



KARDIA

FAMILY WEALTH COUNSELING

Keeping the heart of God at the heart of planning

Are You an Informed or Uninformed Taxpayer?

There is no time of the year when affluent Americans feel more tax-pain than in the month of April. Even if we file extensions to prolong the inevitable, it is still the April 15th deadline that ominously looms over us. Most affluent families are contributing between 25-40% of all of their annual income to the Federal Government, a non-profit organization that none of us are really all that excited to support.

I like what the entertainer Arthur Godfrey said, “I’m proud to pay taxes in the United States; the only thing is, I could be just as proud for half the money.” And to that I think we would all say, “Amen.”

The annual income and capital gains taxes that will soon be extracted from us are not even half of the total tax pain we will ultimately experience. If you are reading this, the worst tax bill of all is still coming. I recently met with an affluent Christian woman whose very wealthy parents both eternally relocated this year. Even with their supposed planning by all of their professional advisors, the family is now facing millions of dollars in estate taxes and very little cash in the estate with which to pay this huge tax bill. As one daughter said, “Mom and Dad have left things in a mess.” The estate tax bill will be the biggest pain of all, albeit felt only by those who are left behind.

About forty years ago U. S. Appeals Court Justice, Learned Hand made this now well known statement, “In America there are two tax systems, one for the informed and one for the uninformed. Both systems are legal.”

Uninformed taxpayers reluctantly turn over vastly greater portions of their wealth to the federal government than they need to. Judge Hand goes on to say, “Anyone may arrange his affairs so that his taxes shall be as low as possible; he is not bound to choose that pattern which best pays the treasury. There is not even a patriotic duty to increase one’s taxes. Over and over again the courts have said that there is nothing sinister in arranging affairs as to keep taxes as low as possible. Everyone does it, rich and poor alike and all do right, for nobody owes any public duty to pay more than the law demands.”

U.S. Supreme Court Justice, Louis D. Brandeis uses a simple illustration to point out our options as taxpayers. He writes, “I live in Alexandria Virginia. Near the Supreme Court Chambers is a toll bridge across the Potomac. When in a rush, I pay the dollar toll and get home early. However, I usually drive outside the downtown section of the city and cross the Potomac on a free bridge. This bridge was placed outside the downtown Washington, D.C. area to serve as a useful social service, getting drivers to drive the extra mile in helping to alleviate congestion during the rush hour. If I went over the toll bridge and through the barrier

without paying the toll, I would be committing tax evasion. If however, I drive the extra mile outside the city of Washington to the free bridge, I am using a legitimate, logical, and suitable method of tax avoidance, and I am performing a useful social service by doing so. For my tax evasion, I should be punished. For my tax avoidance, I should be commended. The tragedy of life today is that so few people know that the free bridge even exists."

His last line is the killer, "The tragedy of life today is that so few people know that the free bridge even exists." You see, informed taxpayers know that capital gains and estate taxes are optional and there are free bridges they can travel that will allow them to legally avoid ever paying either of these taxes. The informed taxpayer also knows that even though income taxes cannot be eliminated entirely, there are a number of legal and creative planning strategies that will allow them to minimize their annual income tax bill.

As an example, with just the last dozen families with whom we have helped develop and implement Master Stewardship Plans, we have reduced these families' collective income, capital gains and estate tax liabilities by over \$103 million dollars. One of our primary goals is to help the families we serve become informed taxpayers – avoiding all capital gains and estate taxes and paying as little as they possibly can in annual income taxes, so they will

have more for themselves, more for their heirs and more for the Kingdom of God, not necessarily in that order.

Jesus told us to, "...render to Caesar the things that are Caesar's; and to God the things that are God's" (Matthew 22:21). Paul adds, "Render to all what is due them: tax to whom tax is due; custom to whom custom..." (Roman 13:7). In other words, "if taxes are due, pay them." That is the right thing to do. However, only pay "what is due," not any more. If we are going to be as "shrewd (clever) as serpents and innocent (honest) as doves" (Matthew 10:16), we need to become informed taxpayers who will never needlessly relinquish one penny more of God's money to our government in taxes than we absolutely must.

How are you handling the wealth that God has so graciously entrusted to you? It is our prayer that you are managing His wealth as an informed taxpayer. And if not, we would be honored to help you become an informed taxpayer.

The author, E. G. "Jay" Link, is both an ordained minister and the President/CEO of Kardia, Inc., a firm that specializes in assisting wealthy Christian families with the stewardship of all of their life resources. He is also the author of the book Family Wealth Counseling: Getting to the Heart of the Matter. Mr. Link may be reached via email at jlink@KardiaPlanning.com.