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You can keep more by giving it away – if you do it properly

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Charitable planning tools continue to be something of a mystery to many part-time estate planners. They are hard to understand, hard to explain, and can be complicated to implement. Yet, there is an ongoing curiosity about how they can be applied in estate planning situations. Hundreds of conferences are conducted each year to discuss the tax implications and apparent advantages of such tools. Financial services companies have spent millions of dollars developing marketing systems centered on charitable trusts. In spite of this, many competent attorneys and accountants summarize the whole subject with the observation, "Everybody talks about charitable planning; hardly anyone actually does it."

There emerged in the early 1980's a group of financial advisors who would creatively focus on charitable planning and business planning ideas for business-owner families all over the country. These families had at least two things in common: first, they had been successful in their business and financial lives. Some had been mega-successful; others had simply run good businesses and earned better-than-average incomes. Second, they had expressed the desire to minimize what they had to pay in gift and estate taxes and to redirect that money to their heirs and the important social causes they favored. Dozens of planning ideas were developed that have helped thousands of families to pay less in taxes, to increase the percentage of assets retained by the families, and to greatly increase their financial support of religious, educational and social organizations. These concepts are utilized to this day to help families combine their tax planning with their charitable inclinations.

A major concern of many parents with significant assets is their reluctance to allow their assets to de-motivate or alter the career plans of their young, adult children. One of the concepts devised to deal with this dilemma is called tandem trusts. It works as follows: At the eventual demise of both parents, following the utilization of standard estate tax credits, there are two trusts created that effectively control the timing and nature of the balance of the inheritance. This is in lieu of leaving substantial assets to children who have neither the experience nor the discipline to manage them properly. The children may not agree with the assessment, but after all, the parents get to decide what to do with what they own.

Benefits Of This Plan

* One-half of the estate after taxes and expenses will be invested in an income trust (charitable remainder unitrust) that will provide income to the heirs for a specific period of years.

* The other half of the estate will be invested in an asset trust (charitable lead annuity trust) that will provide income to charity for the same period of years.

* At the end of the fixed period, the assets in the income trust will be distributed to charity directly or into a family foundation account for future contributions.

* At the same time, the assets in the asset trust will be distributed to the heirs at full appreciated value.

A common combination of time period and payout percentages will create a

deduction of approximately 60 percent for estate-tax purposes – no matter how large the estate.

Potential Negatives

* A trustee will need to be selected, and this trustee will effectively have control of the assets for the tenure of the trust.

* The heirs have to wait a number of years to receive the actual assets, and will not receive income until then.

In the traditional "mathematical" approach to estate planning, the goal is to pass the largest possible dollar amount to the greatest number of people in several generations. A different approach can be defined as the "family dynamics" approach. This includes an arsenal of ideas that consider the ages, capabilities and needs of the potential heirs, while retaining control and flexibility for the parents until they are absolutely certain that their financial needs will be met as long as they live. The use of charitable tandem trusts provides a great planning tool to accomplish those goals.

All estate planning discussions involve complex legal and tax issues and should always be coordinated with a team of professional advisors.

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