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DEFLECTING WEALTH VS DIVESTING WEALTH

Medical statistics indicate that approximately 80% of the diseases that we contract are degenerative in nature (i.e. heart disease, cancer, high blood pressure, diabetes, obesity, arthritis, allergies, asthma, etc.). In reality, degenerative diseases are self-inflicted diseases that could have been avoided if different life choices had been made over the years. Everyone knows, even though we seldom practice it, that focusing our efforts on doing what is necessary to avoid degenerative diseases is far easier and cheaper than spending tremendously greater effort and money trying to cure them once they show up.

Wealth and the income it generates is much like that for affluent people. It is far easier and cheaper to deflect this wealth where you want it to go before you own it than it is to dispose of it once you have taken ownership of it. Good stewardship planning will help families divest themselves of their excessive wealth accumulated on their balance sheets without paying the onerous taxes that accompany divesting themselves of their wealth (i.e., estate, capital gains, and income taxes).

It is far easier and cheaper to <u>avoid</u> taking ownership of wealth and the additional income it produces than it is to attempt to dispose of it once it shows up on your balance sheet and your 1040 income tax form. Like avoiding degenerative diseases, it takes strategic, advanced planning to deflect your wealth where you want it to go without it first coming to you. Let me give you one example of how to effectively employ the principle of deflecting wealth in your stewardship planning

You have a piece of raw land valued at $1 million and leased by an office building. It is throwing off a steady annual income of eight %, and you would ultimately like this asset to be part of your children's inheritance. You are currently giving all the income away from this land each year. To make matters more complicated, you are already maximizing your charitable income tax deductions, thereby receiving no charitable income tax deduction for this part of your annual giving.

Deflection Solution:

You transfer this asset into an Accelerated Inheritance Trust [AIT] (known in IRS code terms as a Non-Grantor Charitable Lead Annuity Trust). The term of the trust is twelve years, which means for the next twelve years the income from this property will be given directly to your foundation for distribution to the ministries you support (just as it is now). This results in your AGI decreasing by $80,000, because you have deflected the income directly to ministries instead of first receiving it yourself and then giving it away. The effective outcome is your $80,000 gift is now "tax deductible," because you are no longer reporting this income to the IRS, and your annual tax bill consequently goes down by about $32,000. Actually, your charitable giving deductions now effectively exceed the 50%/30% Adjusted Gross Income (AGI) limitation.

	Divesting Plan	Deflecting Plan
AGI	$ 1,000,000	$ 920,000
AGI Giving Limitation (50%)	$ 500,000	$ 460,000
Addtnl. Giving (land income)	$ 80,000	$ 80,000
Total Tax Deductible Giving	$ 500,000	$ 540,000
Percentage of AGI Giving	50%	54%

Additionally, (and this is truly amazing), at the end of the term of this trust, the land will pass to your children entirely free of any gift taxes, saving you as much as $550,000 in needless gift taxes. These annual gifts to ministries are not only effectively income "tax deductible" to you, but they are also doing double-duty to create an offsetting gift tax deduction allowing you to divest yourself of the land while deflecting its income to kingdom causes for the last twelve years.

Of course, had this asset originally been acquired with wealth deflection in mind, when it was still a relatively worthless piece of farm ground, a Limited Liability Company (LLC) or a Family Limited Partnership (FLP) could have been set up with the children (or a trust for their benefit). Then, when the property exploded in value, its increased value and income would have been entirely deflected to heirs or ministries right from the beginning.

Creative planning like this should be a key component in the development of any comprehensive, stewardship plan.

ABOUT THE AUTHOR — E. G. "JAY" LINK

Jay Link, Director of Stewardship Planning at Taylor University, spent 35 years counseling Christian families to build customized Master Stewardship Plans. He is an author, a mentor to hundreds of financial advisors and attorneys, and started his career as a pastor. His passion is helping Christian families use all the Lord has entrusted to them for Kingdom-building purposes.