



KARDIA

FAMILY WEALTH COUNSELING

Keeping the heart of God at the heart of planning

Understanding the Difference between Ownership & Control

The idea of distinguishing between ownership and control is a new concept for many wealthy families. From a Biblical stewardship perspective, we should at least mentally acknowledge that we own nothing – we are mere caretakers of our Heavenly Father’s property. But the fact is the name on the deed to our house, our stock certificates and the titles on our vehicles still have our name on it. So, even though from a spiritual perspective, we could say we only have relative ownership, from a material perspective most people still see ownership and control as essentially being two different sides of the same coin. In other words, “I control what I own, and I own what I control.”

The reality is that these two aspects of wealth not only can be divided, but the federal government has given us compelling reasons why they should be divided.

Before we look at the major advantages of bifurcating ownership and control, consider this intriguing and rather provocative question: If you had to choose between owning wealth but not having any control over it, or controlling wealth but not having any ownership of it, which would you prefer? It’s an interesting idea isn’t it? When we ask this question, our affluent clients always choose the latter because they know that it is the control of wealth that provides the power and influence of wealth.

What makes this issue so critically important is how the federal government chooses to tax wealth. Ownership carries with it maximum taxation. Control without ownership carries with it no taxation. And to the extent you are willing to give up ownership while retaining control, you can

have even more wealth to control because you will not be losing a significant portion of the wealth you have accumulated to taxes (income, capital gains and estate). So, if you pay minimal or no taxes, you retain control over more wealth. Control over more wealth gives you greater power and influence to carry out God’s purpose for your life and your wealth.

Consider this choice: If you had to choose between personally owning and controlling \$10 million, or personally owning and controlling only \$2 million, but also having total control over an additional \$25 million in various entities “owned” by someone other than you, which would give you the most power and influence to do good and make a difference with this God-blessed wealth? Actually, the latter would.

This is a critically important paradigm shift in thinking if you want to maximize the leverage of your wealth. In order to control greater wealth,

you must be willing to give up ownership. You may never want to give up control.

Here is one illustration of how this idea would work. Let's assume you own \$2 million in highly appreciated, publicly traded stocks. It is time to diversify. If you sell them, you will pay \$300,000 in capital gains taxes, leaving you with only \$1.7 million. Then you die; the government levies the estate tax, and your family ends up owning and controlling only \$765,000 (only 38% of the original \$2 million) because you continued to own it at all times. But if you were to transfer that same \$2 million of stock to an Enhanced Income Trust, for example, you would immediately get a substantial income tax deduction for the transfer, giving you more wealth to own and control. Then when you sell the stock, the stock is sold tax free (since you no longer own the stock even though you still control the trust), and you retain control of the full \$2 million. This is over \$300,000 more wealth and about \$24,000 more annual income to you because you gave up ownership, but not control of the asset (assuming a total annual return of 8%). Assume you use some of this extra income to set up a Wealth Replacement Trust and fund it with some of the extra \$24,000 of annual income you are receiving. Then, when you die, your children still retain the full \$2 million of wealth you originally owned, and the other \$2 million in the Enhanced Income Trust passes to your Family Foundation for ministry giving. Your family retains 100% control over that \$2 million as well.

What does all this mean? It means that, instead of paying over \$1.2 million in taxes, you pay no taxes. It means you will retain control of the entire \$2 million for the rest of your life instead of only \$1.7 million. It means, instead of your children ending up with only \$765,000 when you die, they will end up with the full \$2 million. At your death,

your heirs will have control over \$2 million more in the family foundation, a total of \$4 million of controlled wealth. That means your heirs end up owning and controlling over 5 times more wealth because you were willing to give up ownership while retaining control.

This is just one of numerous strategies that can be employed allowing you and your family to actually increase the amount of wealth you control. The first step is to become comfortable distinguishing between control and ownership. Once you have achieved an adequate comfort level with continuing to maintain 100% control of all your wealth, you can begin transferring its ownership to other entities or your heirs, tax free. The planning opportunities are now exponentially increased in your favor.

The Family Wealth Counseling process will help you explore these and other kinds of creative, unique and powerful planning opportunities. It will empower you to control even more wealth, pay fewer taxes and have more Kingdom impact than the traditional approach to planning could ever achieve. It is simply a matter of thinking beyond . . .

Remember what Solomon tells us in Proverbs 13:16, "The clever do all things intelligently." (RSV) We think God wants us to be clever stewards with what He entrusts to us. We hope you will agree.

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.