



KARDIA

FAMILY WEALTH COUNSELING

Keeping the heart of God at the heart of planning

Making a Profit Giving it Away

Can you truly “make a profit giving it away”? This question seems to be such an absolute contradiction of terms; yet, this giving reality is not new. Jesus said, “Give and it will be given to you. A good measure, pressed down, shaken together and running over, will be poured into your lap. For with the measure you use, it will be measured to you.” (Luke 6:38)

Since our country was founded upon biblical principles, it should not surprise us to find out that our country maintains this financial principle through the design of our tax laws. But how can you actually become wealthier by giving away some of your wealth? We will give you one example.

Mr. Wilson, a senior executive with a major Fortune 500 company, just retired. During his 33 years with the company, he had exercised every one of his stock options and had accumulated over \$1,000,000 worth of company stock. Of course, his cost basis was minimal.

The stock was paying only about a 2.5% dividend which was far below what he could generate in a well- balanced investment portfolio. He also found his portfolio far too heavy in this one stock and realized that he needed to diversify. If he sold the stock, he would pay \$150,000 in Capital Gain Taxes.

Additionally, the remaining \$850,000 would be included in his taxable estate, and the IRS would “lop off” another \$467,500 in Estate Taxes at the

death of the other spouse. Therefore, the Wilsons would have had only \$850,000 to work with while they were alive, and their children would have only \$382,500 to work with after they were both gone. The cost for trying to keep it all for themselves and their family would exceed \$617,500 of the original \$1 million. Quite a penalty for neglecting philanthropy, wouldn't you agree?

The Wilsons, however, decided to transfer their stock into an Enhanced Income Trust. By doing so, they received a current charitable Income Tax deduction that saved them over \$89,000 in Income Taxes that year. This was brand new cash money in their pocket.

Then they had the trust sell their stock, avoiding all Capital Gains Taxes on the sale. Now, they had an extra \$150,000 to invest and to live off of for the rest of their lives. In addition, they found themselves earning 250% more in net income than they were receiving from the dividends that the stock was paying.

With a small portion of the extra \$1 million of income they would now be receiving over their

lifetimes, they established a Wealth Replacement Trust and funded it with a \$1 million life insurance policy. At their deaths, their children would receive a full \$1 million of cash free of Income and Estate Tax.

Since these assets were in the Enhanced Income Trust when they died, they were not included in the Wilson's taxable estate, avoiding over \$550,000 in Estate Taxes. The cherry on top of this cake was that at the death of the last spouse the Enhanced Income Trust would terminate and the remaining balance (\$1.2 million) would be given away to the ministries of the Wilson's choice.

Because the Wilsons were willing to give something away, they actually ended up substantially wealthier during their lifetimes (\$1.5 million of life income vs. \$500,000 of life income).

Their children ended up wealthier (\$1 million inheritance vs. \$382,500 inheritance). And the Kingdom of God ended up wealthier (no Kingdom giving vs. \$1.2 million in Kingdom giving).

How do you think the Wilsons felt about this alternative? Do you think they minded being philanthropic? Of course not, they thoroughly enjoyed making a profit from giving it away. Who wouldn't?

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