more dollars than you would have otherwise paid to the IRS, the charities you support actually receive more dollars than you would have otherwise

paid to the IRS in taxes. This is the “cherry on top of the cake.” **It is truly a win-win-win situation. You win. Your heirs win. America wins. Everyone ends up with more. It is almost like magic. Of course, it is not magic; it is just responsible planning.**



The overwhelming majority of wealthy individuals are people who like to remain in control of their wealth. This type of plan really excites them. They and their family actually control more wealth, not less.

Once wealthy families understand this basic concept, it becomes easy to explain the various gift planning strategies. After hearing about these options, you may ask, “Does the government know about this?”

Of course—not only does the government know about this—it wrote the laws upon which all of this planning is based.

Once the above two misconceptions are exposed and the alternatives examined, most wealthy people become very excited about their new and far more interesting planning options.

Think about your own wealth. How do you want to be remembered when you are gone? As a taxpayer who had it involuntarily taken away? Or as a philanthropist who voluntarily gave it away? Taxes are optional. The choice is yours—but it is up to you to lead the way.