STEWARDSHIP MINISTRIES
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THE DYNAMIC DUO

Deferred Inheritance Trust & Enhanced Income Trust

These two powerful trusts are, in many ways, mirror opposites of one another. Properly designed, the **Deferred Inheritance Trust** pays its income to charity or a family foundation for a term of years or life, then terminates. The trust assets then pass to the heirs, gift/estate tax free. The **Enhanced Income Trust**, on the other hand, pays its annual income to the family (usually the parents). Upon termination, the trust assets pass to your charity/family foundation.

Each of these tools, individually, produces considerable planning leverage, but when they are combined they can provide a very effective planning strategy. Consider the following scenario based on an actual case. Meet Bob and Mary Ballard. They are 69 and 65 respectively. They have a net worth of about $10,000,000 and, unfortunately, are both in extremely poor health. With their current distribution plan, their five children would receive about $5 million of their wealth at their death and the IRS would receive about $5 million in taxes.

Even though the Ballards were very interested in supporting several worthy ministries, they could not see how it would be possible to do so without reducing their children's inheritance which was already only half of their wealth. Consequently, like most other wealthy Christian families, they simply opted to do nothing for these ministries in their planning.

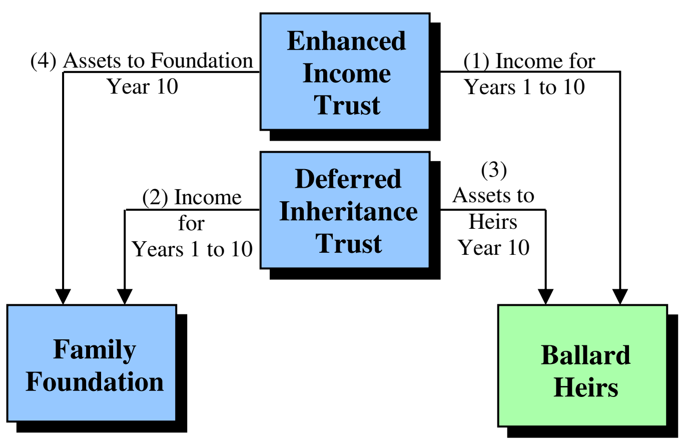
The Ballards chose to take the time to develop a Master Stewardship Plan that ended up staggering their children's inheritance over a number of years instead of giving it all once they both eternally relocated. They also liked the idea of setting up a family foundation and allowing their children to retain the control of all their Kingdom capital and continue the family's support of several important ministries.

The Ballards felt that $1 million to each of their five children was a reasonable inheritance. Because their extremely poor health had reduced their planning options and also their life expectancy, they were open to providing their children with the income stream from their inheritance for the first 10 years and then receiving their actual inheritance. After discussing this with their children at a family meeting, they agreed that the children were going to invest the money for income during that time period anyway. This planning option opened the door for the Ballards to redirect $ 5 million in taxes to the IRS to their own family foundation and ultimately to the ministries their family most cared about.

Here is what was done: In order to maximize the leverage in the Ballard's comprehensive Master Stewardship Plan, they combined a testamentary Enhanced Income Trust (Charitable Remainder Trust) with a testamentary Deferred Inheritance Trust (Charitable Lead Annuity Trust). By establishing a Family Limited Partnership during their lifetime and funding it with the assets ultimately going into the Deferred Inheritance Trust, they were able to significantly increase the pay-out rate of the trust to their foundation, and consequently shorten the trust's term to 10 years. The trust would be set up to pay income to their Family Foundation for 10 years. At that time it would terminate and the $5 million in trust would pass to the children tax free.

The Enhanced Income trust was also set as a 10-year trust with the five children being equal income beneficiaries of the trust. Because the trust term was set for 10 years, the charitable estate tax deduction would be quite substantial. Using their combined lifetime gift exclusions (currently $1 million per person at their life expectancy), they could actually eliminate all the estate tax liability due on the income stream to their children.

The following flowchart illustrates how this simple, yet powerful, strategy worked.



The net result of this creative planning strategy was profound. The Ballard children received essentially the same inheritance with the proposed plan as they would have with the current plan. But the real difference is that instead of the Ballards paying the IRS nearly $5 million in estate taxes, they now will have $9 million in their own family foundation under the control of their children.

Consider the following results:

	Old Plan	New Plan
Benefit to Children (over ten years)	$9 million assets/income	$9 million assets/income
Benefit to IRS	$5 million	$0
Benefit to the Kingdom (over ten years)	$0	$9 million assets/income
Total Controlled by Ballard Family	$9 million assets/income	$18 million assets/income

It is exciting to see what can be done when you put the heart of God at the heart of planning.

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.