The Legacy Analysis Solution to Unintentional Tax Payments

By Jeffrey W. Craig

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Understanding distributions from a Taxable Estate defies both human logic and financial acumen. Interaction between clients and attorney's typically results in legal documents written and executed with intention of benefitting heirs first, charity or philanthropy second and the future liability of estate taxes last. Conversely, the IRS dictates settlement of estates with the reduction of taxable estates by charitable bequests first, payment of estate taxes due, second, and lastly, to desired beneficiaries-the exact opposite of most client's understanding. Intended beneficiaries receive their inheritance LAST! Additionally, there is conflict between giving 'it all to charity' and providing heirs with desired assets above $5.34MM, you can't do both without implementing creative strategies.

The creation of a Tax-Free Estate using The ***Legacy Analysis System*** employs a *'Same to Heirs'* approach where little or nothing is paid to the IRS which creates ultimate flexibility and options with taxable estate assets, thus expanding their legacy during lifetime and at death.

A typical estate plan usually includes a series of trusts, charitable bequests, and perhaps a life insurance policy – all good, but basic, components of a wealth transfer plan. These legal documents dictate the distribution of assets among four typical recipients: Heirs, Charity, Employees, and the U.S. Government. However, unless 100% of one's assets are directed to charity, wealthy clients *will* eventually write a check to the IRS for estates greater than $5.34MM-Single, $10.68MM-Married. This voluntary and unintentional tax payment paid to the IRS, will leave the private sector forever and leave the local community without.

All too often affluent and ultra-wealthy clients hit their heads on the ceiling of complexity when the 'alphabet soup' of planning acronyms becomes confusing and cumbersome and they decide that the "Kids will get enough", yet these same wealthy individuals are tactical, strategic, even aggressive in their daily, business and financial lives to maximize returns and minimize income taxes. Clients who plan on, or been advised to pay taxes from their estate assets-'Self Insured' will reduce their societal impact and Legacy exponentially and negatively affect their philanthropic interests.
Example-A $30MM estate with a projected $10MM future estate tax liability, where the clients have decided to self-insure estate taxes, netting the remainder to their heirs.

Statistics from the Demon-Ocracy report[1] from 2011, indicates that the federal governments per minute budget of $7,264,020 will consume the $10MM estate tax payment, in less than two minutes, 82.6 seconds to erase a lifetime of effort and commitment. If this same future liability were repositioned using The Legacy Analysis System, taxable estate assets would have been transitioned into more than $35MM in societal benefits through direct charitable bequest, Donor Advised Fund or Family Foundations over the next 50 years.

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[1] "US Tax Revenue & Deficit" published 2011. http://demonocracy.info/infographics/usa/us_defici/us_deficit.html
Source: CBO, GAO & USGovernmentSpending.com

In a time where organizations such as St. Jude's for Children, Wounded Warriors and The Humane Society are asking for $19 per month, $228 per year, to assist and benefit children, veterans or pets, the repositioned $10MM at death can be reallocated to a 501c3 charitable organization via the Legacy Analysis System, more than 2,192 needy Kids, Vets or Pets could be helped in perpetuity each year!

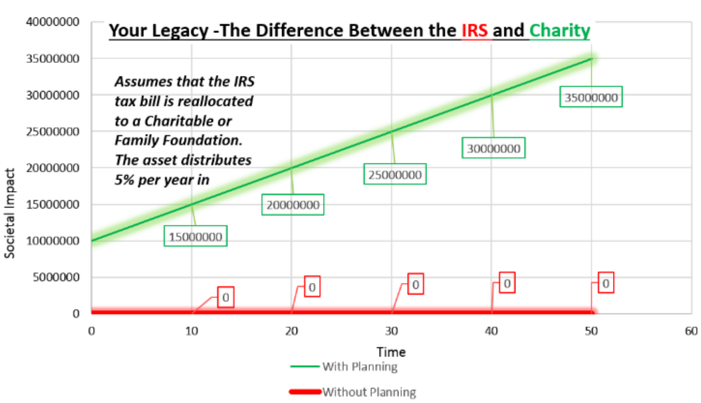
Trillions in assets are expected to pass generationally over the next twenty years, but for many of the ultra-wealthy today the idea of making their children "richer" has fallen well down the list of their legacy objectives. These affluent, high net worth clients are asking themselves, "Does my current plan enable my children to be contributing members of society?" Thus both society and one's children have much to lose with a "leave the kids with what's left over after taxes" approach to planning. This doesn't have to be the case.

The Legacy Analysis System encourages wealthy citizens to create a Tax-Free estate. When this occurs, options exist for clients to maximize 'Taxable' estate assets during lifetime, receive recognition and reduce AGI through charitable contributions, resulting in lower income taxes. All the while knowing that their heirs have been planned for in the same amount that they would have received from net taxable estate.

The Legacy Analysis System

The Legacy Analysis System quantifies how best to Change the order of asset transfer-Heirs first, Charity second and IRS last through an optimization process.

The chart below demonstrates the post death difference between paying estate taxes and the perpetual societal benefit to needy organizations and worthy causes.



Ted Beringer, Founder of the Beringer Group and consultant to the ultra-wealthy, comments, "*This program is something that I have never seen before, that allows my clients to shift significant assets out of their estate, control their destination, perpetuate their legacy and net the same to the children in a magical way*."

How The Legacy Analysis Solution Works

Initial analysis is based on current documents and 'isolates' the future tax liability among several planning strategies. The Tax Free estate can often be created with 'opportunity cost' from a small portion of the projected estate tax amount, which will be spent in seconds by the IRS, over a 3-9 year timeframe, and then returned to the Grantor. The result is a larger asset base from which, the clients can live their lives and enhance their ultimate impact on society.

In order to facilitate efficient asset transfer objectives, a separate and distinct entity needs to be established to harbor assets outside of the estate. For the sake of this discussion, we will refer to this as the "Wealth Continuity Trust." Additionally, several transfer methods considered do not consume annual and lifetime gifting monies. This provides for same or similar directives as under current documents and preserves lifetime and death exemption amounts intact for other uses. Until now, quantifying these non-gift methods has been very difficult.

Case Study-

Mr. and Mrs. Wealthy client, both age 65, with 4 children and 10 grandchildren, have amassed a $50MM fortune through a lifetime of hard work and effort. They have already paid $.20- $.50 cents in income taxes on each dollar of estate assets remaining, decided that the children will get plenty and the grandchildren will eventually benefit from what their parents leave on after they die.

The Wealthy Client's lifestyle can be funded handsomely with $20MM of investments. Their legal documents indicate that at death 50% of the estate is destined for charities (not yet determined) and they have made lifetime gifts for their children and grandchildren with generation skipping provisions. The kids will inherit what's left after taxes.

Let's do the math. $50MM, clients both die, $25MM is directed to charity, reducing the taxable estate. The remaining $25MM is reduced by 40%-$10MM in estate taxes, leaving $15MM in trusts for their children. In order to net the children $15MM, $10MM in estate taxes will be paid prior to settling the estate.

The Legacy Analysis Solution will determine the most efficient combination of assets and planning concepts to include; Installment Sales, Private Finance, Lifetime gifting, Grantor Retained Annuity Trusts-GRAT's, Charitable Lead Annuity Trusts-CLAT's, 678 Trusts and Self-Cancelling Installment Notes-SCIN's. The clients ultimately will receive the planning asset back in their estate over 3-9 years depending on asset type and the strategies implemented.

In this particular case, the client's allocated growth and income for $10MM of investments for three years to create $15MM in the Wealth Continuity Trust. For every dollar created in the WCT, $10-$15 from the taxable estate can be allocated to charity during lifetime, triggering an income tax deduction or at death. Depending on the investment choices of the transferred funds in the WCT, the entire estate can go to charity at second death.

Who benefits from the Legacy Analysis System?
The wealthy client's legacy is now based on $50MM instead of the original $25MM destined for charity. The IRS tax bill has been reduced to zero. This amount can be established in a Family Foundation or Donor Advised fund, or a direct bequest to 501c3 organizations.

Additionally, when the children are involved in the process of directing annual charitable contributions, they are often brought back to the societal norm, grounding them in their communities and understanding the needs of others, underprivileged and also the value of wealth. The difference in legacy for this case example, 50 years from the time of death, exceeds $35MM.

What does your legacy look like? Eighty-Two seconds of government spending to reduce $`10MM of what took you a lifetime to create or a $35MM current and perpetual legacy? When you consider the societal impact of harvesting income and appreciation on unneeded assets for 3-9 years, the very same assets that is destined to the IRS in your current documents, there isn't much of a choice unless you prefer the government over community.

Clearly, wealthy clients do not need to do anything additional to benefit their heirs or even do anything at all. But when they view the quantified results of The Legacy Analysis System, and realize the enormous impact on community, society, organizations and institutions provide exponentially clarity, financial logic and unparalleled satisfaction.

For additional information, email Kenneth Sapon, President of Champion Agency, Inc. at ken@champion-agency.com or call 800-274-0433.