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COMPRESSION PLANNING WITH CHARITABLE PLANNING

One of the most effective and creative techniques in *Family Wealth Counseling* is combining what is called compression planning with charitable planning strategies. Each of these two techniques by themselves is quite effective, but when they are combined, the financial leverage created is hard to believe. Below is a hypothetical story of how these two techniques could be combined into one very powerful planning strategy.

Wayne Timmons owns a prime office building in Phoenix, Arizona with his business partner Bill Ratliff. The office building is currently valued at $9.6 million and Wayne and Bill are presently enjoying the income on a long-term, triple-net lease with the Billows Corporation. Wayne and his wife, Barb, are extremely well-off, and the passive income that is being thrown off by the building lease is not needed to maintain their lifestyle.

Consequently, the Timmons must pay tax on the income and then reinvest the net proceeds in other passive investments that will continue to build their already sizeable estate. The Timmons wanted to pass the office building to their two children, but the annual gifting of $11,000 per year, per person would be totally inadequate in trying to transfer the building to them prior to their deaths. Since they had already used both of their $1,000,000 Lifetime Exclusions, this transfer alternative was not possible either.

The value of the building continued to appreciate annually, so the Timmons were anxious to make the transfer as soon as possible to get the growth out of their estate. They had been advised by their attorney and accountant to make the transfer now, pay the gift taxes, and get it out of their estate. Wayne and Barb weren't very excited about making the transfer if that meant paying at least a $2.3 million dollar Gift Tax bill (in the current tax year) to do so.

Wayne kept looking for a better alternative. Shortly thereafter, his brother was invited to attend an advanced, *Family Wealth Counseling* seminar, and Wayne asked if he could go along. At this seminar, he learned about another totally different transfer option that no one had ever mentioned to him before. As soon as it was explained, the lights came on for Wayne. At the end of the seminar, he realized he had found the solution to his dilemma.

They had a comprehensive Master Stewardship Plan developed which included transferring their half interest in the office building to their children. When they saw the results of how this innovative planning technique would work in their situation, both they and their advisors were pleasantly surprised and impressed:

The transfer technique required the Timmons give a 1% interest in their half of the office building to their children through annual gifting. Now, the Timmons were minority owners of the property. They had a new appraisal done taking into account their new minority interest. The appraised value of their interest in the

office building dropped by 30%. The office building had not changed, but, now about $1,400,000 of its value had vanished into thin air right before their very eyes.

The next step was to put the remaining 49% into a Deferred Inheritance Trust. The triple-net lease was producing an 8% return on the building based upon its full fair market value that translated into a 12% return on the new, discounted value. This allowed the Deferred Inheritance Trust to set its payout rate at a whopping 12% and to substantially shorten its term of years to only eleven.

The final step was for the Timmons to establish their own Family Foundation. For the next eleven year,s the Deferred Inheritance Trust would pay the office building income to their Family Foundation. At the conclusion of the eleven year term, the building would be transferred gift-tax free to the Timmons' children.

Based upon the current appreciation of the building, their half-share of the building at that time would actually be worth about $6.5 million. Not only did the original $4.8 million value of the building totally escape all Gift and Estate Taxation, the entire $1.7 million in appreciation did as well. Since the Timmons joint life expectancy was actually 22 years, the children should (based upon the plan assumptions) receive the inheritance considerably earlier than if Wayne and Barb would have transferred it to them at the death of the second spouse.

Additionally, the Timmons now have over $4.1 million of Kingdom Capital to give to support Kingdom ministries instead of paying millions in secular Social Capital being confiscated by the Federal Government through Gift and/or Estate Taxes.

Everyone wins. The Timmons are able to effectively transfer the office building, intact, to their children. The children will have a substantially larger inheritance, and the Timmons family gets to distribute all their Kingdom Capital directly to those ministries that are dear to their hearts, instead of simply relinquishing these funds to the Federal Government to be used as they see fit.

There are only three places that people's wealth can go when they die: (1) to their heirs, (2) to the government, or (3) to charity. Consider the striking contrast in the distribution allocation between the Master Stewardship Planning technique the Timmons used and the traditional approach of transferring assets to heirs:

	Traditional Plan*	**Stewardship Plan**
To Heirs	$6,500,000	$6,500,000
Gift Taxes	$3,200,000	$0
To Charity	$0	$4,100,000

* Transfer of the building in year 11.

Solomon said, *The clever do all things intelligently* (Proverbs 13:16 RSV). Sometimes, it's not enough to just be smart, you also need be clever to accomplish all your life goals and objectives.

ABOUT THE AUTHOR — E. G. "JAY" LINK

E. G. "Jay" Link has a unique combination of being an ordained minister with a Master Divinity degree in Biblical Theology and a professional Stewardship planning coach who for over 40 years has been working with very affluent Christian families to enable them to optimize their Kingdom impact with all that the Lord has entrusted to them to manage. After retiring from his personal practice, he then served for five years as Director of Taylor University's Stewardship Planning Ministry, which he launched for them. Most recently, Jay founded the Stewardship Resource Group to serve Christian ministries, colleges, and churches to better minister to their highest capacity families. He has written six books, hundreds of articles and has provided extensive training curriculum for hundreds of professional financial and legal advisors in how to provide stewardship planning services for their clients.