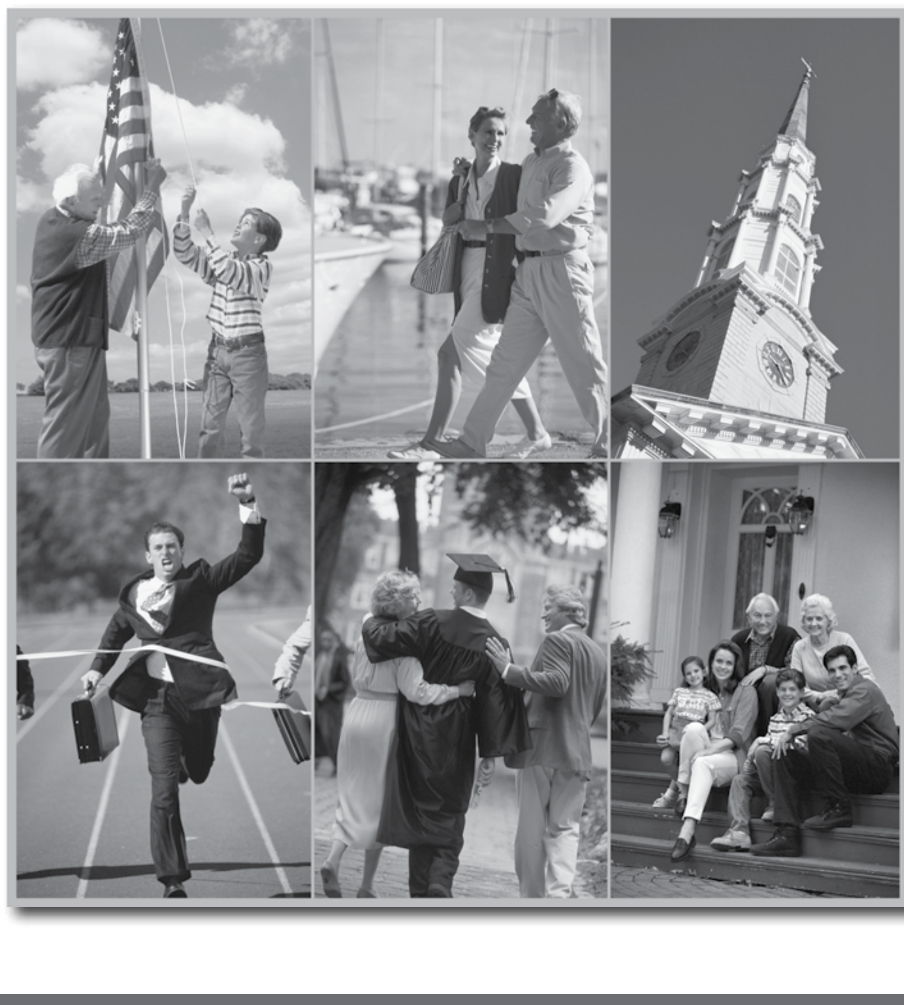
The Best Zero Tax Planning Tools

How to Maximize Tax-Efficient Lifetime Income, Transfer to Heirs and Gifts to Favorite Charities



BY TIM VOORHEES, JD, MBA

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Transfers to Heirs and Gifts to Favorite Charities

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This book is dedicated to the hundreds of clients who have helped us develop and refine our wealth planning methodologies and services over the last three decades.

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Tim Voorhees is an attorney and investment adviser based in Orange County, California. He is the president of the Registered Investment Advisory firm described at www.VoorheesFamilyOfficeServices.com (or www.vfos.com) and a principal partner of its affiliated law firm. Tim's software company, Family Office Technologies, Inc., maintains a broad array of software modules used by financial and legal professionals nationwide for developing tax planning schematics and implementing advanced portfolio and estate design strategies. Serving clients as a wealth adviser, Tim has led teams that have developed hundreds of Family Wealth Blueprints® for high-net-worth clients. Tim teaches a variety of Best Tools Workshops for advisers interested in learning how to integrate the most effective zero tax planning tools into financial and estate plans. He also conducts Best Practices Workshops for advisers who seek to integrate advanced wealth planning technologies into their practices. He regularly speaks at national conferences and contributes to a variety of industry publications. Tim lives with his wife Darci and their sons in Mission Viejo, CA.

Table of Contents

Preface	Addressing Six Objections to Zero Tax Planning	3
Introduction	American Public Policy Promotes Zero Tax Planning	11
Chapter 1	Zero Tax Planning Helps Clients Control All of Their Resources	17
Chapter 2	Zero Tax Planning Requires Clarity of Purpose, Mission, and Vision	27
Chapter 3	Your Vision Can Unite Your Advisers	35
Chapter 4	Your Advisers Need Ranked and Quantified Goals	43
Chapter 5	Goals Guide Selection of the Most Tax Efficient Planning Tools	49
Chapter 6	You Should Combine All Tools in a Blueprint	57
Chapter 7	You Can Enhance a Tactical Blueprint to Create Basic, Leveraged, Total Wealth Control, and Optimized Blueprints	63
Chapter 8	Your Blueprint May Include a Simple but Powerful Dynasty Trust	71
Chapter 9	You Can Optimize Twelve Tax Planning Tools to Minimize Taxes and Maximize Benefits for Retirement, Family, and Favorite Charities	83
Conclusion	You Can Maximize Tax-Efficient Lifetime Income, Transfers to Heirs and Gifts to Favorite Charities	97
Appendix A	100 Goals	101
Appendix B	200 Services	103
Appendix C	300 Tools	109
Appendix D	400 Questions	111
Appendix E	What is a Wealth Adviser?	113
Index		100

Preface

Studies show that Americans now typically spend more than four months of every year working to pay taxes.[1] Over-worked taxpayers come to wealth advisers[2] with a strong desire to minimize taxes and increase after-tax returns. As this book will illustrate, qualified advisers can offer their clients myriad solutions for reducing their taxes while increasing the wealth available for retirement income, transfers to family members, and charitable giving.

Given the wide array of available tax-reduction solutions, why do so few clients implement zero tax plans? The answer is likely found among six common, misconstrued objections to zero tax planning:

1. Avoiding taxes is wrong.
2. Saving future taxes is not a motivator.
3. Hiring a team of advisers is too expensive.
4. Transferring wealth to irrevocable trusts is scary.
5. Integrating zero tax planning instruments seems too expensive, risky, and complicated.
6. Preparing the next generation requires too much effort.

My team's success in implementing hundreds of zero tax plans over 30 years proves there are good solutions to the above problems. This preface responds briefly to these objections, while setting the stage for a deeper discussion in the following chapters.

Avoiding taxes is not wrong!

In a famous legal opinion, US Supreme Court Justice Louis D. Brandeis encouraged taxpayers to take advantage of the tax benefits given to Americans. The following quote highlights the social policies guiding Congress when it makes tax-advantages legal and financial instruments available :

> *I live in Alexandria, Virginia. Near the Supreme Court chamber is a toll bridge across the Potomac. When in a rush I pay the dollar toll and get home early. However, I usually drive a free bridge outside the down- town section of the city, and cross the Potomac on a free bridge. The bridge was placed outside the downtown Washington D.C. area to serve a useful social service: getting drivers to drive the extra mile to help alleviate congestion during rush hour. If I went over the toll bridge and through the barrier without paying the toll, I would be committing tax evasion. If, however, I drive the extra mile and drive outside the city of Washington, I am using a legitimate, logical and suitable method of tax avoidance, and I am performing a useful social service by doing so. For my tax evasion, I should be punished. For my tax avoidance, I should be commended. The tragedy of life today is that so few people know that the free bridge even exists."* [3]

Saving future taxes is just one motivation for doing zero tax planning!

Zero tax planning involves much more than just estate tax planning. Traditional estate planning focuses on saving taxes after the client dies. Many clients do not want to plan for such future events because the likelihood of death seems too remote or the wealth-transfer decisions seem too daunting.

Fortunately, zero tax planning involves much more than just saving estate taxes. A well-structured plan can zero-out estate, gift, and GST taxes while reducing income, capital gains, and other current taxes. Moreover, a qualified team of zero tax planners can illustrate how tax savings fund a better lifestyle for clients and their children while giving the clients greater influence in the community through charitable giving. The non-financial family and community benefits of zero tax planning can provide great motivation to do the planning now—especially when the present income tax savings will typically be much greater than the present costs of the planning.

Hiring a team of advisers is not too expensive!

Zero tax planning synergistically combines the benefits of legal, investment, insurance, and other types of planning. This synergy can result in teamwork that produces an overall better result than if each adviser on the team were working toward the same goal individually.

While hiring advisers from multiple firms can add costs and complications, clients will find that one-stop planning firms can keep costs relatively low by training and equipping all advisory team members to support shared values in a proven process. The client pays just one planning fee for the whole team. While a third-party CPA or fiduciary should review the plan, the total costs for the planning and review are typically less than 1% of the enhanced cash flow and wealth transfer benefits.

To keep zero tax planning costs low, clients can start with simple but powerful combinations of charitable and non-charitable trusts. For example, advisers routinely design Charitable Remainder Trusts (CRTs) to integrate with insurance trusts (otherwise known as a Wealth Replacement Trusts or WRTs) to help clients realize large income tax deductions, tax-deferred growth, capital gains tax savings, estate tax savings, and tax-favored retirement income. The blending of the CRT and WRT tax benefits and cash flows can result in fewer taxes, more for retirement income, more for family, and more for favorite charities. While the client must usually pay both a legal adviser and financial adviser to facilitate the drafting and funding of the CRT and WRT, the total costs are typically only about 1% of the tax savings.

Fees related to zero tax planning may be tax deductible as business expenses or charitable write-offs. Given how the after-tax benefits of zero tax planning can exceed the after-tax costs by a factor of 100 to 1, tax payers have substantial incentives to hire teams of advisers who know how to zero-out unnecessary taxes.

Transferring wealth to irrevocable trusts need not be scary!

Zero tax planning frequently involves complementing a revocable living trust with appropriate irrevocable trusts. Clients fear irrevocable unhappiness if an irrevocable trust is designed inappropriately.

Fortunately, professional advisers have effective ways of designing and drafting irrevocable trusts with great flexibility while retaining the tax benefits. Moreover, astute advisers will fund the irrevocable trusts with LLCs and other vehicles that help clients retain ample voting and distribution rights.

Wise clients realize that, ultimately, every person's retirement will end, and all assets not used will transfer to other people or organizations. Depending on how they are designed, irrevocable trusts can facilitate that inevitable transfer while helping each client retain reasonable ownership, cash flow, management, and control rights during his or her lifetime.

Prudent, irrevocable trust planning helps clients generate more robust and predictable cash flow while seeing how their wealth can pass tax efficiently to preferred beneficiaries. Attorneys can draft the irrevocable instruments with ample flexibility while preserving benefits that easily out-weigh the costs. For these reasons, irrevocable trust planning usually provides great peace of mind and helps clients enjoy much lower stress levels once trusts are drafted and funded.

Integrating zero tax planning instruments is not too expensive, risky, or complicated!

When clients see the potential benefits of zero tax planning instruments, they often express strong interest in implementing the available techniques. However, this enthusiasm may wane when they consider the issues attendant to integrating new wealth-transfer strategies with existing estate or income-tax-planning methods. Even greater concerns may arise when clients learn they may have to create irrevocable trusts in order to realize the largest tax benefits. In order to assuage these fears, an experienced wealth adviser[4] must reflect a client's deepest concerns and highest hopes in a document that unites and inspires members of a planning team. We call this document a Blueprint. This Blueprint should harmonize the wisest counsel of the CPA, lawyer, financial planner and other advisers convened to help the client maximize tax-efficient lifetime income, transfers to heirs, and gifts to favorite charities.

A qualified wealth adviser knows how to rank and quantify goals so that advisers on a planning team can work together effectively when selecting, designing, drafting, and funding the proper combination of trusts. Such counselors have proven processes for designing legal and financial instruments that address hard technical (e.g., tax, financial, and legal) issues without neglecting the soft emotional, relational, and spiritual concerns. The wealth adviser knows how to summarize all of the most suitable techniques for each client on a one-page flow-chart while supporting the flow chart with financial statements, legal document summaries, project management timelines and other essential information needed to help that client's advisory team members communicate effectively.

As their trusts are drafted and funded in accordance with a Blueprint, clients can see how they should have more after-tax retirement income—as well as greater after-tax capital—available for family and favorite charities. Clients can have the peace of mind inherent in a summary of annual after-tax cash flow and wealth transfer amounts. If their advisers can accurately illustrate both the income and balance sheet impact of the proposed strategies across time, clients should have a simple and realistic way to assess the benefits of the zero tax plan. As advisers show their clients how the proposed strategies generate both tax savings, as well as an array of non-tax benefits, clients have much more clarity about their futures and the ability to fund their dreams. Their lives become much simpler when they can refer to a simple, one-page flowchart with strategies blessed by all of their most trusted advisers.

Preparing the next generation can provide great benefits to justify the effort!

King Solomon warned, "An inheritance quickly gained at the beginning will not be blessed at the end."[5] Heirs given money typically have a strong inclination toward spending the money on possessions, pleasures, or other purposes without lasting significance. Psychologists specializing in "sudden wealth syndrome" acknowledge that heirs, like lottery winners, tend to blow their windfall. Many studies document how most wealth is lost by the end of the second or third generation as a family goes from "shirtsleeves to shirtsleeves."[6]

Clearly, the traditional estate planning process results in clients paying too much in taxes and in trust beneficiaries experiencing too many "bad heir days." The emphasis on zeroing-out taxes has supplanted the wise preparation of successor managers and beneficiaries. In other words, too many tax advisers focus clients on improving the after-tax inheritance for heirs without first confirming that the heirs have the maturity to steward a larger inheritance. For understandable reasons, 70% of estate plans fail by the end of the second generation, and 91% fail by the end of the third generation.[7]

Fortunately, trained advisers can help their clients equip beneficiaries to understand the purposes of wealth. Before passing on the value of their inheritance to the next generation, wise clients share stories and principles that pass along spiritual and emotional values. These clients heed the wisdom of Solomon by transferring both a relational inheritance and financial inheritance in a manner that establishes a foundation for blessing many future generations. The following chapters explain how.

Introduction

American public policy promotes zero tax planning. The tax code has traditionally encouraged the orderly transfer of ownership and control of wealth to the next generation by giving large tax benefits to clients who move their wealth into charitable trusts or other types of tax-advantaged investments. By combining tax-efficient trust drafting and funding techniques, advisers are able to zero-out unnecessary taxes while transferring the right amounts to trusts for retirement income, to family members, or to favorite charities.

Most taxpayers can benefit from zero tax planning techniques. Approximately 6 million American millionaires can lower tax bills significantly by applying ideas discussed in this book. The estimated 10% of American millionaires with estate values over $10 million can realize benefits of zero tax planning that exceed the costs by a factor of 100 to 1. Nonetheless, even clients with less than $1 million can realize substantial tax and non-tax benefits when funding Dynasty Trusts and other vehicles discussed in this book and its appendices.

People desiring lower taxes will typically seek out a tax adviser with technical expertise involving tax-exempt trusts, tax-exempt securities, or tax-exempt insurance policies. These tax advisers will often jump at the opportunity to implement a tool that will lower taxes. Unfortunately, planners frequently focus on just one of the various estate, gift, Generation Skipping Tax Trust (GST), capital gains, income or In Respect of a Decedent (IRD) taxes affecting a client's wealth. This preoccupation with just one or a few of the six common taxes results in planning team members working at cross purposes and making bad assumptions about the client's goals. Furthermore, as advisers combine different planning tools, they may realize how the tools compete for cash flow or interact in a way that undermines a client's goal of eliminating all unnecessary taxes.

To avoid the above problems, it is important that all advisers follow a proven planning methodology and use established tools when converting unnecessary taxes into capital that can fund clients' legacies. This introduction outlines a covenantal methodology and summarizes how the six elements of the covenant apply to all planning instruments, including the twelve common tools discussed throughout this book.

Following a Six-Step Planning Methodology

Years of experience working with hundreds of wealthy clients has taught me that planning team members should follow a six-step methodology when developing zero tax planning. By following these six steps, advisers can help clients overcome all of the six concerns about zero tax planning discussed in the preface to this book while designing and drafting planning instruments to uphold relational ideals.

The six-step methodology for managing wealth has deep roots in the ancient covenants that helped prophets, priests, patriarchs, and other rulers maintain order across the generations. For example, kings have ruled their kingdoms according to covenants that establish 1) the boundaries of their domains, 2) the transcendent purpose of their government, 3) a hierarchical leadership process, 4) ethical precepts to guide decision-making, 5) positive and negative consequences to foster compliance with the king's directives, and 6) a succession plan. These six elements have consistently appeared in all types of more recent covenants, including the compacts and constitutions that undergirded the founding of America. Similarly, the elements of a covenant can guide a patriarch and matriarch in building and transferring wealth

In order to reflect time-tested covenantal concepts in a manner relevant to 21st-Century planning, this book will refer to the six elements of the covenant using terms depicted in the left column below. The following table briefly defines the elements of the modern wealth planning covenant and explains how these elements guide advisers designing zero tax plans:

6 Elements	Descriptions of the Covenantal Elements
Present/Potential Resources	A wise family leader helps family members identify and steward at least seven types of abundant wealth available to the family. Family members can leverage 1) spiritual insights, 2) emotional passions, 3) intellectual capital, 4) physical talents, 5) social networks, and 6) professional training to build substantial 7) financial wealth. Financial assets should generally be owned in business entities and/or trust that provide details about the financial assets in schedules. When designing zero tax plans, advisers need to clarify the extent of a client's resources and the magnitude of potential taxes that can erode resources.
Purpose (as well as Mission and Vision)	Family leaders help clarify purpose statements for individuals within the family and staff members in the family business. Leaders also help articulate purpose statements for business entities and trusts. The purposes of legal documents should involve much more than tax savings, but it is often wise for advisers to include tax-minimization objectives consistent with the purpose. When designing zero tax plans, advisers must show how recommendations can free up capital to help fund and fulfill the client's mission and vision.
Process (Governance)	To use resources in accordance with a vision, a family leader normally needs to seek counsel from advisers and operational plans through managers. This usually results in a hierarchical process involving a board of wise counselors that guide the leader in choosing, training, monitoring, and rewarding the leadership team. Members of the leadership team have authority and accountability to put plans into effect. They also have a reporting and appeals process that helps provide information from daily operations to the family leader and his/her counselors. When designing zero-tax plans, advisers should establish an advisory team with clear leadership from an experienced wealth adviser who understands the diverse dimensions of zero tax planning.

Principles & Priorities	A family's communication to current and future leaders will be most clear if documents include the above elements along with clear principles and priorities that form the basis for positive rewards or negative consequences discussed below. The principles are generally timeless truths that foster virtue. The priorities are goals that may evolve in response to changing tax laws, asset values, or goals of team members. The goals can and should normally be articulated in cash flow statements that illustrate expected sources and uses of cash. When designing zero tax plans, wealth adviser should rank and quantify the client's goals to guide the selection, design, drafting, and funding of appropriate planning instruments.
Provision (Planning Tools)	Family leaders can provide for managers and other beneficiaries using legal documents. Covenantal elements above will often guide how the leaders design, draft, and fund legal instruments. During the initial design phase, the family leader and the counselors will typically see that taxes will seriously erode the accumulation of wealth unless legal instruments are tax-efficient. Increasingly, tax lawyers guide the drafting and funding of legal instruments to maximize the after-tax provision of wealth. Wise tax advisers will design the instruments to minimize the negative consequences of taxes while maximizing the likelihood of families transferring the values that contribute to the accumulation to wealth. Even when designing basic zero tax plans using simple tools, a client should have an upgrade path involving leveraged, total wealth control, or optimized tools that increase transfers of tax money to family or favorite causes.
Pathway to Prepare Heirs	Planning documents and legal instruments with covenantal elements must be maintained across time. This maintenance process typically involves training successor managers and/or trustees. The most practical training usually includes discussion about the stewarding of assets in the trust for the purpose of empowering beneficiaries, building family wealth, or funding charities that perpetuate family values. Family leaders can use trustee meetings to prepare heirs and update project management pathways that extend across the generations. The process of preparing heirs helps families preserve, protect, and transfer the most meaningful legacy without being torn apart by the temporal one. When designing zero tax plans, advisers should integrate tax planning tools using a wealth optimization process that helps the client plan beyond this lifetime. Such intergenerational planning helps clients take fullest advantage of tax benefits while preserving, protecting, and transferring the most meaningful legacy.

Each of the following six chapters explains one of the above six elements in greater detail. The chapters elucidate the covenantal concepts in the context of the twelve planning tools shown in the right column below:

While literally hundreds of different legal and financial tools can be drafted to include covenantal concepts, this book will focus on twelve of the more common vehicles. The first ten of the featured tools are charitable and non-charitable trusts. The last two of the tools are planning methodologies used to optimize portfolios and estate plans. At the end of the first six chapters of this book, there are explanations of how advisers might design, draft, and fund the above twelve planning instruments to reflect the purpose, process, principles and priorities, provision, and preparation of heirs in a manner that helps the family make best use of present and potential resources.

Using the Twelve Planning Tools Featured in This Book

The following table summarizes the Revocable Living Trust (AB Trust), Irrevocable Life Insurance Trust (ILIT), Generation Skipping Tax Trust (GST or Dynasty Trust), Qualified Personal Residence Trust (QPRT), Family Limited

AB Trust	The AB Trust is popular form of a Revocable Living Trust (RLT). The AB Trust can currently zero-out transfer taxes by directing the trustee to fund a B trust (or "family trust") with the lifetime exemption of the first spouse to die, and then having the trustee use the exemption of the surviving spouse to reduce taxes at the second death. The trust can be designed with various incentive trust clauses to motivate heirs. A properly funded AB trust will reduce or eliminate probate costs and hassles.
ILIT	The ILIT is an irrevocable trust created during the lifetime of a trustor to hold his or her life insurance policy as trust property, and thus exclude the death benefit from the taxable estate upon the death of the insured. Properly designed ILITs can include spousal access provisions to loan cash values tax efficiently as part of a retirement income strategy.
GST Trust (“Dynasty Trust”)	The Dynasty Trust is a vehicle for investing family wealth tax efficiently and then distributing the wealth to heirs most effectively. The primary objectives of a Dynasty Trust are to (1) avoid estate, gift, and generation-skipping taxes on assets transferred to many future generations of family members, (2) receive gifts of assets that are invested to benefit the trust-maker or the trust-maker’s family, and (3) establish a governance system to pass on the values of the trust-maker before passing on the value of the trustmaker’s estate. In particular, governance documents typically require that families meet for family meetings so family leaders can share family stories and pass on a spiritual and emotional inheritance before passing on a financial inheritance.
QPRT	A Qualified Personal Residence Trust (QPRT), if designed properly, can facilitate tax-free transfers of real estate or the proceeds from property sales. Depending on the prevailing interest rates when the QPRT is established, the QPRT transaction may involve a small or large gift. Taxes on the gift can be offset by applying a portion of the Lifetime exemption to the QPRT transaction.
FLP or (“LLC”)	A Family Limited Partnership (FLP) helps a client centralize management of wealth, fractionalize assets to facilitate gifting to heirs, protect assets from creditors, and achieve other business purposes. If a client creates the FLP for legitimate non-tax objectives, the FLP can also generate significant tax-related benefits. A well-designed FLP can effectively transfer business control, management, ownership, and cash flow to beneficiaries while minimizing the estate, gift, and income taxes payable by the client establishing the FLP. Planners can use FLPs in conjunction with charitable remainder trusts, charitable lead trusts, defective trusts and other estate planning investments to provide control and asset management benefits not available if using the instruments without the FLP. Limited Liability Companies may provide the benefits of FLPs along with additional asset protection features.
IDIT	The IDIT is an effective "squeeze and freeze" technique for estate tax planning, but is defective for income-tax planning. Planners can compress asset values and move them out of the taxable estate so the value retained in the estate is frozen at a lower assessed value for tax purposes. This allows for assets to grow outside of the taxable estate without gift, estate or GST taxes. The grantor can retain tax-efficient income from trust assets.
CRT	The CRT allows for the tax-free sale of securities, property, and other assets. The CRT generates an income tax deduction, allows for an estate tax deduction, permits the tax-free accumulation of assets, and affords favorable tax treatment on distributions. When properly structured, a CRT can function as a "tax deductible installment sale." The property seller has broad latitude in re-investing cash after selling a property in a CRT.
Public Family Foundation	One of the more popular forms of the Public Family Foundation is the Donor Advised Fund (DAF) The DAF is a segregated account at a community foundation. It has the advantage of being easy and quick to establish and allowing for contributions as small as $10,000. The DAF can have a board comprised of family members who make recommendations to the community foundation board regarding investments and disbursements that will help the family maintain its legacy.
TCLAT	The TCLAT provides a simple tool to zero-out an estate tax. When combined with a Family Limited Partnership or similar entity, the TCLAT can eliminate estate taxes and facilitate the transfer of the entire estate value to heirs within 15 years of death. The TCLAT is often combined with a Wealth Replacement Trust to provide a first inheritance while heirs wait for the second inheritance from the TCLAT.

Inter Vivos Grantor Charitable Lead Annuity Trust ("Super CLAT")	An individual can form a grantor inter vivos charitable lead annuity trust (Super CLAT) that keeps the value of the CLAT remainder interest out of the estate while also producing a current income-tax deduction equal to the present value of the future gift to charity. By using a Family Limited Partnership funded with tax-free bonds and variable life insurance, it is possible to produce enough tax-free income to meet the distribution requirements during the term of the CLAT. Taxpayers can use the Super CLAT to fulfill charitable giving commitments while transferring more wealth tax efficiently to beneficiaries.
Optimized Estate Plan	An Optimized Estate Plan typically shows a client how he or she can integrate a variety of customize planning instruments in order to: 1) Eliminate all estate taxes, 2) Minimize income taxes, 3) Maintain an accurate understanding of how planning strategies impact net worth and cash flow, 4) Achieve a variety of inheritance, cash flow, and other non-financial goals.
Optimized Portfolio Plan	An Optimized Portfolio Plan involves the use of modern portfolio theory to find the best combination of asset classes to fulfill a client's income or wealth transfer goals. Expected returns for desired asset classes are entered into a mean variance optimization program to determine possible combinations along an efficient frontier. After choosing possible proposed portfolios, planners can run Monte Carlo analyses to examine the likely future returns from the proposed portfolio vis-à-vis the current portfolio. In this way, advisers can determine which trust portfolios are most likely to produce the desired after tax returns over the recommended timeframe.

Partnerships (FLP or LLC), Intentionally Defective Irrevocable Trust (IDIT), Charitable Remainder Trust (CRT), Public Family Foundations (or Donor Adviser Fund), Testamentary Charitable Lead Annuity Trusts (TCLAT), Inter Vivos Grantor Charitable Lead Annuity Trusts (Super CLAT), Optimized Estate Plans, and Optimized Portfolios. The following table provides a brief description of each of these tools. Chapters 7-9 provide case studies and examples to illustrate how planners can customize, integrate, and illustrate these twelve tools:

The twelve tools above work well for many clients in the current tax environment; however, tax laws will change. Clients need a process that remains flexible, relevant, and dependable no matter what Congress and the courts do to the Internal Revenue Code. Readers should see how advisers using the covenantal process can effectively and tax-efficiently address the six common problems outlined in the preface of this book while adapting the process to evolving market conditions and new tax laws. As shown in the following chapters, the six covenantal elements can guide development of a tax-efficient plan even if new strategies eventually replace the twelve tools illustrated in the table above. No matter how circumstances may change, the time-tested covenantal process can provide a robust paradigm for uniting planners in helping each client maximize tax-efficient lifetime income, transfers to heirs and gifts to favorite charities.

Chapter 1

Zero Tax Planning Helps Clients Control *All* Of Their Resources

(Element 1: Present/Potential Resources)

The covenantal planning process begins with identifying available resources. A client must determine the value of his or her current wealth and make reasonable projections about future wealth that might be available for lifestyle expenses, family, charity, or taxes. When anticipating potential wealth, all clients should consider the likely financial assets that can accumulate across the years when there is a commitment to pursuing a calling with passion, questing for spiritual insights, identifying and monetizing intellectual capital, cultivating physical talents, leveraging social networks, and seeking professional training with guidance from a qualified mentor.

Wise use of the seven resources listed in the above paragraph can help anyone accumulate substantial financial assets. While the government cannot easily tax most of our God-given resources, assets on the financial statements will decline significantly unless there is a commitment to disciplined tax planning.

The client's balance sheet should show available financial assets and estimate yields so that planners can determine how the assets will likely grow each year. Next to each asset on the balance sheet, advisers should note how capital gains taxes, estate taxes, or other local, state and federal taxes might reduce the value of the assets.

Zero tax planning can help a client control all of his or her balance sheet assets, including the portion currently allocated for taxes. It is not difficult to zero-out taxes simply by giving wealth to charity. Amazing opportunities arise, however, when the tax benefits of charitable tools are combined with the tax benefits of non-charitable instruments.

To achieve zero tax planning goals, advisers typically integrate well-known philanthropic strategies such as Revocable Bequests, Charitable Remainder Trusts, and Charitable Lead Trusts with common non-charitable techniques such as Limited Liability Corporations, Revocable Living Trusts, and a variety of irrevocable trusts. Advisers can help clients zero-out tax while using widely accepted planning instruments that respect the letter and spirit of the Internal Revenue Code. Such instruments may generate large tax deductions, allow for tax-deferred growth, shelter income from current taxes, and transfer wealth to heirs without estate, gift or generation-skipping taxes.

This chapter will show how Congress and the IRS empower clients and advisers to design planning instruments to minimize taxes, integrate charitable and non-charitable planning tools synergistically, and draft and fund tools to allocate the correct amount of wealth for personal and community goals. The following sections review how clients can decide how much wealth will be consumed, transferred to beneficiaries, gifted to charities, or paid in taxes. Diagrams below suggest how clients can minimize the amount in the tax bucket while maximizing income for lifestyle expenses, transfers to heirs and gifts to favorite charities.

Designing Charitable Planning Instruments to Minimize Taxes

When determining which charitable tools to use in order to minimize taxes, many clients will express concerns about too much money going to charities. To address worries about charitable giving depleting cash available to perpetuate the family legacy, an experienced wealth adviser can discuss a variety of charitable giving techniques that help family members make gifts of illiquid assets (such as closely held business interests, equity in a home, registered stock, etc.). Studies show that most families keep only 7% or less of their assets in liquid accounts used for making donations to charities. If these families see how they can fulfill charitable obligations by giving illiquid equity in businesses or other assets, the philanthropic planning frees up more cash flow for funding vehicles that transfer wealth to family beneficiaries.

In America, a portion of lifetime income and transfers to beneficiaries must be allocated for the good of the community. Every taxpayer is either a voluntary or involuntary philanthropist. Wise tax advisers help clients see that they can choose between voluntary philanthropy and involuntary philanthropy:

Clients realize that every American with income and assets will be taxed. Advisers help clients see that the planning process helps decision-makers choose between voluntary philanthropy and involuntary philanthropy:

- Taxpayers are **involuntary philanthropists** if they do nothing and give to the state and federal treasuries through taxes. As an involuntary philanthropist, an individual must usually sit back and let the government make decisions about spending his or her wealth.
- Alternatively, taxpayers can be **voluntary philanthropists**. Congress allows Americans to use a variety of charitable trusts to direct their would-be tax money to their favorite charities. Taxpayers can send their voluntary tax money to foundations that then redirect those funds to a broad array of causes close to their hearts. Through active involvement in philanthropic planning, individuals can control—and feel good about—the portion of their wealth that must go to the community.

Voluntary philanthropy may involve gift annuities, Charitable Remainder Trusts, Charitable Lead Trusts, donations of company stock, gifts of intellectual property, and numerous other techniques. Skilled wealth advisers can integrate these tools into plans involving clients' existing planning instruments, such as their retirement plans or living trusts. Competent advisers can show their clients how to control not just their personal wealth but their community wealth, as well. For example, a wealth adviser can structure family foundations with boards comprised of family members who gain great influence in the community as they fund favorite charitable causes with money that would have been wasted in taxes.

Integrating Tax Planning Tools Synergistically

It seems to violate the laws of physics to have a plan superior in every important way. Nonetheless, experienced advisers know how to fund retirement income and wealth transfers using cash generated from tax deductions and tax deferral. This cash can be leveraged through the use of trust-funding techniques and low-interest loans. Moreover, the cash can compound very tax efficiently through the right combination of charitable and non-charitable instruments.

When integrating benefits from multiple tools, individuals must compare current and proposed numbers. Their advisers should examine their current lifetime cash-flow projections to see how much money they will need or expect each year after taxes. Individuals should also conduct current projections of how much wealth each of their beneficiaries will receive after taxes.

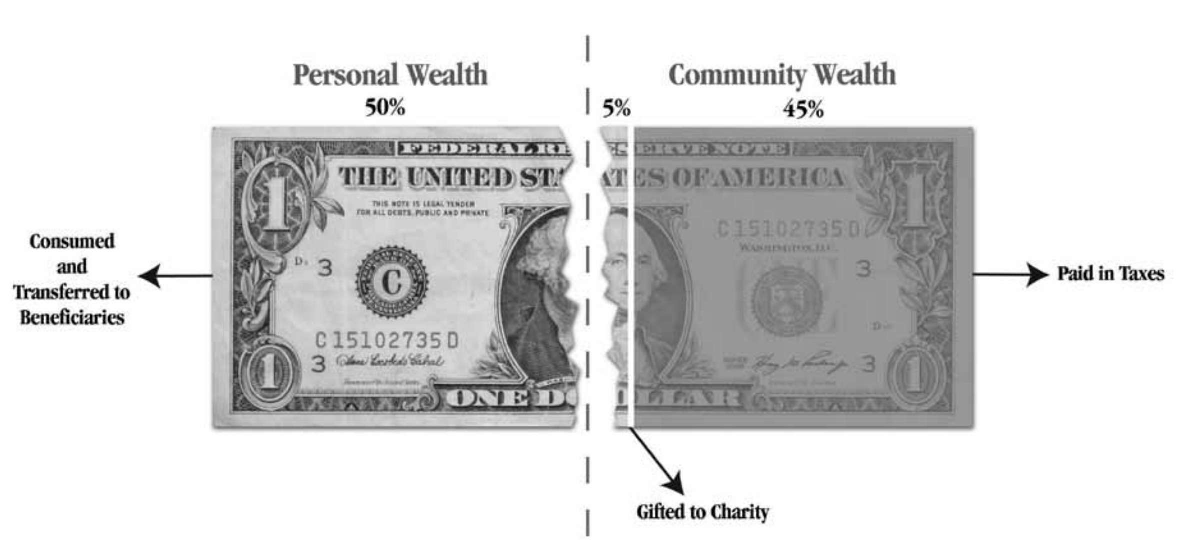
Once projections illustrate current after-tax transfers to the client and beneficiaries, advisers can use these baseline numbers as benchmarks when developing proposed numbers. As long as the advisers take the time to calculate reasonable cash flow and wealth transfer amounts from each of the assets and trusts, they will have the granular data to calculate fully-integrated lifetime cash-flow numbers and wealth-transfer projections for each of their client's beneficiaries. If the planning is completed correctly, clients should be impressed with how the proposed numbers are better than the current numbers. More importantly, they should be delighted to see that they can control all of their wealth by redirecting tax money to trusts for their family members and favorite charities.

Choosing Among the Four Ways to Use Wealth

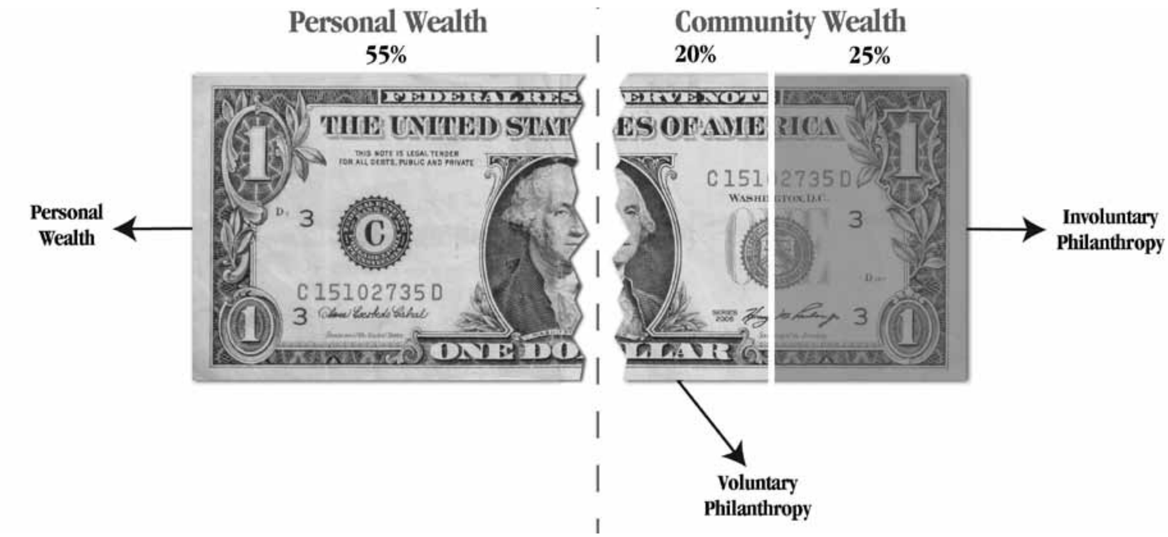
Below is a deeper discussion of the "personal wealth" and "community wealth" resources that need quantification as part of the first element of covenantal planning. Understanding these concepts lays a foundation for powerful "Zero Tax Planning" techniques based on the integration of charitable and non-charitable tools. Throughout the rest of this book, the reader will see how advisers can choose, customize, and integrate twelve of the most common planning instruments to achieve the desired allocations among the four buckets introduced in the above paragraph.

Effective advisers can give their clients much guidance in deciding what portion of their wealth will be consumed by them or transferred to their charitable or non-charitable beneficiaries. Furthermore, advisers can help their clients redirect tax money to foundations that fund a variety of favorite charities. In this way, clients can use all of their personal and community wealth to fund the people and causes who carry on the values that are most important to them. As shown in the following diagram, taxpayers can perpetuate their values by allocating wealth to any of four "buckets." Personal wealth can be 1) consumed or 2) transferred to beneficiaries. Community wealth can be 3) gifted to charities or 4) directed to the Treasury Department as tax payments.

The average American gives more than 25% of his or her income to taxes. Additional wealth is lost to capital gains, estate, and other taxes. It is not uncommon for 45% or more of a person's assets to go to taxes while less than 5% of his or her assets flow to the community through charity.



As shown on the following pages, individuals can give a large portion of their assets to charity without reducing what is available for their retirement and/or family. Each person can control all of his or her wealth, and effectively "disinherit" the IRS. In addition to directing their personal wealth to worthwhile causes, individuals can redirect wealth from involuntary philanthropy to voluntary philanthropy. Instead of letting the government choose who receives their hard-earned money, donors can direct wealth through their preferred charities and causes that uphold their vision and values.



The above diagram shows a win-win-win outcome with more for family, more for favorite charities (voluntary philanthropy), and less for taxes (involuntary philanthropy). Experienced planners can enhance this outcome to show more for retirement and little or nothing for taxes. Wealth advisers can show their clients how to direct their tax savings to charities that perpetuate their values. Moreover, a wealth adviser can illustrate to each family how charitable giving funds result from lowering taxes, not from lowering projected inheritance amounts.

Even simple tax planning tools can direct taxes to charity without reducing what is available for retirement or family. More advanced tools can provide greater benefits and even zero-out taxes. As might be expected, the more sophisticated plans may involve more risk, complexity, or expense. Nonetheless, experienced advisers can normally show how the planning benefits far out-weigh the costs.

As individuals take control of their capital, they should see that they have far more wealth available to fund their vision. They can use wealth in their non-charitable trusts for retirement, transfers to family, or a wide array of investments that build value. They can use wealth in their charitable trusts for investments and/or charitable gifts. They can confidently use all of their charitable and non-charitable wealth to support causes that are probably much more consistent with their values than those the government funds with their tax money.

Combining Legal Tools While Considering Investment Options

Though this book only touches on a dozen of the available tools alluded to in the Introduction, advisers have hundreds of charitable and non-charitable planning tools available to them that go hand-in-hand with the six covenantal elements. Whereas advisers typically used just a handful of planning instruments a quarter century ago, and whereas advisers frequently failed to draft planning instruments that addressed all of the covenantal elements, experience has shown the need for a more robust process. As explained throughout this book, clients can achieve far greater financial benefits while leaving a more meaningful legacy when they choose from a broader array of tools and then design the tools to uphold all elements of the covenant.

The covenantal planning process can guide the modern adviser as he or she sorts through a complex assortment of trusts, money management instruments, and insurance techniques when integrating the charitable and noncharitable instruments. The adviser must resist the temptation to focus only on financial assets and investment accounts when outlining resources. Instead, advisers should evaluate the use of all seven types of resources listed in the first paragraph of this chapter. Each person involved in the planning process needs to appreciate how he or she has abundant wealth that can grow when applying the six elements of the covenant outlined in the first six chapters of this book.

The adviser applying the covenantal plan design process will focus on the client's desired legacy and vision for maximizing tax-efficient lifetime income, transfers to heirs, and gifts to favorite charities. Depending on the client's blend of resources, advisers may design and draft any of hundreds of different trusts. These entities may be funded with any of hundreds of different assets. Evaluating the plethora of drafting and funding options will overwhelm any adviser unless each option can be evaluated in light of desired outcomes. The covenantal planning process defines these outcomes with a methodology that facilitates clear decision-making.

Different types of trusts have widely different parameters for acceptable investments. Generally, clients can use most types of real estate, stocks, and bonds in conjunction with the 10 trusts and two planning methodologies (optimized portfolios and optimized estate plans) summarized in the Introduction. The greatest flexibility usually exists with a Revocable Living Trust because the client is trying to avoid probate costs and not trying to avoid current gift or estate taxes. Once the client seeks to move assets from the taxable estate, several restrictions apply to asset transfers. These restrictions will be greater if the clients want to retain control over assets moved to irrevocable trusts. Generally, the greatest restrictions will apply to charitable trusts because the IRS does not want clients to abuse the potential estate and income tax benefits.

Clients starting with a Revocable Living Trust (RLT) will usually need to decide which assets belong on the schedules of the revocable trust and which belong on the schedules of irrevocable trusts. Normally, the Schedule A of the RLT includes stocks, bonds, and real estate. Schedule B will often include retirement plans and/or life insurance. Schedule C may list community property; Schedule H may document the Husband's separate property, and Schedule W may show the Wife's separate property.

If the client has life insurance that may be subject to estate taxes, the insurance should normally go into an Irrevocable Life Insurance Trust (ILIT). If assets are held for grandchildren, a Generation Skipping Tax Trust (GST) should normally have title to the assets so that no transfer taxes will be due when grandchildren receive the wealth.

When a home (or equity in a home) should pass to children while giving parents the right to live in the home, a Qualified Personal Residence Trust (QPRT) can hold the residence instead of keeping the home in the RLT. Business interests can often pass to successor managers or other beneficiaries by listing the entities on the schedules for a Family Limited Partnership (FLP) or Limited Liability Company (LLC). Advisers will often transfer non-voting interests in the FLP or LLC or an Intentionally Defective Irrevocable Trust (IDIT).

The QPRT, IDIT, and other non-charitable tools can help reduce estate, gift, and other transfer taxes significantly. They do not normally help reduce income taxes unless combined with other tools. The most popular income tax tools with many clients are charitable trusts such as the Charitable Remainder Trusts, Donor Advised Funds, Testamentary Charitable Lead Annuity Trusts, and Inter Vivos Grantor Charitable Lead Annuity Trusts. These vehicles typically own and sell appreciated assets without triggering current income taxes. The Charitable Remainder Trust and Lead Trust are subject to the private foundation rules that put restrictions how a trustee can manage assets. It is, therefore, very important to work with competent tax counsel before moving assets to charities subject to avoid unnecessary taxes on investment income (§4940), self-dealing (§4941), failure to distribute income (§4942), excess business holdings (§4944), and other taxes applied to private foundations.

The strict private foundation rules do not normally apply to assets in public foundations, such as Donor Advised Funds (DAFs). Therefore, DAFs and related public foundations facilitate a variety of advanced planning techniques when clients are trying to move assets from the involuntary philanthropy bucket to trusts that fund voluntary philanthropy.

Ideally, each donor should maintain a balance sheet showing how each asset is owned in the appropriate trust. Qualified wealth advisers should look at the balance sheet to spot unnecessary exposure to taxes. Astute planning team members should quantify the taxes related to how assets are currently owned and then propose a new balance sheet with assets owned in a way that mitigates taxes. The proposed balance sheet should show how the client controls more resources as a result of tax savings. The new or proposed balance sheet should show how ample assets have been identified and allocated to trusts that foster development of all of the client's resources in harmony with the vision defined during the covenantal planning process (See Chapter 2).

When calculating the potential tax savings, experienced advisers should examine not just current values on the balance sheet but expected future values. Asset value projections should take into account likely inflation and tax law changes. More important, the adviser should consider how a client might invest emotional passions, intellectual capital, professional talents, and other non-financial wealth in building a business that grows tax efficiently. Businesses can usually minimize taxes and maximize growth if using excess taxable income to fund transfers to retirement trusts or trusts that facilitate tax efficient business succession plans.

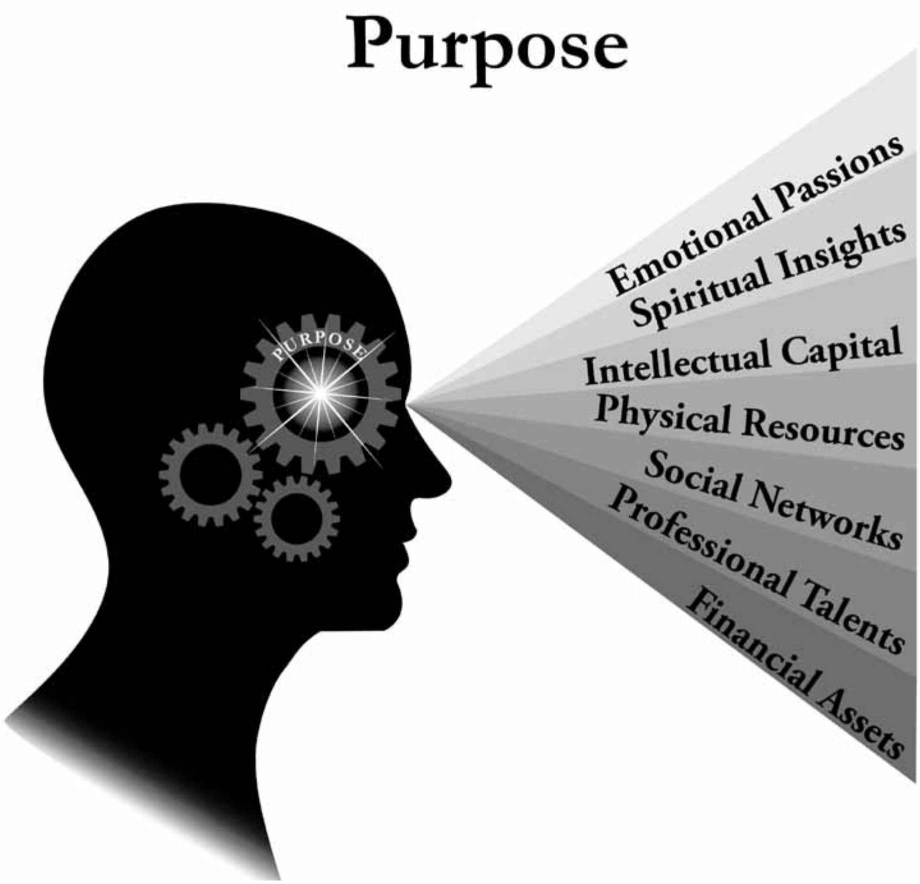
The following chapters provide a more detailed summary of how the advisers can choose, customize, integrate, and monitor the appropriate instruments when redirecting tax money to trusts designed for retirement, family, or community (charitable) purposes. Clients will see how the many types of resources identified during Element 1 of the covenantal process can be leveraged to fulfill a clear vision (Element 2), with assistance from qualified advisers (Element 3), according to clear priorities and principles (Element 4), with tax-efficient outcomes (Element 5), and in a way that equips future generations to expand the wealth and influence of the Generation 1 (G1) client (Element 6).

Chapter 2

Zero Tax Planning Requires Clarity Of Purpose, Mission, and Vision

(Element 2: Purpose, Mission, and Vision)

Chapter 1 should have helped readers see how all wealth, including the portion now going to unnecessary taxes, is available for planning. Quantification of wealth is required during covenantal planning element one because advisers need to know what resources can fund realization of the purpose defined during the second element of covenantal planning. As an individual reflects on emotional passions, spiritual insights, intellectual capital, physical talents, and other sources of wealth, he or she can crystalize an initial sense of calling that should evolve into a purpose statement with help from professional education and social networks.



Clarity about the client's resources and purpose statement facilitates the design of trust instruments with clear purpose statements. All of these instruments—including retirement trusts, business succession trusts, residence trusts, and charitable foundation trusts—require a written purpose to guide advisers making decisions about trust drafting, funding, administration, and distributions.

This chapter shows how and why each client should clarify a purpose, use images to depict a personalized vision, and work with advisers who translate vision into reality. Our experience teaches that clients who begin the planning process with a strong statement of purpose will have the most success in uniting with other purposeful people.

Clarifying the Purpose and Mission of the Client

Individuals typically own homes, businesses, and other assets along with other stakeholders who have different goals. The wealth planning process requires that stakeholders develop shared purposes and, ideally, help one another fulfill heartfelt purpose statements. Shared purposes are often coalesced into a mission statement that guides family wealth planning. Having a clear family mission may be the single most important predictor of success in the planning process.[1]

When our clients (or their beneficiaries) are unclear about their purpose or mission statements, we suggest they the go through a process to define a calling or purpose. We encourage them to think about fulfillment of their desires in a way that will serve others. We warn about the loss of joy and other problems that result from not being purposeful.[2] We also cite surveys of people who consistently lamented at the end of their lives that they should have dreamed bigger and pursued their dreams more actively.[3] We eagerly share stories from our clients who experience great hope and passion while living in harmony with a purpose. Moreover, we offer statistics showing that people with a clear sense of purpose build far more wealth and achieve much greater emotional fulfillment. [4]

We encourage our clients to refine language in their purpose and mission statements while dreaming colorful dreams. Passionate dreaming is always central to the process of articulating purpose and mission. We realize that the most beautiful buildings, paintings, and monuments begin with someone looking to the heavens and envisioning a grand pursuit. Similarly, the most successful families, companies, and spiritual movements begin with the leader having the wisdom to unite people and combine resources in accordance with dreamy expectations of a better tomorrow.

Maintaining a Clear and Inspiring Vision

Like Henry David Thoreau, we believe that, "If you advance confidently in the direction of your dreams and endeavor to live the life which you have imagined, you will meet with a success unexpected in common hours." We agree with what Thoreau exhorted when he wrote, "If you have built castles in the sky, let not your dreams go to waste; just build the foundations under them."[5]

Planning teams need to work together while clarifying both lofty dreams and foundational details. As the planning team leader works to articulate all elements of the plan, he or she will see how the group's purposes, missions and dreams may evolve in response to changing strengths and weaknesses of team members, to new opportunities, or even to threats in the external environment. Whereas the leadership process must remain flexible, the leader must always strive to communicate a steady vision. While statements of purpose and mission or summaries of dreams may morph in response to new circumstances, the vision must act as a guiding light to keep family members, business partners and advisory team members united.[6]

The leader of the planning team can use the client's vision statement to help participants in the planning process resolve conflicts, align their interests, proactively address needs, and advance confidently toward transcendent ideals.[7] The leader should help refine statements of vision in a way that inspires clarity and consistency. The leader can help develop the type of vision that prompted Leonardo da Vinci's wise comment that, "He who is fixed to a star does not change his mind."[8]

Depicting Vision as a "Castle in the Sky"

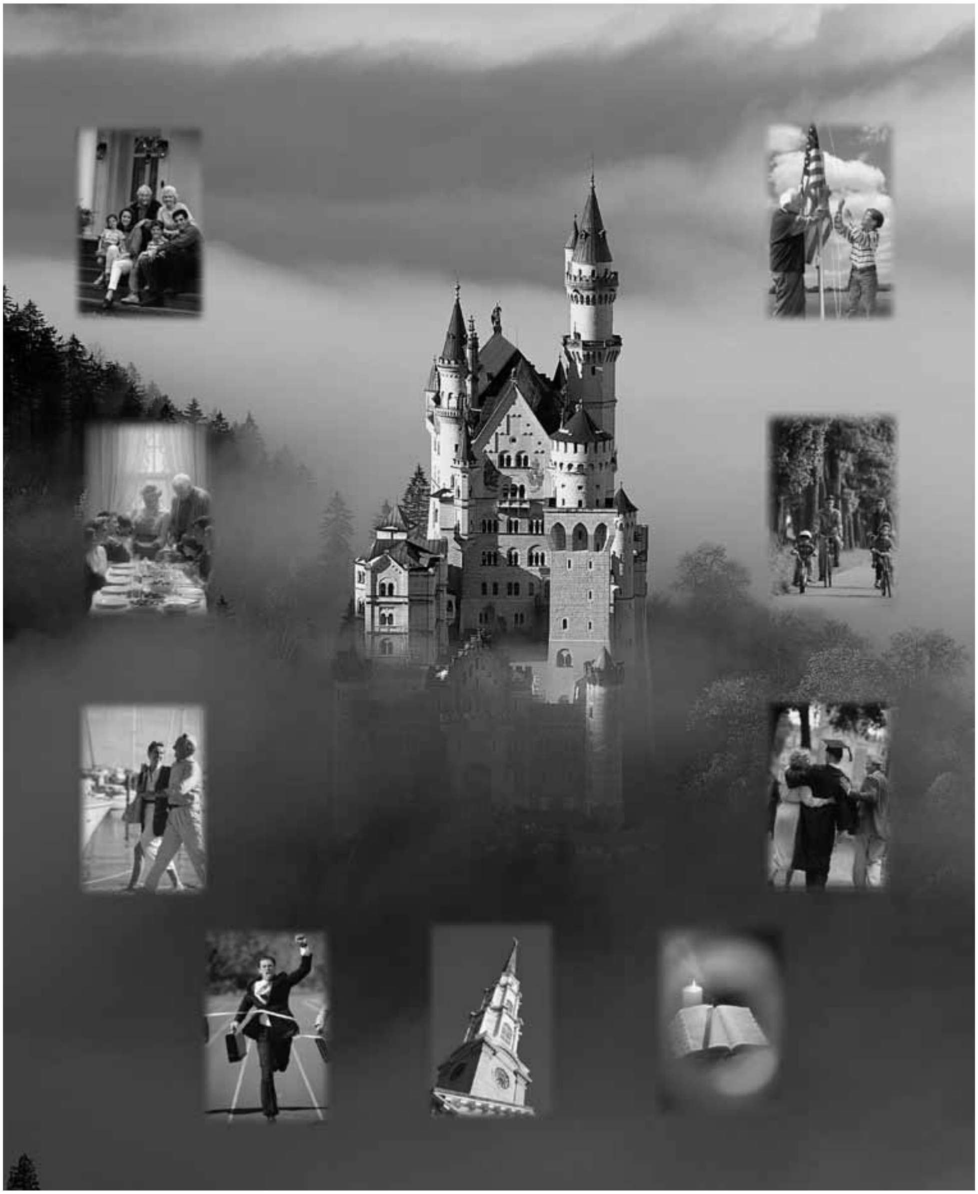
Visionary wealth planning can be symbolized with a picture of a castle in the sky. To put a foundation beneath the envisioned future, the client and advisers must work together to assess present and potential resources, purposes and mission statements, governance process, priorities and principles, provisions in legal documents, and plans to perpetuate prosperity. Knowledge about these six covenantal elements guides informed discussions about how advisers can work together in helping clients build a secure base under their castle in the sky.

Qualified wealth advisers can help clients clarify their visions with personalized images that resonate with their hearts while speaking to the minds of individual planning team members. The passions and desires depicting the values that most inspire clients can be reflected in pictures that meld together to give an inspiring vision.

If clients define their visions with wise counsel about the six covenantal elements, the vision-casting process should translate right-brained images of harmonious ideals into left-brained technical details. Clarity about the vision helps advisers see how colorful visions relate to the black and white diagrams, financial statements, next-action checklists, and legal documents needed by advisory team members. Such technical documents help advisory teams communicate clearly and consistently with one another while establishing next actions for realizing the vision.

Translating Vision into Reality

Once advisers are clear about the purpose of an individual's wealth—as well as the mission and vision for a family's wealth—the advisers can pro-



vide clients peace of mind as they seamlessly integrate tax planning techniques with other tools that clients may use for asset protection, business succession, portfolio management, retirement planning or other objectives. Advisers can easily choose, customize, and combine tools to achieve the client's planning goals by evaluating all decisions vis-à-vis the mission and vision that most inspire the client.

As attorneys draft trusts and business entities, they need to provide clarity about the purpose of each vehicle while integrating the tools most applicable to the client's vision. Tax authorities will raise legitimate questions if a trust or partnership exists only to lower taxes. To avoid suspicions, drafting attorneys will typically emphasize the investment, business, philanthropic, or legacy transfer purposes of the trust. Attorneys can draft language about the tax and non-tax purposes of the legal entities most effectively when they see that grantors and beneficiaries are seeking to unite around a common vision or mission.

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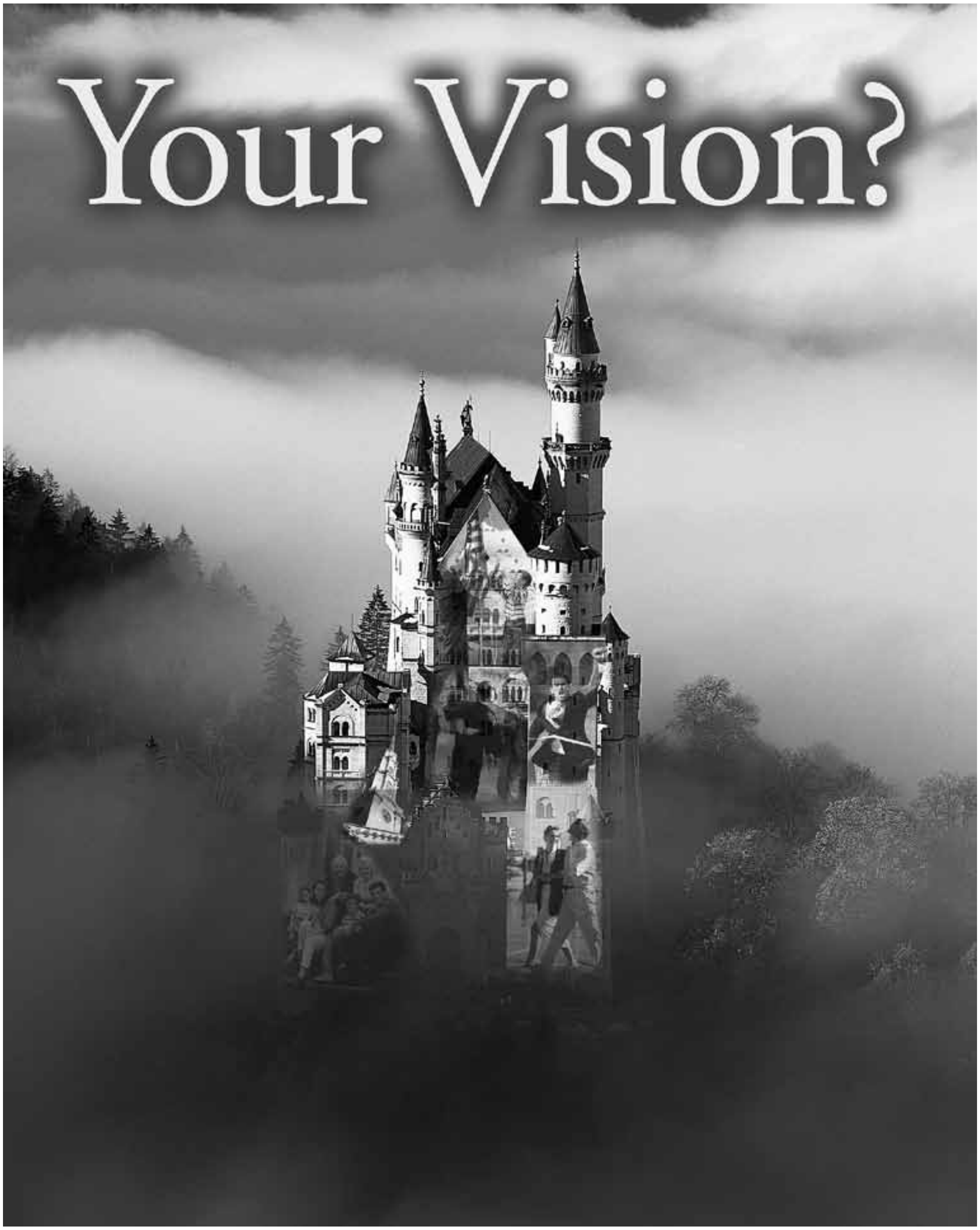
When the client's vision is clarified in an ethical will or a document with legacy directives, the drafting attorney can often include more detailed instructions in a trust about accumulating capital through investments; making investment decisions; or other purposes, such as making low-interest loans to family members who are pursuing worthwhile charitable, educational, or business endeavors. The trust language may also suggest how distributions should build character and strengthen a family in a manner consist with the grantors' statement of purpose.

The process of uniting advisers around a common vision is akin to bringing together the architect, electricians, plumbers, stone masons, and other builders to construct a dream home. In order for all the team members to review the proposed building materials and then work in harmony, an architect should listen to everyone involved in building the proposed structure and then integrate ideas in architectural renderings that depict an inspiring end product, supported with the necessary details for each person helping to create the structure.

When purposes of spouses and other family members are coalesced into a clear statement of mission, advisers can help all family members have ownership in the planning process. Family members can then sharing inspiring conversations about purpose, mission, and vision during element two of covenantal planning. Personalized dialog about purpose, mission and vision is most fruitful after clients recognize the wealth available to them during the first element of covenantal planning and look toward the power of covenantal planning throughout the third through sixth elements. The next chapter will show readers how they can cost effectively and efficiently unite advisers during the third element of the covenantal planning process.



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Chapter 3

A Client's Vision Can Unite Advisers

(Element 3: Process/Governance)

Collaboration is critically important when implementing zero tax plans. As explained in Appendices B, C, and D of this book, zero tax planning teams need expertise with a wide array of services, tools, and roles. In order for these advisers to work in unity, they must have a shared process. The third element of covenantal planning establishes an authority and accountability process that unites diverse teams of planners, establishes the role of the leader, keeps team members faithful to the client's vision and values, and delegates fiduciary authority appropriately.

Uniting Diverse Planning Team Members

Behind the most beautiful structures, there are usually teams of engineers, accountants, MBAs, and lawyers. For example, the brilliant images on a high definition TV only exist because an engineer designed the circuit boards. The engineer needed support from accountants clarifying the financials, MBAs developing project-management timelines, and lawyers drafting myriad documents to clarify relationships with vendors, inventors, customers, and others.

Before images of the future can guide teams effectively, somebody needs to translate colorful ideas into monochromatic diagrams, financial statements, project management timelines, and legal documents that keep builders "on the same page." This is especially true with zero tax planning because advisers must apply a variety of different skills to create planning structures with impact extending across multiple generations. Advisory team members must use dynamic means of communicating solutions regarding technical documents, while helping wealth holders see how mundane details contribute toward the construction of structures that will benefit themselves, their family members, or their family business across time.

Too many financial and legal planners know how to draft documents, but they often find themselves working at cross-purposes or failing to implement plans because the planners do not clearly see how their efforts contribute to the client's objectives. The counselors who help families integrate spiritual and emotional details into ethical wills or other legacy directives frequently lack the financial and legal acumen to update technical documents. The few advisers with broad expertise involving trusts and similar technical tools typically admit that they do not know how to find the optimal combination of investments and insurance to fund fulfillment of a client's vision.

Experienced advisers realize that no one planner has sufficient knowledge of all the legal tools usually required to achieve a client's objectives. Finding the best team of legal, financial, and insurance experts typically involves interviewing many different advisers who may have widely diverse value systems and planning systems. Too often, these advisers have only a few favorite planning instruments and lack the necessary acumen about the numerous types of planning tools the client may need. When clients and advisory team members do not understand the technical domains of the experts, the process of trying to unite the advisers will lead to endless frustration.

The dynamic, rigorous, and often challenging job of coordinating advisers requires a robust planning methodology that unites advisers with diverse interests, talents, skills, abilities, and biases. The third element of the covenantal process may provide the best basis for collaboration because it fosters commitment of all advisory team members to a logical, practical, and proven focus on serving the client.

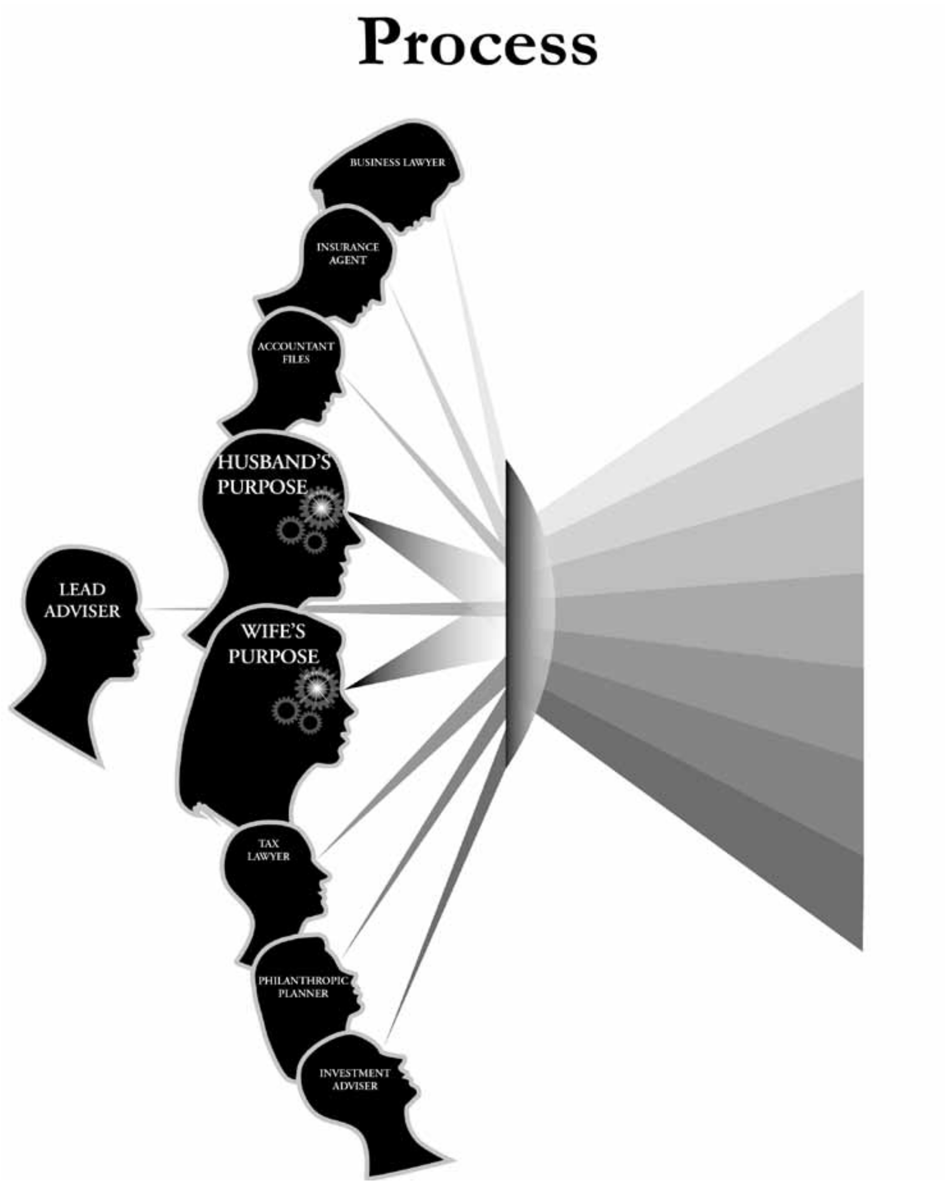
Leading the Team

To overcome team-building challenges, leadership is essential. Wealth holders need a lead adviser who can help the creative and artistic members of their team see how emotional concepts translate appropriately into technical terms, then communicate those terms in a way all team members can understand. Of course, the wise leader will also know how to help technicians see their detailed efforts as important functions on a critical pathway toward fulfillment of a grand vision.

One lead adviser on a planning team needs an effective process for clarifying the client's vision and choosing the right planning tools. The adviser must know how to help the client choose from hundreds of possible legal and financial tools and then see how customizing and integrating the tools can result in greater benefits. This evaluation process is similar to what happens when a person goes to an optometrist and tries on multiple different lenses when trying to see more clearly. The lead adviser must know how to combine and conceptualize the advantages of ideas from all planning team members until the client is able to see the future more clearly.

The remainder of this chapter explains how a wealth adviser can provide this essential leadership. One wealth adviser on each team must have the authority to hold planning team member accountable to following steps established with input from the leader. The lead adviser must know how to assign next actions that integrate emotional and technical concepts while remaining faithful to the client's vision. The lead adviser needs expertise in illustrating and implementing essential planning solutions in a way that unites the client and all members of the planning team around both technical and relational ideals.

As the wealth adviser serves as a Lead Adviser for the Planning Team, he or she uses a proven process to integrate ideas from at least six types of advisers while developing useful reports for the client. A typical planning team requires a business lawyer, philanthropic planner, insurance agent, investment adviser, accountant, and tax lawyer. These advisers may fulfill a dozen or more roles. The Lead Adviser works with each adviser to clarify the roles for the planning team members, the goals for the project management system, and the controls process to keep each adviser on track. When planning team members work within one firm, the direct relationship between performance and pay helps keep advisers focused on fulfilling expectations of fellow planning team members and clients.



The Lead Adviser is typically supported by a Case Manager who communicates ideas from all advisory team members using a project management system. A web-based project management program helps each adviser "virtually look over the shoulder" of other advisory team members. In this way, each team member can help ensure that accurate deliverables are produced on time. Such accountability helps minimize the "blame game" that so often derailed planning before the advent of web-based case tracking systems.

When developing a zero tax plan, the Lead Adviser and Case Manager usually unite the types of advisers shown on the left of the grid below. The Case Manager needs to confirm that each planning team member has the necessary information and systems to produce required deliverables. The team members then work together to crystalize and communicate the client's vision—inspiring efforts to maximize the client's tax-efficient lifetime income while transferring the right amount to charitable and non-charitable beneficiaries.

Type of Adviser	Typical Roles and Deliverables
Wealth Strategies Counselor	Designs a blueprint/Serves as a lead to unite the team
Business Lawyer	Drafts governance documents
Insurance Agent	Prepares risk management reports
Accountant	Files tax returns
Tax Lawyer	Designs tax strategies
Philanthropic Planner	Prepares legacy funding proposals
Investment Adviser	Designs and monitors portfolio reports
Case Manager	Oversees project management timelines

Too many advisers attempt to increase a client's lifetime income or potential transfer to a client's beneficiaries by focusing on reducing taxes. This short-sighted focus on taxes is tantamount to claiming that a Rubik's Cube® puzzle has been solved when only one of the six sides has uniformly-colored squares. Anyone who thinks carefully about the mathematics behind optimizing returns after taxes will realize that the tax puzzle, like Rubik's puzzle, has literally quintillions of possible solutions that should receive fair consideration during the search for the optimal outcome.

The Rubik's Cube metaphor is apropos to zero tax planning because the advisers are questing to realize a client's vision which, like a castle described in an architectural blueprint, will have diverse dimensions designed in an integrated fashion. As the Lead, the wealth adviser, like the architect of a castle or the designer of Rubik's cube, must think through all of construction—ensuring pieces can fit together without compromising any aspect of the finished product.

The six sides of the plannning puzzle correspond to six sides of Rubik's Cube

On a more practical level, the wealth adviser must help the business lawyer, insurance agent, accountant, tax lawyer, philanthropic planner, and investment adviser monitor how cash flows from each planning tool are affected by all types of transfer taxes and income taxes. An adviser operating in a narrow role and examining just one side of the planning puzzle can easily under-estimate the complexity inherent in solving a comprehensive tax-minimization puzzle—a puzzle that involves optimizing cash flow after payment of income, capital gains, IRD estate, gift, generation-skipping, and other taxes.

To coordinate the six sides of the planning puzzle, you need a wealth counselor supported by a relationship manager.

Experienced wealth advisers know how to describe all dimensions of the client's plan in a manner that will remain consistent and compelling when viewed by different family members or advisers. Moreover, wealth advisers must understand the technical principles guiding the business lawyer, insurance agent, accountant, tax lawyer, philanthropic planner, and investment adviser and then unite them to realize the vision. The wealth adviser must keep the team dedicated to the client's vision; he or she must be focused on choosing and customizing tools that realize goals regarding resources, vision, governance, values, cash flow, and legacy.

Upholding Fiduciary Standards

The wealth adviser must apply well-honed technical skills to integrate planning solutions, while also using relational skills to unite family members and advisers around plans for implementing action steps required by the plan design. Advisers must also have a solid grasp of process skills. In particular, 21st-Century planning increasingly requires that advisers respect the fiduciary standard during each step of the planning process.

The fiduciary standard is the highest standard of care at either equity or law. It has been upheld for decades by attorneys, CPAs, trustees, registered investment advisers, and professionals who work on a fee basis. The fiduciary standard is stricter than the suitability standard normally applied to insurance agents, stock brokers, and other advisers compensated with commissions. The fiduciary must help the client invest in the most appropriate product for the client without letting personal sales objectives interfere with judgments. A fiduciary "is expected to be extremely loyal to the person to whom he owes the duty (the 'principal'): he must not put his personal interests before the duty, and must not profit from his position as a fiduciary, unless the principal consents."

Giving Fiduciary Authority to Trustees

One of the most important fiduciaries in the planning process is the trustee of irrevocable trusts. Any one of the 8 planners depicted on the diagram above could be a trustee under some circumstances. Nonetheless, because investment advisory firms, law firms, and other professional firms frequently prohibit staff members from serving as trustees, the trustee is most often a professional fiduciary, CPA, or relationship manager with a corporate trust company.

The trustee of a trust may comply with a variety of roles, goals, and control systems. The governance provisions in the RLT or QPRT typically indicate the client establishing the trust will serve as the trustee or co-trustee with a spouse. The surviving spouse may be the only trustee; however, a responsible adult child or a trusted professional may act as a co-trustee or successor trustee. In the case of an Irrevocable Trust, however, clients will normally hire a trusted professional to make investment, administration, and disbursement decisions according to parameters established by the trust document and fiduciary.

In the case an Irrevocable Life Insurance Trust, the grantor should never serve as trustee of his or her own trust because maintaining too much control over the trust may result in ILIT assets being subject to estate taxes. Likewise, the trustee of the GST trust or IDIT is normally a non-bloodline relative who pays fees; files tax returns; generates reports; develops an investment policy statement; allocates trust investments; monitors investment returns; and works with beneficiaries to transfer ownership, management, control, and cash flow from the trust to the beneficiaries in manner consistent with the trustmaker's intent. It is often wise to have different trustees assume different roles so each co-trustee works within his or her area of expertise.

The trustees managing CRTs, TCLATs, Super CLATs and DAFs often need special knowledge of accounting and tax-compliance issues. These charitable tools typically provide income tax benefits according to technical requirements in tax code regarding the character of income and the possible inclusion of assets in the taxable estate.

Normally, trustees and other fee-based advisers are required by professional associations (such as the state bar for attorneys) to have written fee agreements. Such written understandings can define the roles and goals of the adviser in a way that minimizes the risk of misunderstanding. The Lead wealth adviser can help the client maintain a controls process that keeps all members of the planning team working in harmony with the roles and goals in fee agreements.

The covenantal planning process emphasizes the need for leadership; the governance process helps ensure that resources are used according to the client's vision throughout all elements of covenantal planning. The covenantal authority of the leader is executed through a "roles, goals and controls" process—keeping everyone on the wealth advisory team focused on combining the right team members and materials to make the best use of a family's wealth. If all planners on the team maintain fiduciary status, with clear delineation of trustee roles, then clients should see mutually-accountable team members focused on what is in the client's best interest.

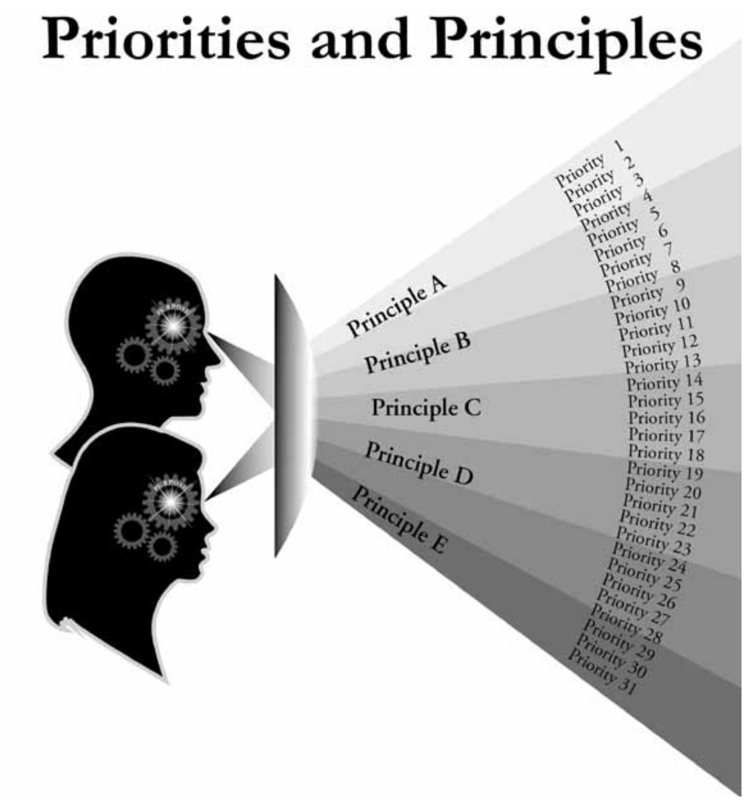
Chapter 4

Advisers Need Ranked and Quantified Goals

(Element 4: Principles and Priorities)

As long as a lead adviser has identified resources during the first element of planning, clarified purpose statements during the second element, and united the advisers during the third element, then advisers should naturally progress to the fourth element of covenantal planning as they discuss the values influencing the planning process. Values equate to priorities and principles that guide funding of educational plans, business start-ups, lifestyle needs, or other investment goals.

A wealth holder's principles typically involve risk management, complexity tolerance, or social objectives to be realized through their planning process. The wealth holder's priorities are usually a ranked and quantified subset of the 100+ goals expressed most often by clients. (Appendix A discusses these 100 goals in greater detail.) Knowing what capital is required to fund each goal is an essential precursor to the planning tool selection process explained in the next chapter.

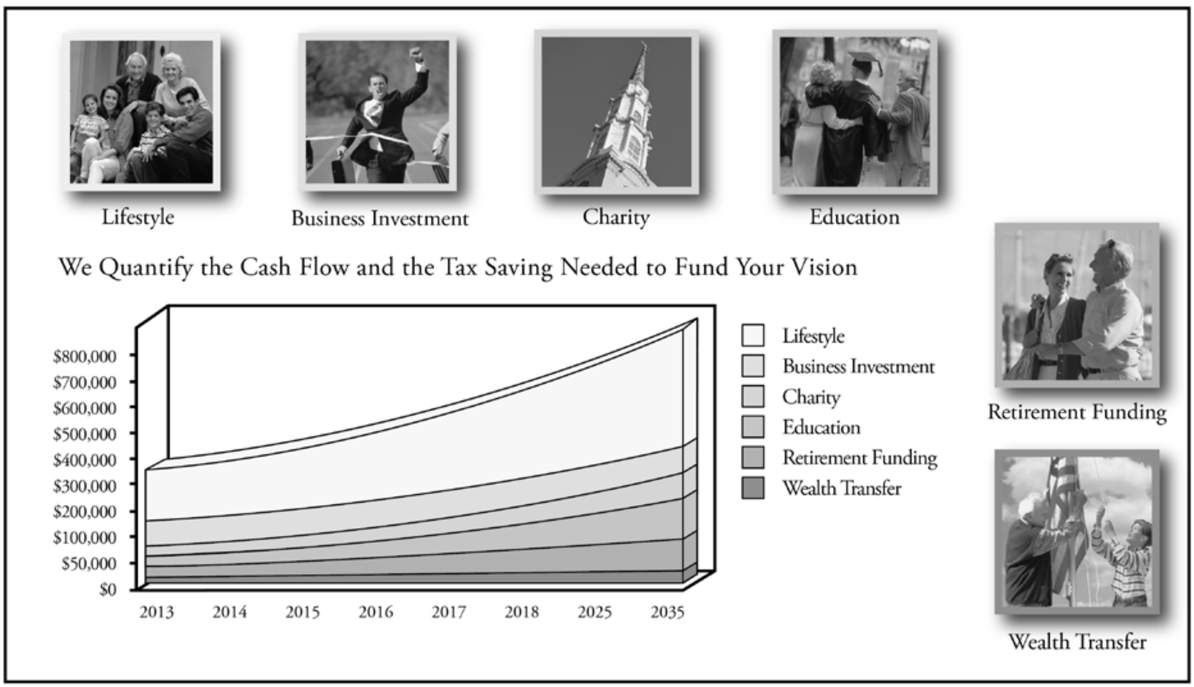


Priorities can usually be reflected in cash flow statements that illustrate when clients should fund intellectual capital development, professional training programs, or other important goals. The cash flow projections should also anticipate when the client will reap the cash flow benefits from prior investments in education, businesses, retirement funds, etc. Appendix B discusses the ranking of diverse principles and priorities in greater detail.

A ranked and quantified hierarchy should show how cash flow is allocated to uses most favored by the client. Planners must also calculate the amount likely to be left for family or favorite charities after zeroing-out unnecessary income and transfer taxes. The process begins with possibly the most important question in planning: How much is enough? By answering this question, planning team members are better able to establish realistic needs, quantify after-tax cash flow requirements, improve investment results through integration of tax planning tools, and develop projections of expected sources and uses of cash flow. This chapter delves deeper into these topics.

Establishing Realistic Needs

As shown on the following diagram, the client and advisory team members should agree on how much cash is needed each year to fund lifestyle needs, business investments, charitable giving, education costs, retirement funding, and wealth transfers.



Quantifying goals requires that you clarify how much cash will be needed to fund the planning process.

Planning usually starts with the patriarch and matriarch determining how much cash they need monthly for a comfortable lifestyle. Planners then help the clients accumulate cash flow in retirement income trusts or other trusts that provide for a surviving spouse or other heirs. When husbands and wives meet to develop financial projections, there is often much concern with providing for the wife if she outlives the husband, given statistics showing that almost 700,000 women lose their husbands annually and that widowhood continues for an average of 14 years.

Each client must have enough money to live comfortably until the end of retirement. As noted by Stephen Pollan and Mark Levine in Die Broke, it is not wise to end life with wealth when there is more joy attendant to giving away the wealth to family or charities. Advisers must know how to help clients calculate what they need for comfortable lifetime security while transferring the right amount to family and charities.

After the Generation 1 (G1) clients have ample lifetime income, they need a philosophical framework for allocating extra wealth among the family, charity, and tax buckets. Warren Buffet is frequently quoted as saying, "I want to give my kids enough so that they could feel that they could do anything, but not so much that they could do nothing." Andrew Carnegie's views on giving during lifetime are often summarized with this quote, "Do your giving while you're living, so you're knowing where it's going." Clients often heed both these philosophies.

Quantifying Annual After-Tax Cash Flow Needs

Using the CRT, LLC, and IDIT, the client can achieve lifetime income and wealth transfer goals with relatively low taxes. The client can set up the income payment to continue through the life of the surviving spouse. After the second death, what will remain in the client's estate? Nothing, if planning is done carefully.

Clients and their advisers need a process to calculate how planning instruments will generate after-tax cash for the client's lifetime expenditures and wealth transfers. For example, if the client wants $16,000 per month of income after taxes, the advisers might recommend tools that produce $20,000 per month of capital gains and tax-free income. Planners can generate $240,000 per year pre-tax and (in most states) more than $192,000 annually after-tax by using a Charitable Remainder Trust funded with $1,000,000 of appreciated securities that generates 6% ($60,000) per year, an IDIT with $1,500,000 of LLC interests that make notes payments of $120,000 per year at capital gains rates, and perhaps a $1,000,000 investment in a spousal, lifetime-access, irrevocable life insurance trust that lends out up to $60,000 per year tax free. Depending on the state where the client resides, the capital gains taxes on the IDIT and CRT income should total less than $48,000—leaving more than $192,000 of annual income after taxes.

The above example shows how a client might set aside $3,500,000 of appreciated assets (such as a family business sold through a liquidity event) to produce ample after-tax income without dipping into principal. $2,500,000 of the money can be in non-charitable trusts that grow the principal amount for the benefit of the next generation. In fact, the insurance in the ILIT could include a death benefit that replaces what goes to charity from the CRT. In this way, the next generation may receive $3,500,000 tax-efficiently from the IDIT and ILIT after these instruments first combined with the CRT to give the trustmakers, Mom and Dad, tax-efficient lifetime income.

Problems often arise at the second death when the client has annuities, retirement plans, or similar IRD assets. Assets in IRAs, 401(k) plans, profit sharing plans, and related programs will normally be subject to ordinary income taxes when the assets are withdrawn. When clients can receive retirement income from assets that produce capital gains or tax-free income, they often prefer to let retirement plans grow. Too often clients assume that substantial balances growing inside the retirement plans can all transfer to charitable and non-charitable beneficiaries at the second death. This is wrong!

Most clients are surprised to learn that taxes on retirement plans may total more than 80% of the account balances In addition to ordinary income taxes assed on distributions, Congress and the IRS apply an IRD (Income in Respect of Decedent) tax at death. Income and IRD taxes can easily exceed 40%. Moreover, retirement plans may be subject to estate taxes at rates of 55% or higher. While the income taxes can be deducted before estate taxes are applied, it is not uncommon to see heirs receive only 20% of the assets from retirement plans.

Adding Tax Alpha

Clients need to look beyond their retirement plan balances when calculating the sources of their income from now until their retirement ends. Advisers should help clients calculate which assets should fund trusts that provide the most tax-efficient lifetime income. At least annually, advisers should realistically assess what wealth will likely remain at their clients' expected mortality dates so that clients and advisers can have informed discussions about transferring left-over assets in a way that will minimize not just taxes on investment income, but also taxes on the likely future wealth transfers.

Clarity about the amount of expected lifetime income distributions and future wealth transfers facilitates discussions about which tax-wise investment management techniques can generate greater lifetime income and/or larger after-tax wealth transfers. This process of examining the most tax-efficient income and wealth-transfer techniques is often referred to as adding "tax alpha."

Wise advisers can usually add tax alpha when planning for most types of assets. For example, there are several well-accepted techniques for converting retirement plan distributions into vehicles that produce capital gains and/

or tax-free income. If taxes on retirement assets are reduced from 80% to 20% or 0%, the client can generate more returns from tax planning than from investment planning.

The process of generating tax alpha begins with quantifying after-tax goals. Only with clear goals can tax planners help clients choose tax-efficient vehicles to fund lifestyle expenses, business investments, wealth transfers, charitable gifts, or tax payments. After assets are allocated to appropriate trusts to fulfill lifetime income for G1 individuals, planners can then see what assets are left for the second generation and engage in concrete discussions about which planning instruments might fund specific dollar amounts to fulfill future goals.

Once goals are quantified enough to develop lifetime income projections, the planning team should develop a "Sources and Uses" projection that shows expected sources of cash, as well as expected uses of cash. By adjusting expected returns and expenditures, an adviser can develop projections that show positive cash flow each year or acceptable levels of negative cash flow.

Sources of Cash								
Income From Assets	$73,000	100,000	111,000	123,000	135,000	201,000	820,000	1,816,000
Tax Exempt Income	87,000	87,000	87,000	87,000	87,000	87,000	87,000	87,000
Distribution from CRT	80,000	80,000	82,000	82,000	83,000	87,000	97,000	107,000
Interest Payment on IDIT note	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000
Earned and other Income	155,000	160,000	164,000	169,000	174,000	-	-	-
Total Sources of Cash	545,000	577,000	594,000	611,000	629,000	525,000	1,154,000	2,160,000
Use of Cash								
Living Expenses	$240,000	247,000	246,000	262,000	270,000	313,000	421,000	566,000
Income Tax	151,000	243,000	252,000	262,000	272,000	131,000	379,000	780,000
Total Outlay	391,000	490,000	498,000	524,000	542,000	444,000	800,000	1,346,000
Surplus / Shortage		**$87,000**	**$96,000**	**$87,000**	**$87,000**	**$81,000**	**$354,000**	**$814,000**
(+ or - to marketable securities)								

Summarizing Sources and Uses of Cash

The above cash flow diagram summarizes budgeted expenses for lifestyle costs and income taxes. The development of more detailed projections is an iterative process involving topics in the next chapter. In particular, an examination of cash use may spur changes in the design, drafting, or funding of instruments that generate cash flow. Likewise, projections regarding cash use will depend on how the planning instruments might reduce the cash required to pay current or future taxes.

The accuracy of cash flow projections will also depend on the client's goals for transferring ownership or cash flow to successor managers and beneficiaries. For example, the party holding the voting control of a Family Limited Partnership, LLC, or other business entity may have great freedom to change cash flow. Similarly, when control and management of a business pass from generation 1 to the next generation of decision-makers, the new decisions-makers may receive higher current compensation from the business, thereby lowering the amount of cash flow available for other beneficiaries.The cash flow illustration system must be sufficiently flexible so planners can easily update projections of cash from the business entities and trusts that hold interest in the business entities to calculate both current income and expected wealth transfers.

Ideally, planning illustrations should help the client and the client's beneficiaries know when to expect not just cash flow but also ownership, management, and control. The illustrations should show what happens when the client lives to normal life expectancy and executes a normal succession plan. Plan design should also facilitate "what if" discussions so clients, beneficiaries, and trustees can anticipate how the transfer of assets and control might differ under possible future scenarios. Of course, it is important for the adviser to anticipate taxes related to each possible future outcome.
The modeling of future tax liabilities should catalyze clear discussions between the adviser and the client about how the client may receive more after-tax growth from irrevocable trusts, more income-tax deferral from charitable trusts, or other after-tax benefits attendant to revising the combinations of vehicles in a Comprehensive Blueprint. As planning teams examine detailed projections showing how each planning instrument helps realize the client's goals, they immediately set themselves apart from other planners—the vast majority of whom cannot articulate all of the client's specific goals.

An iterative plan design process allows for the adjustment of planning tools in response to changes in lifestyle needs, after-tax cash flow requirements, anticipated after-tax investment results, and expected sources and uses of cash flow. Wise planners, empowered with modern software, can use various optimization techniques to identify the most tax-efficient planning solutions to achieve particular goals. Advisory team members can update the projections described in Chapter 4 as they combine planning tools, as described in Chapter 5.

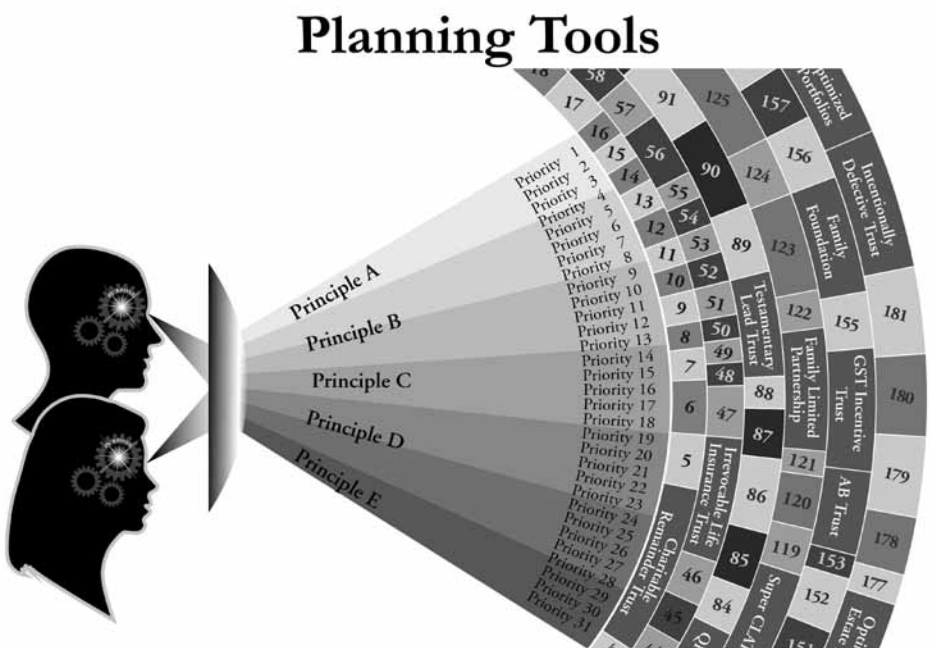
Chapter 5

Goals Guide Selection of the Most Tax-Efficient Planning Tools

(Element 5: Provision/Planning Tools)

The positive or negative consequences of planning can differ greatly depending on how well planning instruments are aligned with the client's desired outcomes. During the first four elements of covenantal planning, the intentions for each asset will become more clear as the advisers clarify the client's purpose, process, and priorities and principles. Realizing the plans for each asset will depend on the correct choice of planning instruments.

During the fifth element of the covenantal planning process, qualified advisers design and integrate trusts that benefit trustmakers and their beneficiaries, transfer the attributes of assets at the right time to the right people, and achieve other financial and non-financial results through the correct mix of planning tools. Clients with clear goals can work with their advisers to select from more than 300 available planning instruments that correspond to the goals. The following wheel suggests how planning priorities and principles correspond to planning tools.



After advisers identify which planning tools best correspond to planning priorities and principles, the advisers must customize, integrate and explain the planning tools. This process requires careful reflection on which assets must fund each tool and how each tools should have appropriate investment and distribution options to help clients generate the right amount of cash flow for retirement income, the needs of each family member, gifts to charity and, if necessary, taxes. Advisers can only achieve the desired results if they understand the benefits of each tool and know how to design provisions that transfer ownership, cash flow, management authority, and control rights using the most applicable planning instruments.

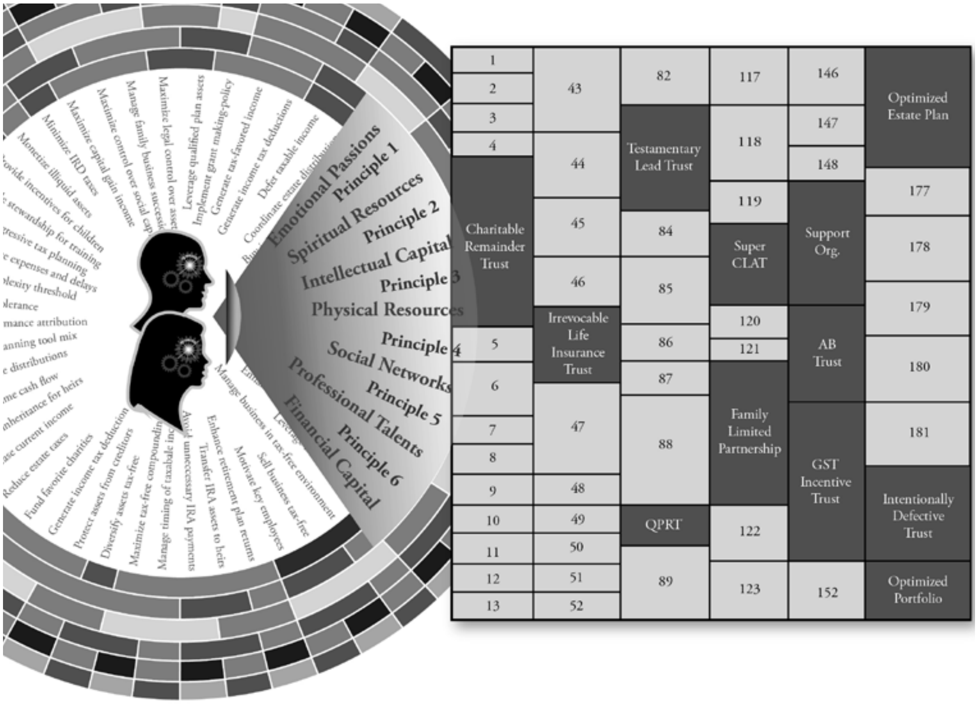
Understanding the Benefits of Each Tools

The process of choosing, customizing, and integrating the right combination of tools requires knowledge about how each type of planning tool can provide the benefits desired by the client. The twelve tools discussed in this book are common building blocks that all advisers should master before actively promoting more arcane or esoteric planning instruments. Moreover, even if using only the 12 common tools in this book, advisers must understand them well enough that they avoid depending too much on one tool. For example, some advisers tend to solve nearly all client problems with ILITs or CRTs. They are like the man with a hammer who treats all problems as a nail.

Expert knowledge regarding planning tools may be evidenced by the ability to explain how the instruments generate after-tax cash flow under different design, drafting, and funding scenarios. At least one adviser on each planning team must know how to integrate the cash inflows and outflows from each planning tool in order to calculate bottom-line income or distributions. This planning should involve tax advisers who can help anticipate and avoid unnecessary taxes on all payments to family and favorite charities.

Transferring Ownership, Cash Flow, Management, and Control

A wealth adviser will help clients evaluate each asset on their balance sheets and think through how long and under what circumstances the clients want to retain ownership, cash flow, management, and control. Ultimately, these attributes of each asset must move from Generation 1 to successor owners and managers. Whereas G1 may have 100% interests in each of these four areas initially, the successor managers should be trained and equipped to assume ownership, management, and control when G1 leaders die or otherwise let go. Cash flow distributions will normally need to change as



Reflecting your vision through your planning documents requires clarity about planning resources, purpose, process, priorities and principles.

G1 allows G2 beneficiaries to receive more compensation as a reward for assuming ownership or management and control responsibilities.

Planners must know how to help trustmakers retain adequate income, as well as management and control authority, while transferring assets tax- efficiently. If the trustmaker retains too much control, the IRS may void the tax benefits. If the trustmaker retains too little control, there may be inadequate flexibility in adjusting the character and timing of cash flow payments.

The wheel below suggests how a G1 owner considers available resources, then looks through a lens with 300+ planning tools to choose just the right instruments for passing on ownership, cash flow, management, and control to the next generation. This lens is polished with wisdom about available resources as well as the principles and priorities that G1 wants to pass to the next generation. Knowledge about resources, principles and priorities should guide the design, drafting, and funding of tools used to pass value and values to the next generation.

Identifying the Most Applicable Planning Instruments

Each planning tool has unique applications. The table in the following image shows how a tool may have a common application for estate tax planning,

RESOURCE	GOAL	100 VIRTUES/VALUES (GOALS)	CORRESPONDING PLANNING TOOLS					
Intellectual	1	Adapt to changing goals, tax laws, and asset values	1					
Intellectual	2	Use optimal planning tool mix	2	43	82	117	147	
Financial	3	Model lifetime cash flow	3					Optimized Estate Plan
Intellectual	4	Create "what if" analyses	4				148	
Spiritual	5	Time distributions to charity				118		
Financial	6	Eliminate estate taxes and leave net worth		44	Testamentary Lead Trust			
Emotioinal	7	Make major charitable gifts without reducing transfers to heirs						177
Financial	8	Purchase real estate with pre-tax dollars			84	Super CLAT	Family Foundation	
Emotioinal	9	Make gift now with option to receive money back later	Charitable Remainder Trust	45				178
Financial	10	Diversify assets tax efficiently						
Financial	11	Maximize tax-free compounding			85			
Financial	12	Give money away and project more money for heirs				120		179
Financial	13	Pay not estate tax and transfer life insurance to heirs		Irrevocable Life Insurance Trust			AB Trust	
Spiritual	14	Encourage purposeful behavior			86			
Emotioinal	15	Let parents control gifts to children	6					180
Social	16	Motivate heirs to meet for family meetings			87		GST Incentive Trust	
Professional	17	Reward development of management skills		47				
Financial	18	Discount estate tax liability	7			Family Limited Partnership		181
Social	19	Reward virtue when transferring control and assets	8		88		152	
Physical	20	Provide a secure lifetime income	9	48			153	
Emotioinal	21	Provide a secure home for family	10	49	QPRT		154	Intentionally Defective Trust
Social	22	Keep wealth within bloodlines	11	50		122	155	
Financial	23	Minimize capital gains tax	12	51			156	
Financial	24	Reduce asset management fees	13	52				
Financial	25	Reduce loss from active management	14	53	90	123	157	
Financial	26	Re-optimize plan automatically as assets change	15	54				
Financial	27	Avoid taxes from portfolio turn-over	16	55		124		Optimized Portfolio
Financial	28	Create Investment Policy Statement					158	
Financial	29	Optimize portfolio allocation	17	56	91			
Financial	30	Reduce investment volatility				125		
Emotioinal	31	Diversify closely-held stock	18	57	92		159	
Financial	32	Acquire assets tax-efficiently						184

The process of reflecting your purpose through your planning tools requires clarity about your priorities (ranked and quantified goals) that will guide selection of planning tools.

income tax planning, wealth transfer or other uses. The tool may help transfer emotional, spiritual, intellectual, physical, social, professional, or financial resources. The tool may have a target market of individuals with estates of various values. Each tool correlates with a specific subset of the 100+ goals typically evaluated during the planning process. These goals are depicted as radiating 360 around the head of person at the center of the above wheel and in the third column of the table below.

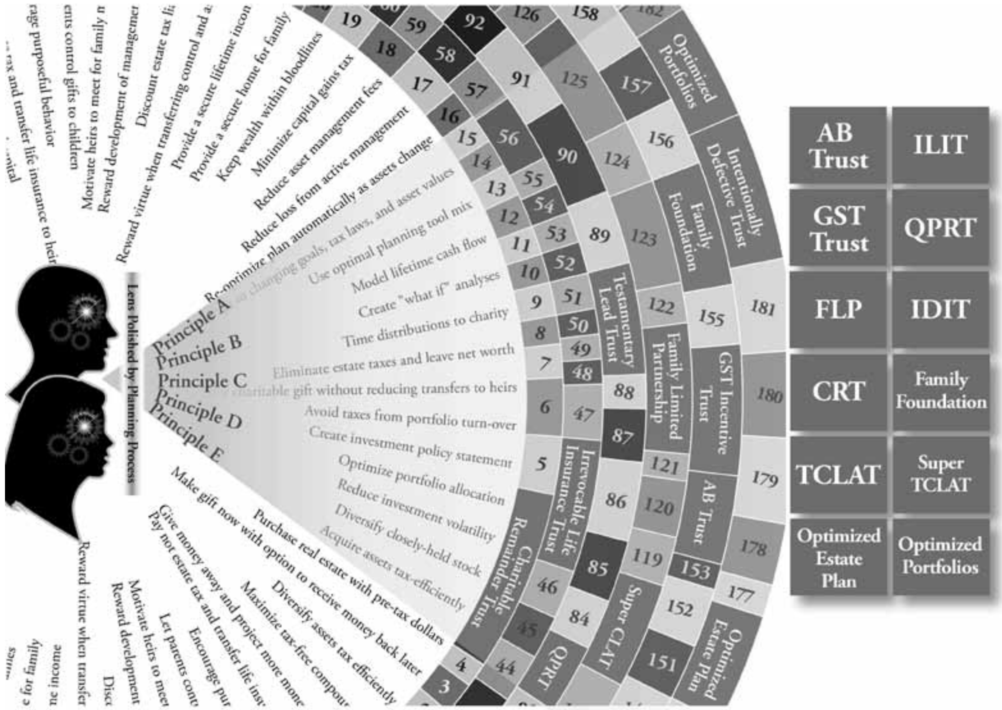
An experienced wealth counselor augments his or her decades of wisdom with the most up-to-date software to identify which tools most closely correlate with the client's goals regarding the use and transfer of resources. If the goals focus on tax planning, the wealth counselor must know how to introduce and integrate appropriate non-tax goals into the planning process.

This process of mixing and matching planning instruments is not as simple as the above diagrams would suggest. As the adviser actually matches goals to tools, he or she will think through how each tool fits within risk tolerance, complexity threshold, and non-tax parameters. Matching 100+ goals to 300+ planning instruments can result in millions of complex decisions in light of the client's desire to minimize risk and complexity. In practice, the decision process is aided by sophisticated software. It sorts through a comprehensive database that considers risk, return, cash flow, tax, and other criteria when selecting planning tools most germane to the client's goals.

The following diagram illustrates the details in the planning wheel depicted in the last image. On the left are goals related to the 7 types of resources available to each person. On the right are planning tools for maximizing those resources. The 12 tools highlighted on the right have been chosen in light of corresponding resources and goals in the left columns. When combined, the 12 tools fulfill 31 goals numbered in the second column on the left. If supplementing the 12 highlighted tools with an additional 20 tools, it would be possible to fulfill all 100 goals discussed in Appendix A of this book.

As suggested by the grid above, an adviser can evaluate more than 100 goals to determine which are most important. The adviser then determines how the primary goals correspond to planning tools. This process is very complex; computers are essential to an advisory team when choosing and customizing the best tools for a specific client. While the adviser ensures the search parameters are set realistically, reflecting the true desires of the client, the software sorts through characteristics of hundreds of tools to find those most relevant to the client's goals.

The following diagram shows how the decision criteria guide selection of the twelve planning instruments featured in this book. The client must start the process be reflecting on passions and calling as well as potential



The best tools selected from the 300+ tools on the planning wheel can be highlighted as building blocks or "cobblestones on your pathway toward your castle in the sky."

resources. Clarity about calling helps the client articulate a clear purpose. Wise advisers can help "polish the lens" through which the client views realization of purpose, priorities, and principles. There are huge numbers of interrelated decisions that guide selection of just a few tools most relevant to the client. Ultimately, maybe 6 to 12 planning instruments should be selected, designed, and integrated during the fifth element of covenantal planning to help the client establish a firm foundation for the future. In the graphic accompanying this paragraph, tax and financial tools are highlighted on the wheel to symbolize how they can guide the client's beneficiaries on a pathway toward a more meaningful legacy.

Experienced planners know how to optimize tax benefits by combining the right selection of estate-planning tools to provide benefits for trustmakers and their beneficiaries, transfer the attributes of assets at the right time to the right people, and achieve results through the correct mix of planning tools. The best advisers know how to minimize or zero-out taxes on wealth transfers while improving after-tax returns on portfolios. This combination of the estate-optimization process with an investment portfolio optimization process facilitates true wealth optimization.
Nonetheless, wise wealth advisers refuse to let the "tax planning-tail wag the planning dog." Tax professionals must team with non-tax experts to achieve a client's tax minimization goals while addressing deeper issues. Beneath the

presenting issues involving tax reduction, the wealth adviser usually finds more profound issues regarding secure retirement income and transfers to family and favorite charities. Under these financial concerns are even deeper client convictions about the purposes of wealth and the wealth available for planning.

If a client says that the purpose of the planning is tax reduction, the astute adviser will "peel the onion" and explain the concept of purpose in the context of the covenant. Before questing for better after-tax returns in element five of covenantal planning, clients need clear principles and priorities (element 4) affirmed by advisers (element 3) who have clarity about the client's purpose (element 2) and who have assessed the client's present and potential resources (element 1).

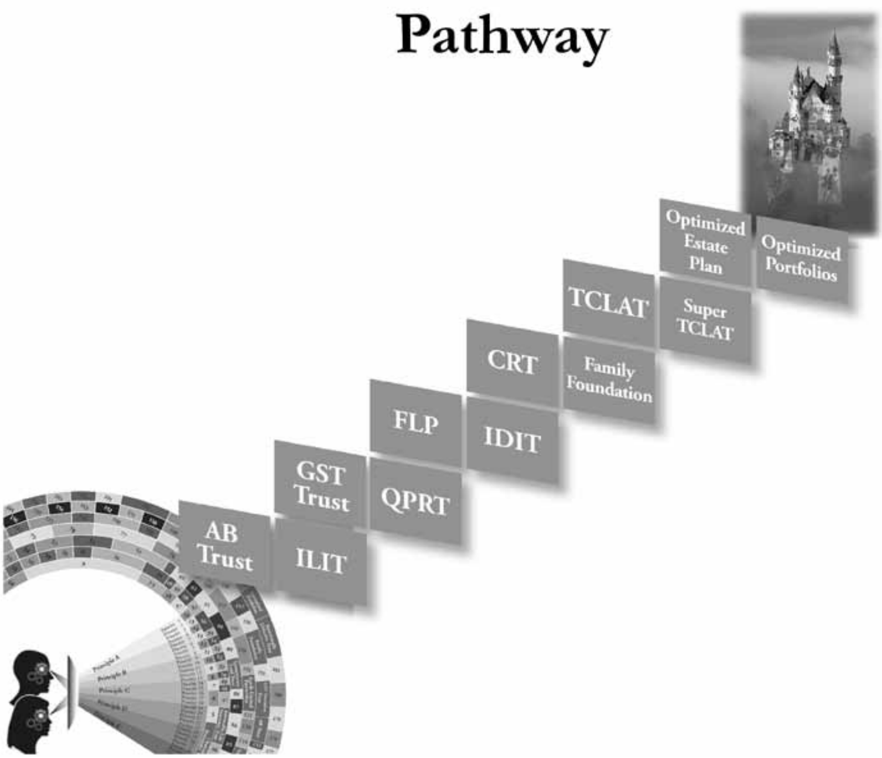
As advisers delve into the elements of the covenantal planning process, they will see how planning ultimately establishes a firm foundation for a pathway into the future lives of many people. The next chapter shows how advisers can combine tools to provide greater wealth for building relationships with family members and favorite charities throughout the sixth element of covenantal planning. Chapters 7 and 8 will then provide warm and inspiring case study examples of how the covenantal blueprinting process can ultimately provide relational benefits far more important than the tax benefits of the planning.

Chapter 6

The Combination of All Tools in a Blueprint

(Element 6: Pathway to Prepare Heirs)

The covenantal blueprinting process begins with assessing available resources, clarifying the client's purpose, and uniting the advisers. As advisers convene to develop strategies for a client, it is essential they maintain ranked and quantified priorities as well as ranked principles. These values will guide the selection of planning tools, as explained in Chapter 5. The planning tools form a foundation for a pathway that continues throughout the client's lifetime and into future generations.



If the pathway is built on covenantal bedrock, applying teachings from the sixth covenantal element, family leaders and advisers will have a clear basis for educating beneficiaries on the purposes of wealth and the purposes of trusts used to perpetuate the family legacy. Family meetings can educate decision makes about shared purposes, processes, priorities and principles. This education fosters articulation of vision and values statements that can inspire future generations while guiding expansion of a family's wealth and influence.

The covenantal concepts may only be dull abstractions unless they are illustrated in a blueprint that shows available resources, expected cash flow, and decision criteria for discussion in family meetings. This chapter examines these practical topics in greater detail.

Summarizing All Tools in a Blueprint

Planning tools may be legal instruments, financial strategies, risk-management techniques, governance methodologies, or other instruments that help clients define and realize their goals. Tools fit together on a flowchart, as illustrated in the last two chapters of this book, so that clients can see all planning strategies on one page. The one page is supplemented with 10 to 100 pages of appendices that explain the pictures, text, and numbers on the one-page flowchart. The flowchart and supporting documents are referred to as a Blueprint.

When evaluating available planning instruments and illustrations, clients must decide whether they want simple or advanced Blueprints. Whereas integrating several tools to maximize after-tax cash flow can provide great peace of mind, some clients prefer the peacefulness that results from a minimalist approach to planning. In such cases, the advisers may prepare a simple "Tactical" Blueprint that illustrates just one strategy.

A Tactical Blueprint addresses just one issue that most concerns a client. If the client lies awake at night with concerns about who will take over the family business, then the Tactical Blueprint may illustrate a buy-sell strategy to transfer company shares to successor managers tax-efficiently in harmony with a clear vision for the next generation of corporate management. If the client has concerns about potential lawsuits, then the tactical plan should depict an asset protection strategy, such as a captive insurance company owned by a Dynasty Trust. If the client worries about looming income tax bills, then the tactical plan can show the benefits of an income tax strategy that allows for the tax-efficient accumulation of cash flow. Just one planning tool may be all that a client needs to realize goals that matter most.

Combining Tactical Blueprints to Create a Full Blueprint

Though a low-cost, Tactical Blueprint produces immediate benefits far greater than the costs of planning, single-tool planning has limitations. To achieve all of a client's goals, it is often necessary for advisers to combine tactical plans. Similarly, to achieve goals of zeroing-out all estate, gift, GST, IRD or other unnecessary taxes, it may be necessary to blend charitable planning tools with non-charitable tools. Such integrated planning requires that tactical plans be combined into a Comprehensive Blueprint (or "Full Blueprint").

The Full Blueprint includes a flowchart with multiple boxes that depict each planning instrument. A separate section in the Full Blueprint describes each tool with pictures, text, and numbers. The pictures illustrate the cash or assets contributed to the tool, as well as the benefits produced by the tool. The numbers include year-by-year cash flow details that summarize pre-tax and after-tax cash flow, as well as growth of assets inside of any legal entities created as part of the implementation of the tool. The text summarizes legal document provisions that can guide drafting attorneys.

The boxes on the flowchart combine to form a diagram similar to an architectural blueprint. The boxes provide concrete and integrated details, as shown in the case study in Chapter 9 of this book (and as illustrated at www.FamilyWealthBlueprint.com, which describes the 23 main benefits of a Blueprint).

Boxes on the flowchart typically represent legal instruments, such as trusts or business entities, that are funded with financial instruments, such as insurance policies or investment portfolios. When creating and implementing the boxes on the flowcharts, advisers reflect the client's goals in both legal language and portfolio design. Much thought goes into the design, drafting, and funding of each box on the flowchart.

The boxes on the flowchart also have a symbolic meaning. Each box might be viewed as a cobblestone on the pathway toward the client's castle in the sky. Likewise, the boxes can form foundation stones beneath the castle in the sky. This symbolism is helpful in understanding how each box is designed—with much technical detail, in full view of visionary ideals.
The visionary ideals typically involve longer-term spiritual, emotional, or relational objectives. These objectives will often be articulated, refined, and actualized in family meetings or other events in which decision-makers view and update the Blueprint in order to realize the vision for the family or the family's business. While the vision will remain constant, the mission and planning strategies in the Blueprint may evolve. In fact, a family should plan on updating the Blueprint regularly in response to the inevitable changes in tax laws, cash flow, and goals.

Focusing on Cash Flow

A client can hold to a clear vision for retirement and legacy planning while the advisers adjust the Blueprint in response to changing circumstances.

YEAR	CURRENT	2013	2014	2015	2016	2017	2018	2025	2035
Benefits to Family									
Residual Estate	$1,173,000	1,726,000	1,726,000	1,726,000	3,226,000	6,682,000	726,000	726,000	726,000
Family Trust	1,726,000	1,726,000	1,726,000	1,726,000	3,226,000	-	726,000	726,000	726,000
Value of IDIT	350,000	586,000	675,000	775,000	886,000	1,010,000	1,715,000	5,583,000	13,244,000
IDIT Insurance Proceeds	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000
NPV of CLATs Remainder Interest	1,281,000	1,617,000	1,736,000	1,862,000	1,553,000	1,545,000	3,231,000	6,584,000	13,702,000
Total Assets to Heirs	**$10,530,000**	**11,655,000**	**11,863,000**	**12,089,000**	**14,891,000**	**15,237,000**	**12,398,000**	**19,619,000**	**34,398,000**

Adjustments can involve changing the boxes on the flowchart or modifying recommendations regarding the design and funding on planning instruments. By modifying assumptions in the Blueprint, it is possible to update cash flow calculations and inheritance projections. For example, many beneficiaries appreciate seeing how changes in legal and financial strategies impact inheritance amounts in a chart such as this:

The above diagram is just one visual depiction of a Blueprint's inclusions: many pages of income statements and balance sheet projections that show how the cash flow numbers and tax benefits of each tool are integrated with a clear summary of bottom-line results. By combining the results of several tools, advisers are often able to view reductions in taxes in several areas. Each of these is discussed in more detail below.

The reduction in taxes often allows for greater year-by-year cash flow available for making charitable gifts, transferring assets to children, or funding lifestyle expenses. By integrating cash flow from all recommended legal strategies, it is possible to develop annual projections that extend out to life expectancy and beyond. A digital dashboard may monitor numbers such as these:

The Blueprint can show what excess cash flow could be generated by reducing taxes, increasing investment returns, or managing cash flow more carefully. Many clients will prepare Full Blueprints in order to calculate how much cash is available lifetime income, transfers to children and gifts to charitable beneficiaries. In this way, the client and advisers can all refer to one document when answering critically important questions about the income and assets that can help family members or other beneficiaries fund projects consistent with the family's vision and values.

Financial plans produced by commercial software will illustrate multiple strategies, but rarely will show the year-by-year integrated cash flow numbers with enough reliability to guide spending, investment, and tax-management decisions. Nor do most financial plans clearly calculate what inheritance each heir can expect under different scenarios.
Experience teaches that clients will use their financial plans for decision-making when the cash flow and inheritance projections are built on accurate assumptions and transparent calculations. With a Full Blueprint, clients can

clearly visualize how planning instruments combine to provide necessary income for the foreseeable future while transferring excess cash flow or accumulated assets to the right beneficiaries at the right time. A Full Blueprint can also include a digital dashboard that provides 24/7 summaries of essential information.

Guiding Decisions in Family Meetings

A Blueprint with accurate information can be the center of attention at family meetings. When the planning process first starts, clients may share only limited information about their goals and assets with children and successor managers. Initially, potential beneficiaries may receive only enough information and authority over family assets to prove their ability to budget, invest, and disburse a relatively small amount of the family's wealth. Nonetheless, through system planning and training of beneficiaries, the first generation normally sees successor beneficiaries grow in maturity. This allows parents to share more details from the Blueprint. Ideally, long before the first generation passes from the scene, the children or other success managers and beneficiaries have the maturity to see and understand all of the details in the Blueprint.

Family members empowered with a Blueprint can optimize all of their resources to generate cash flow for charitable and non-charitable endeavors consistent with a family's vision. As decision-makers within a family see how legal and financial instruments fund activities in fulfillment of a compelling vision, they can work more actively with advisers to integrate appropriate tools for empowering progress of all planning team members.

Family members and advisers can stay united across time by referring to flowcharts, numbers, and legal document summaries that illustrate how a client's planning instruments should be drafted and optimally funded. As planning team members design and implement full-orbed solutions, they should increasingly join together in encouraging clients' progress along the pathway toward the fulfillment of their plans. Clients and advisers can then all enjoy the journey along the pathway as family members and favorite charities work together to honor the vision and values that helped create the wealth documented in the Blueprint.

The following three chapters provide more diagrams and explanations to illustrate the importance to clients of blueprinting a pathway toward their envisioned future. Chapter 7 provides a case study for a Dynasty Trust designed and drafted in harmony with the six elements of the covenant outlined in the previous six chapters. Chapter 8 shows how advisers can combine the planning tools discussed above to help a family maximize financial benefits after taxes. Chapter 9 then shows how the family uses these tools to achieve a variety of financial and non-financial goals in a highly relational manner.

Chapter 7

Enhancing a Tactical Blueprint to Create Basic, Leveraged, Total Wealth Control, and Optimized Blueprints

As Chapter 6 explained, clients can lower taxes, improve retirement income, enhance transfers to family members, and increase charitable giving with simple Tactical Blueprints. As these individual planning tools are combined, the whole is often greater than the sum of the parts. For example, a client may choose just a few of the 300+ common planning instruments and develop separate Tactical Blueprints in a consistent format that facilitates the integration of the individual plans.

In order for the different tactical plans to be easily understood, compared, and integrated, it is important that each tactical plan include the six elements of the covenant described in the previous six chapters. Moreover, as the drafting attorney follows the design established in the blueprint, he or she should include language in legal documents to clarify the resources funding the tool (Element 1), the purpose of the tool (Element 2), the fiduciaries overseeing use of the tool (Element 3), the principles and priorities guiding management and disbursement of assets (Element 4), the tax planning features of the tool (Element 5) and the plans for preparing successor trustees and beneficiaries (Element 6).

While there are dozens of simple tools available for covenantal planning, it is common to start with a Revocable Living Trust (RLT). This RLT can then be combined with additional tools, such as an Irrevocable Life Insurance Trust (ILIT) and a Generation Skipping Trust (Dynasty Trust). These are the first three of the twelve tools on the grid at the end of the introduction of this book. As shown below, the client may work with advisers to add sets of additional tools and improve financial projections substantially. Using the 12 tools summarized in the introduction of this book as examples, this chapter will show how progressively greater benefits result from integrating more tools in a Blueprint.

Integrating Three Simple Tools in a Basic Wealth Blueprint

Even a Basic Wealth Blueprint, if based on the RLT, ILIT, and GST tools, can eliminate millions of unnecessary taxes. After 2012 (or until tax laws change), the RLT can currently zero-out transfer taxes on an estate with $5,120,000 or less. The ILIT can theoretically avoid all estate taxes on tens of millions of dollars of death benefits while also eliminating income taxes on death benefits or loans made from life insurance cash values. The Dynasty Trust can offer advantages of the RLT and ILIT trust while also leveraging generation skipping tax (GST) exemptions to zero-out taxes in multiple future generations.

Adding Three More Tools to Create a Leveraged Wealth Blueprint

An adviser can enhance the benefits of the Basic Plan by adding a Family Limited Partnership (FLP), Qualified Personal Residence Trust (QPRT), and Intentionally Defective Irrevocable Trust (IDIT) to create a Leveraged Wealth Blueprint that directs more wealth to family members. These are the fourth, fifth and sixth of the 12 tools explained on the grid in the introduction to this book.

Leveraged plans generate benefits by making the best use of the standard $1 million gift tax exemption available to all American taxpayers after 2012. An astute adviser can leverage these exemptions to transfer many millions to heirs with zero transfer taxes. For example, an FLP can discount $3,000,000 of assets down to $2,000,000 or less, and a couple can use their gift tax exemptions to move all the wealth to their children with no gift taxes. A QPRT can transfer a $4,000,000 home to children tax free in 20 years or less by leveraging less than $1,000,000 of the gift tax exemption.

Leveraged zero tax plans frequently include IDITs because they can provide the most efficient use of a client's gift tax exemption. These benefits result from the IRS respecting the IDIT for estate tax purposes but regarding the IDIT as "defective" for income tax purposes. Most IDITs are implemented primarily to transfer ownership, management, and control to heirs in the right way at the right time. The IDIT rewards the pursuit of non-tax goals with four significant tax benefits:

- First, the IDIT helps a client avoid estate taxes by moving assets out of an estate to a trust in which assets can appreciate without any estate tax on the growth.
- Second, IDITs avoid gift taxes because the proper sale of an asset to the trust is not a gift.
- Third, IDITs avoid capital gains taxes because the IRS disregards sales to these trusts when calculating income taxes.
- Fourth, when the sale is completed, the client will usually take back an interest-bearing note to provide lifetime income. Given the favorable tax treatment of the IDIT trust, the note "interest" need not be subject to the ordinary income taxes normally assessed on interest. Payments on IDIT notes may be paid as capital gains income or even tax-free distributions, depending on the type of income produced by assets in the IDIT trust.

Adding Four More Tools to Create a Total Wealth Control Blueprint

Because heirs can have great control over both types of capital, a zero tax plan that directs money away from government to heirs and charity is known as a Total Wealth Control Plan. While the Leveraged Plan can reduce or eliminate taxes, a more sophisticated client will frequently want to enhance the Leveraged Plan and maintain control over all of his or her financial and charitable capital using a Total Wealth Control Plan. Such a plan can eliminate transfer taxes while generating large income tax savings which, when invested prudently, can help beneficiaries receive a larger inheritance than would have been available if the family had just paid taxes. Furthermore, a Total Wealth Control Plan redirects tax money to a foundation to create a pool of "community capital" that family members can distribute to their favorite charitable causes. Instead of allocating wealth as an involuntary philanthropist who just pays taxes to fund bureaucratic programs, clients with Total Wealth Control Plans can become voluntary philanthropists and allocate all of their assets to the social good through deliberate and loving transfers to family members and favorite charities.

A Total Wealth Control Plan may include a DAF, CRT, TCLAT, and a Super CLAT. These tools, which are Tools 7–10 listed on the grid with 12 tools in the introduction to this book, typically provide both transfer and income tax benefits. Illustrations of these tools can show how a client can minimize transfers taxes, reduce income taxes, increase gifts to heirs, and fund charity with money that would have gone to taxes.

A Total Wealth Control Plan lets the client's heirs receive more financial capital than they would have inherited before planning. The heirs can also control money that would have been spent on taxes. Because beneficiaries can redirect tax money to a charity that gives the heirs influence in the community, beneficiaries can receive much enjoyment from receiving both a financial capital inheritance and a charitable capital inheritance.

To maximize control over charitable funds, advisers may recommend a Donor Advised Fund account established with a community foundation. The DAF is often known as a "public family foundation" because it provides the large income tax deductions of a public charity while still providing much of the flexibility attendant to a traditional private foundation. Donors can receive market value deductions for contributions of appreciated assets and use the deductions to offset up to 30% of adjusted gross income. Because DAFs can generate tax benefits that are much more attractive than those available from private foundations, DAFs are popular recipients of gifts from CRTs, TCLATs, Super CLATs and other charitable tools. The deductions from gifts to a DAF will not zero-out all income taxes of the donor, but the assets can grow inside the DAF with zero capital gains or income taxes. The tax advantages of a DAF remain attractive even after the Pension Protection Act of 2006 put new and sometimes strict limitations on the control given to DAF boards. DAF trustees still have great flexibility when funding public charities, but Congress has further limited the ability of DAFs to benefit donors and their family members.

One of the most popular charitable tools is the CRT. The CRT provides five significant tax benefits:

- First, a donor can receive a large tax deduction when funding the CRT.
- Second, low-basis assets sold inside a CRT will not be subject to any current income tax.
- Third, assets can grow tax-free inside a CRT.
- Fourth, a donor can take tax-favored or tax-free distributions from a CRT.
- Fifth, the final distribution to charity is exempt from estate and GST taxes.

Although the CRT provides substantial income tax benefits, clients may hesitate to use the CRT because all assets will pass to charity upon death—thereby reducing the inheritance for the client's heirs. To overcome this problem, wise advisers often combine the CRT with a TCLAT. The TCLAT and CRT are in many ways opposites of each other and, therefore, fully complementary. Whereas the CRT provides large income tax benefits, it will not zero-out transfer taxes. Alternatively, the TCLAT can eliminate all transfer taxes, but it will not typically impact income taxes. An adviser combining these tools can show how the client can improve his or her current plan by reducing income taxes, eliminating estate taxes, and transferring more wealth to heirs. To help ensure that heirs will receive a larger inheritance, the client establishing a CRT may use a portion of the tax savings to fund an insurance policy in an ILIT.

One of the most intriguing zero tax planning tools is the Inter Vivos Grantor Lead Annuity Trust. This trust can reduce both transfer taxes and income taxes. Because of this tremendous tax-avoidance potential, tax planners have long referred to the Inter Vivos Grantor Lead Annuity Trust as the Super CLAT.

The Super CLAT has one large drawback that has limited its use. Although the trust can generate large income and transfer tax deductions, the tax savings are often offset by the taxes that the grantor must pay on the income generated by the trust. To minimize or avoid this tax on the income, the grantor must fund the Super CLAT with assets that generate tax-free income. Suitable assets include high-yield municipal bonds, derivative securities, private-placement variable universal life insurance, and leveraged real estate with tax-sheltered rental income. Pools of such assets can be designed to pay income to charity for a period of years while still offering enough appreciation potential that heirs can receive a substantial benefit tax-free at the end of the trust term.

Adding Estate and Portfolio Optimization to Create an Optimized Wealth Blueprint

To optimize the Basic, Leveraged, and Total Wealth Control Plans described above, the adviser can use portfolio optimization software and estate optimization software to create a Wealth Optimization Plan. As the adviser moves the client through the planning process, the client should see progressively greater cash flow and/or wealth transfer benefits attendant to upgrading from the Basic Plan to the Leveraged Plan, then to the Total Wealth Control Plan or, ideally, a Wealth Optimization Plan.

Although a taxpayer could significantly reduce taxes using just one of the tax-planning tools discussed in this chapter, great synergy develops as the adviser combines planning instruments. For example, high cash flow from some planning tools may offset low cash flow on other tools, or large tax write-offs from some growth-oriented investments may offset taxable income on liquidating assets. As the adviser combines complementary legal and financial tools and analyzes how the combined tools impact financial statements, the client typically sees much more capital accumulating for family and favorite causes. Thus, fully-integrated Wealth Optimization Planning can produce greater benefits than less-detailed planning options.

The performance of the ten legal tools discussed above depends greatly on how each is designed using estate optimization (Tool 11) and portfolio optimization (Tool 12). The following grid shows how advisers might enhance a plan by integrating the ten trusts described above and then finding the best combination of the tools using estate and portfolio optimization techniques described below.

Year	1926	1936	1946	1956	1966	1976	1986	1996	2010
S&P 500	$1	$2	$4	$20	$48	$91	$331	$1,371	$2,658
After Taxes	$1	$2	$3	$12	$23	$37	$103	$292	$460

Understanding Estate Optimization

A planner cannot know how to establish the duration, payout, and other variables for a particular tool without taking into account design terms for all tools in a client's plan. The process of developing interrelated design specifications is known as estate optimization. Such optimization requires an understanding of how each planning tool is expected to perform across time. Advisers optimize by projecting out asset values to show when assets will transfer to heirs and what transfer taxes might affect the transfer. In addition, advisers should illustrate the cash flows generated by each tool across time to be sure that each tool will have enough cash flow to fulfill design requirements and to be confident that the client has ample cash flow from all sources. The estate plan architect must know how to adjust each tool to minimize taxes. For example, a TCLAT can have very good results or very bad results depending on the eight interrelated assumptions about rate of return, pay out rates, growth rates, trust term, discounting percentages, contribution amounts, timing of distributions, and desired deductions.

Even if an adviser knows how to design the TCLAT and all other recommended tools with great precision, the necessary focus on precise detail may cause the adviser to ignore more holistic problems that often develop when tools are combined. For example, an instrument that results in a zero-transfer tax can easily produce additional income, capital gains, or IRD taxes. Alternatively, tools like annuities may defer income taxes, but can easily produce very negative transfer tax consequences.

To refer back to an earlier analogy, by optimizing an estate plan, an adviser can create much more complexity than when optimizing the Rubik's Cube. Whereas the cube has a finite number of possible solutions with predictable movements for each square on the cube, an estate plan is comprised of legal tools that can have very different performance depending on which financial instruments fund each legal tool. Because investment returns can have a significant impact on the well-being of beneficiaries, prudent investor guidelines typically require that estate planning tools have investment policy statements that describe the optimal mix of portfolio assets for each tool. An astute adviser will, therefore, combine the estate optimization process with an investment portfolio optimization process in order to create true wealth optimization.

Understanding Portfolio Optimization

The portfolio optimization process helps an adviser "stress test" each legal tool under different rate-of-return assumptions. When projecting out cash flows generated by different types of portfolios, it is possible to produce millions of projections and choose only the scenarios that optimize the after-tax cash flow and wealth transfer benefits for the client. As clients and advisers consider the incremental benefits of combining portfolio optimization with estate optimization, they see that these techniques can both help reduce taxes.

Portfolio optimization, in addition to producing many non-tax benefits, can help reduce taxes in at least ten ways. Portfolio optimization professionals can:

1. Review account statements to confirm that the correct trusts own each account in order to keep assets outside of the taxable estate,
2. Apply trust accounting principles to accumulate and distribute trust assets tax-efficiently,
3. Confirm the accuracy of tax basis and market value numbers shown on the balance sheet,
4. Determine that cash withdrawn from accounts for lifestyle needs will be taxed at the most favorable rates,
5. Evaluate whether assets not kept liquid for lifestyle needs are invested tax efficiently in longer-return assets,
6. Estimate which rates of return to assume when designing tax-minimization tools,
7. Clarify whether asset management fees are tax deductible,
8. Identify unnecessary taxes on portfolio rebalancing transactions,
9. Integrate tax-efficient investments into portfolios, and
10. Gather data to graph projected after-tax inheritance for heirs under different return/risk assumptions.

Equipping Advisers with Wealth Optimization Technology

Seasoned advisers often uncover new opportunities to improve overall results for the client by optimizing portfolios and then updating an estate plan in response to changing tax laws, cash flow needs, and asset values. This wealth-optimization process may seem daunting as an adviser considers the use of hundreds of different legal tools and an even broader assortment of financial instruments that might fund each legal tool.

Fortunately, and as mentioned above, the same advanced 21st-Century economic system that produces the complexity also gives advisers solutions to the complexity in the form of sophisticated modern wealth optimization software programs that can evaluate countless options while finding an optimal solution. The software can illustrate year-by-year cash flows and action steps to help a client navigate through the confusing array of recommendations provided by tax lawyers, financial planners, accountants, money managers, insurance agents, and other advisers who need to consider all six sides of the tax planning puzzle. An estate planner, such as a CPA or tax lawyer, can team up with a portfolio planner, such as a registered investment adviser, to run the optimization software. Although one adviser could, in theory, manage all of the interrelated tax and portfolio planning issues, a collaborative team of two or more advisers can usually serve the client most effectively.

The software considers many different combinations of legal tools under different legal and financial design assumptions to determine how a client can maximize after-tax lifetime income and/or testamentary transfers to heirs and favorite charities. The best illustration systems track how clients can minimize taxes on portfolio dividends and distributions so that returns are enhanced more by "tax alpha" than by traditional investment management alpha.

To help the client appreciate the advantages of using advanced planning techniques, it is useful to illustrate the benefits with graphics for the client, supported by pages of appendices for the advisers. For example, a client can depict the RLT, ILIT, and Dynasty Trust on a simple flow chart with a few boxes and then upgrade the flow chart until it eventually illustrates results from all twelve planning tools discussed in this chapter. Accompanying the flowcharts, there should be summaries of cash flow for accountants and detailed bullet points for attorneys. When the bullet points explain how the tools addresses the six element of the covenant, the attorneys are most likely to draft agreements that align most fully with the elements of the covenantal Blueprint.

Chapter 8 shows how a single tool like the Dynasty Trust can be illustrated with pictures, text and numbers. The subsections of Chapter 8 correspond to the six elements of the covenant in order to show how advisers might illustrate the covenantal elements of a legal document. Chapter 9 explains how advisers can combine several additional tools with the Dynasty Trust to increase after-tax income, lower income taxes, reduce estate taxes, enhance wealth transfers, increase charitable giving potential, and realize a variety of non-financial goals as well.

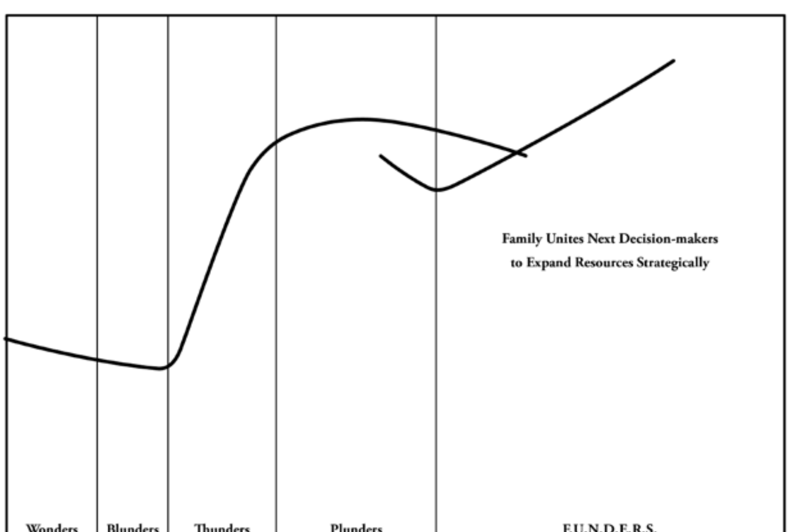
Chapter 8

A Blueprint May Include a Simple, but Powerful, Dynasty Trust

To understand the concepts in the previous seven chapters, we will next examine case studies. Chapter 8 reviews how hypothetical clients Thomas and Virginia Smith used a Dynasty Trust to achieve their goals. They then enhanced a Basic Plan involving the Dynasty Trust to include leveraged, total wealth control and optimized planning instruments discussed in Chapter 9.

Thomas and Virginia Smith are a typical American deci-millionaire family. They married young as Thomas was graduating from college with a technical degree. They wondered about the world of opportunities awaiting them as they started a small business. During the first few quarters of business operations, Tom and Ginny (as their friends call them) followed the pattern of other young millionaires and blundered through the process of acquiring customers, retaining employees, developing efficient production systems, and tracking success. Tom worked hard, while Virginia supported him as an office manager. They watched their books closely and labored long hours to keep cash flow positive. After their first year in business, the blundering began to turn to thundering success.

Family Members Should Become FUNDERS of News Business and Foundations
The Family Can Redirect Taxes to Control Financial and Charitable Capital



The Smiths wondered, blundered, and then thundered for nearly 40 years as they reinvested their profits in an enterprise that prospered. They used cash from the business to buy a primary residence and a secondary home with reasonable leverage. Deductions from their real estate investments, coupled with large retirement plan deductions, allowed the Smiths to invest very tax efficiently. The real estate and qualified plan investments grew tax efficiently, as did the equity in the business. The cash flow from the business could be capitalized at a fairly high value because of intellectual property in the business that gave the company a strong niche in its industry. When the business value was added to the value of the other assets, the Smiths realized they would have much more wealth than they needed to live comfortably.

Like many successful Generation 1 families, the Smith had children in Generation 2 that wanted to enjoy the lifestyle their parents enjoyed. While the Smiths tried having their sons and daughters work in the business, the kids tended to treat their corporate employment as nine-to-five jobs; they were distracted from working hard in the business by friends and classmates who enjoyed a variety of recreational activities and other diversions. This concerned Thomas and Virginia. As so often happens, G1 knew that the G2 work ethic was not strong enough to help the business maintain success throughout another generation. Thomas and Virginia feared that G2 would plunder what G1 accumulated across the decades.

The Smiths were also worried that the Treasury Department would plunder their wealth through estate, gift and generation-skipping taxes. The Smiths knew an estate planner who could help reduce these taxes, but the prospect of working with typical tax planners did not excite Thomas and Virginia. When listening to their friends talk about estate planning at the country club, both of the elder Smiths felt there was too much focus on preparing the wealth for the beneficiaries instead of preparing the beneficiaries for the wealth.

To overcome their concerns, the Smiths sought wisdom from a wealth adviser. The adviser recommended passing on the Smiths' values to G2 before the Smiths would pass on the value of the business and other assets. The adviser emphasized the importance of developing the Smiths' resources prudently by leveraging them with charitable and non-charitable trusts designed to carry on the family's values. Both types of trusts would have family boards with governance policies designed to help the family unite the next generation of decision-makers to expand resources strategically.

The family board governance documents provided that the Smith children would receive increasingly significant challenges regarding the accumulation, budgeting, investment, and disbursement of wealth. The children would have to exhibit heartfelt commitment to upholding the values that made the Smith family successful. Each trust beneficiary should appreciate the principles that led American poet laureate Robert Frost to observe, "Every affluent father wishes he knew how to give his son the hardships that made him rich."[1]

Leading the Smith family boards helped Thomas and Virginia move from success to significance. Instead of watching their financial wealth dwindle during their retirement years, Thomas and Virginia found new meaning in building wealth and influence through their favorite charities and through equipping the next generation to perpetuate the Smiths' family values. [2]

While the wealth adviser suggested the Smiths consider starting with several different planning instruments, the Smiths were most intrigued by the benefits of a Dynasty Trust. The primary objectives of their Dynasty Trust were to:

- Transfer to the Dynasty Trust assets that would otherwise be subject to substantial taxes.
- Create a purpose for the trust that would help trust beneficiaries appreciates the Smith family values that helped accumulate assets in the trust.
- Establish a governance system to pass on the family's values before passing on the value of the trustmakers' estate. This governance system would involve annual meetings during which videos would communicate the values of the patriarch (Thomas) and matriarch (Virginia).[3]
- Give security to the surviving spouse by providing distributions for health, education, maintenance and support.
- Fund the trust with investments that accumulate on a tax-deferred basis and provide for tax-free payments to beneficiaries. These investments should leverage estate-, gift- and generation-skipping exemptions to avoid taxes on assets transferred to future generations of family members.
- Hold, manage and accumulate assets to create a legacy for children, grandchildren and their families. The legacy payments would be

linked to the kids' achievement of worthwhile educational, professional, and charitable goals.

The six objectives of the Dynasty Trust parallel the six covenantal elements reviewed in previous chapters of this book: The following subsections review elements of the covenant in way that can guide drafting of a Dynasty Trust.

Identifying Suitable Resources

The Smiths' advisers designed and drafted their Dynasty Trust to hold a broad array of assets, including real estate, securities, insurance, and hard assets. To protect patents, trademarks, and proprietary methodologies from creditors and taxes, the Smiths funded trusts with intellectual property interests that pass to future generations. To achieve the above goals most tax efficiently, the Smiths used some trust funds to invest in life insurance policies.

Clarifying the Purposes of Wealth

The Smiths intended for their Dynasty Trust to provide benefits to families across multiple generations without estate, gift, or generation-skipping taxes. The Smith family funded the trust with seed capital sheltered from transfer taxes by filing a gift tax return. By properly sheltering the seed capital from taxes using a portion of the lifetime exemption, it was possible for them to fund a trust with appreciating assets that could accumulate substantial funds without transfer tax consequences.

The Smiths established the Dynasty Trust during their lifetimes so they could stay actively involved with training trustees and family board members. The training focused on illustrating how the trust assets can carry on the family's purposes. They, as the trustmakers, maintained a valuable role in articulating family values in written and video-taped documents designed to guide family leaders for multiple generations. They established protocols for selecting successor family leaders who will maximize the likelihood of the trust upholding and communicating the family's values for multiple generations.

Establishing the Dynasty Trust during their lives, the Smiths (as trustmakers) also maximized the probability that the trust will take full advantage of tax benefits. The Generation Skipping Tax (GST) exemption is maximized when used during the trustmaker's life because property transferred to a Dynasty Trust according to GST guidelines can grow and accumulate income without the increase being subject to GST taxes. As long as assets in the trust appreciate, the trustmaker can use GST exemptions more effectively than if the trust were established at the trustmaker's death.

When establishing the trust, the Smiths empowered the trustees and governance board to balance social objectives with financial objectives. That is, instead of just accumulating substantial capital through investments, the Smiths gave the trustees authority to offer low-interest loans to family members who pursue worthwhile charitable, educational, or business endeavors. The trustees may also have authority to disburse some of the trust capital to heirs. Such disbursements can reward a broad array of behaviors that build character and strengthen the family.

To fulfill the purpose of benefiting a family tax-efficiently and effectively across the generations, the Smiths gave careful thought to the design of the trust. So that the trust could extend across multiple generations, the Smiths created the trust in a state that does not have the Rule Against Perpetuities (RAP). This rule, which dates back to decisions of English court decisions in the 1600s, prevents a person from keeping property in his family for multiple generations when non-family owners could potentially make better use of the property.

The Smiths were intrigued to see how the 1986 tax act encouraged formation of various intergenerational trusts that can accumulate substantial capital cross generations without heirs being subject to generation-skipping taxes. Since the passage of tax legislation, many states have repealed the RAP or extended for centuries the period before a trust must terminate. States like Rhode Island, New Jersey and South Dakota have abolished the Rule completely. Florida and Nevada have lengthened the term to 360 years and 365 years, respectively. Washington has extended the vesting period to 150 years. Some states have abolished the rule for personal property but not for real property.[4]

Families that create the trusts in these states without the RAP hope to keep wealth in the family's bloodlines for many generations after the trustmaker's death. These worthwhile goals must be balanced against the risks of future generations not using wealth productively or not honoring the desires of the trustmaker. To guard against these risks, the trustmaker must give careful thought to the drafting of trust provisions, many of which will be irrevocable.

Delegating Governance Authority

The Smiths, as the trustmakers, could not reasonably be the trustees of their Dynasty Trust because this could give too much control to the trustmaker and possibly invalidate some of the tax benefits. The Smiths, therefore, specified that the trustee be a Certified Public Accountant (CPA) who could be replaced by a bank trust department or a corporate trustee with a trust company. The trust document specified that at least one trustee reside in a state that does not have the Rule Against Perpetuities.

The trustee of the Smith Dynasty Trust has three roles. First, the trustee administers the trust by paying fees, filing tax returns, and generating reports. Second, the trustee develops an investment policy statement, allocates trust investments, and monitors investment returns. Third, the trustee makes distributions to beneficiaries in a manner consistent with the trustmakers' intent. It is often wise to have three different trustees assume these three different roles.

The first type of trustee, the administrative trustee, is normally a CPA, banker, or lawyer (but only in states where attorneys are allowed to act as trustees). The administrative trustee should generally not be a family member or somebody who may have too much discretion as to who receives assets from the trust or who may have enough enjoyment of assets to constitute constructive receipt. Giving too much control to a trustee beneficiary can result in the IRS determining that someone has a general power of appointment over the trust; this can lead to unnecessary estate and/or gift tax liability. Nonetheless, to give family members adequate input into the administration of the trust without risking estate inclusion, the trustee should consider the advice given by a family council. The trust document can include language that encourages third-party trustees to listen to decisions of the family council but not adhere to family council decisions if following council directives would cause the IRS to view assets as being in the estates of family members.

The second type of trustee is typically an independent investment counselor who is skilled in portfolio due-diligence analysis. In some cases, the trust document will name a mandatory investment trustee to ensure continuity of investment decisions. The investment trustee makes decisions on loans and investments according to guidelines in the Uniform Prudent Investor Act.

The Smiths designed their Dynasty Trust document to specify how they want their assets managed. They designated a particular investment advisory firm and chose to give investment discretion to an investment committee. They stipulated that the Investment Policy Statement (IPS) include tax-efficient vehicles to add "tax alpha" to the portfolio.

The Smiths' Dynasty Trust included a provision to let a trust protector or beneficiaries change the investment trustee if he or she does not invest in a manner that complies with the IPS. For example, the trust document stipulated that competent beneficiaries of the trust have the right to change to a new investment trustee if performance of the stock and bond investments made by the investment trustee under-perform pre-established market benchmarks (such as the S&P 500 index or a Salomon Bond Index) over specific time periods.

The third type of trustee is the benefits trustee. Given uncertainly about the trust-management skills of future generations of family members, the Smiths' trust document allowed for selection of corporate trustees who will take the time to know the trust beneficiaries. The benefits trustee should have the skills and experience to help equip heirs to receive the right amount of inheritance at the right time. The benefits trustee may also have the authority to arrange family meetings and encourage discussions about how wealth transferred from the trust should be used by beneficiaries to carry on the values of the settlers who earned the money used to fund the trust.

When establishing long-term governance policies, the Smiths built their trust document to guard against disagreements among trustees or the death of a trustee. The Smiths allowed for the selection of co-trustees who have a shared responsibility to protect the family. The co-trustees normally choose their successors. If a successor is not identified, either the remaining co-trustees or the beneficiaries select the successor. If a Co-trustee fails to follow the wishes of the trustmaker, a "super-majority" (typically 75% or more) of the adult beneficiaries can generally remove a trustee. In some cases, the trustmaker can retain the ability to remove Trustees and substitute new Trustees if the new trustee is not related or controlled by the trustmaker.

Given concerns about how trustees will work together and prepare successor trustees, the Smiths established a trust-protector provision. A trust protector is an individual or group of individuals who has/have the authority to change trustees. The trust document gave the trust protector the right to select successor trustees according to guidelines for choosing among corporate trustees or family members.

Designing, Drafting, and Funding in Light of Principles and Priorities

When initially funding the trust, the Smiths had broad latitude in choosing which types of insurance, securities, real estate, or other tax-efficient investments would be listed on Schedule A as trust assets. Their decisions regarding the funding of the trust impacted decisions about designing and drafting the trust.

The trust funding was focused on making all investments according to the principles that helped the Smiths accumulate their wealth. The investment managers were given various distribution priorities that required flexible trust design.

The Smiths funded their Dynasty Trust with second-to-die life insurance for

the purpose of avoiding estate taxes and building cash value that can make tax-free loans to beneficiaries. The Dynasty Trust can use insurance proceeds to purchase assets from the Smiths' estate. These assets can then grow outside of the taxable estates of future generations.
The Smiths' trust may purchase a diversified portfolio of marketable securities. To minimize taxable income, the trustee may invest tax-efficiently in exchange-traded funds or other securities that can grow substantially tax-free. If rebalancing will generate taxable income, the trustee can use various charitable strategies to replace the appreciated securities with comparable securities and to sell appreciated securities inside a charitable trust connected to the Dynasty Trust.

Considering Taxes When Anticipating Dispositive Provisions

The Smiths' Dynasty Trust can provide abundant provision for the trustmakers' descendants. The trust document specifies that only blood relatives receive benefits from the trust. Such stipulations help protect trust assets from actions by credits, caregivers, and non-bloodline spouses who divorce a bloodline beneficiary.

The Smiths' trust allows for loans to family members or investments in family businesses. The board of the Dynasty Trust can have authority to invest trust assets by making interest-bearing loans that are repaid tax-free using life insurance. A properly chosen board should have the wisdom to make loans that will generate attractive returns. The board can stipulate that a portion of the loan proceeds—typically 10–15% of the capital—be invested in a life insurance policy to ensure repayment of the loan with a tax-free death benefit. As long as the trust invests all capital prudently in loans or other investments, the trust can (in theory) grow the entire corpus tax efficiently across the generations.

The Smiths established their Dynasty Trust using available lifetime exemptions. The Smiths applied GST exemptions to all funds contributed to the trust; property then transferred to the trust, including all appreciation in value, will remain free from further federal estate, gift, and GST taxation for as long as it remains in trust. Given the power of compound growth, a successfully invested trust can accumulate hundreds of millions of dollars tax efficiently for future generation beneficiaries.

To avoid gift taxes on contributions to the Dynasty Trust, the Smiths' beneficiaries were given demand right powers (technically referred to as Crummey withdrawal rights). The trustmaker can give slightly more than $13,000 per year per beneficiary to the Dynasty Trust and qualify these gifts for the annual gift exclusion. If the beneficiaries do not exercise their demand right and spend the money, then the funds stay in trust. The trustee can use the

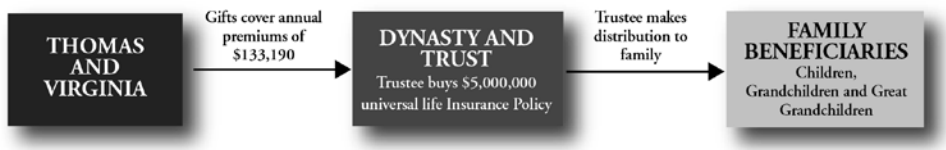
gifts to pay premiums on life insurance on the trustmaker and his or her spouse. Typically, the client informs the family beneficiaries of this arrangement and encourages them not to exercise their withdrawal rights. They nearly always comply!

Because the Smiths' Dynasty Trust will likely continue for multiple generations, the Smiths considered the complex issues related to choosing successor trustees. Their Dynasty Trust may split the trust into separate trusts for different family lines every time the oldest member of a family line dies (e.g., when a grandchild dies survived by three great-grandchildren, that grandchild's portion of the trust is divided into three separate trusts for the great-grandchildren). The oldest of these great-grandchildren or the oldest member of a family line may retain a limited power of appointment to adjust what happens to that family line's portion of the trust. This power of appointment could give great-grandchildren the right to give their children (the great-great-grandchildren) the family line's share of the trust outright.

The Smiths' Dynasty Trust is designed to keep wealth within the family. Thomas and Virginia understand they are creating affluent grandchildren who may attract potential spouses who have undue interest in the Smith wealth. So that the grandchildren do not have to have stressful prenuptial agreement conversations with potential spouses, Thomas and Virginia added language to the trust that lets each grandchild explain that their prenuptial agreement was already put in place by Grandpa and Grandma.

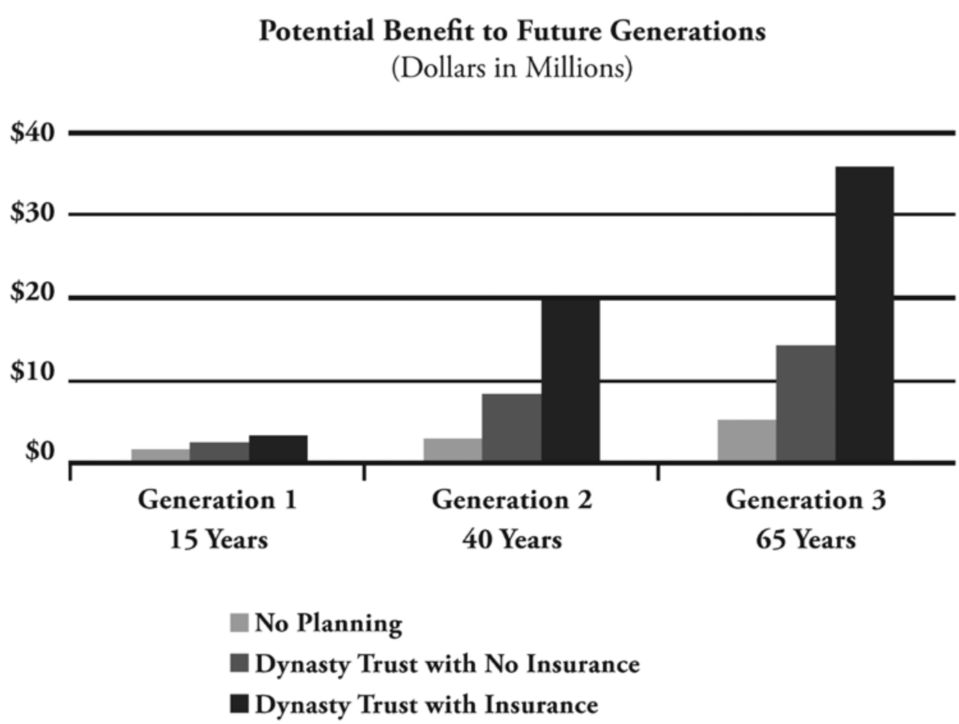
Building Value Outside of the Taxable Estate

Thomas and Virginia Smith created a new enterprise with minimal value at inception. Because they believed their new company would be highly successful, they put the non-voting shares of stock from the newly formed corporation into a Dynasty Trust. They intended that future growth value escape estate and gift taxes for multiple generations. The Smiths worked with their attorney and accountant to draft documents that would give themselves and their heirs all necessary control over the trust investments without creating unnecessary tax exposure. The Smiths gave the trustees the right to lend money to future generations to purchase homes, finance education, or achieve other economically prudent goals. Through prudent collection of money lent by the trust and wise management of trust investments, the Dynasty Trust can accumulate substantial wealth across the generations.



The financial benefits of the Dynasty Trust are most evident when looking at the value of the accumulated wealth. Thomas and Virginia Smith, each age 75, want to move substantial assets to their three children and seven grandchildren. To use their GST tax exemptions, they had their Dynasty Trust apply for and become the owner and beneficiary of a $5 million life insurance policy insuring both Thomas and Virginia. They elect a premium funding schedule such that 15 annual premiums of $133,190 will guarantee the policy until age 100.

When funding premiums, the Smiths applied a portion of their Generation



Skipping Transfer Tax (GST Tax) exemptions to each gift, so that the entire death benefit and future trust assets should be exempt from GST taxes for multiple generations. The following table illustrates the potential property available to heirs under three scenarios. Fifteen annual contributions are made in each scenario. The comparison assumes net investment earnings of 4% annually, which is completely reinvested. It assumes a flat estate tax rate of 45% for each generation with no exemptions.

The Smiths' trust document stipulated that the trust serve as a private family investment bank. The trust can loan money to beneficiaries, invest in family enterprises, and take actions to ensure repayment of loans that the trust corpus will continue to grow across time. For example, the trustee may make unsecured loans to the most credit-worthy family members and stipulate that other family members secure the loan with equity in home or the death benefit of a life insurance trust. It is often possible to guarantee repayment of a loan by setting aside 10–20% of the borrowed funds to buy a life insurance contract.

Clarifying a Pathway for Advisers and Beneficiaries

Perhaps the greatest risks related to a Dynasty Trust are the relational risks. If an heir sees that he or she has a guaranteed source of lifetime income, the heir may have less incentive to develop a career and create his or her own wealth. To guard against this risk, the Smiths gave careful thought to project management timelines that focused on preparing heirs. Thomas and Virginia hired experts to assess the financial maturity of trust beneficiaries and implement training programs to help them gain the maturity needed to budget, invest, donate, and otherwise steward wealth in harmony with a clear sense of vision and values.

The preparation of heirs focused on equipping Dynasty Trust beneficiaries to fund charitable and non-charitable projects that carry on the values that helped create the Smith family wealth. The governance board established a leadership process to help ensure that the Smith family's values will pass to family beneficiaries before the beneficiaries receive the value of their financial inheritance. The governance board stipulated that family members would meet periodically to learn about the covenantal values that helped the Smiths create their wealth and perpetuate their legacy. The board also created an "owners' manual" to equip each beneficiary with an understanding how they should maintain a healthy relationship with the trustee and make wise use of their beneficial interest in the trust.

While the Dynasty Trust has many compelling benefits, it is focused mostly on building wealth for the next generation(s). Clients can feel good about the deferred benefits of dynastic planning as long as they see how their transfer of assets to the trust still leaves them with sufficient current cash flow and control. The following chapter illustrates how advisers can synergistically integrate a Dynasty Trust into an optimized plan that enhances current after-tax income and peace of mind while building tremendous wealth for future charitable and non-charitable endeavors

Chapter 9

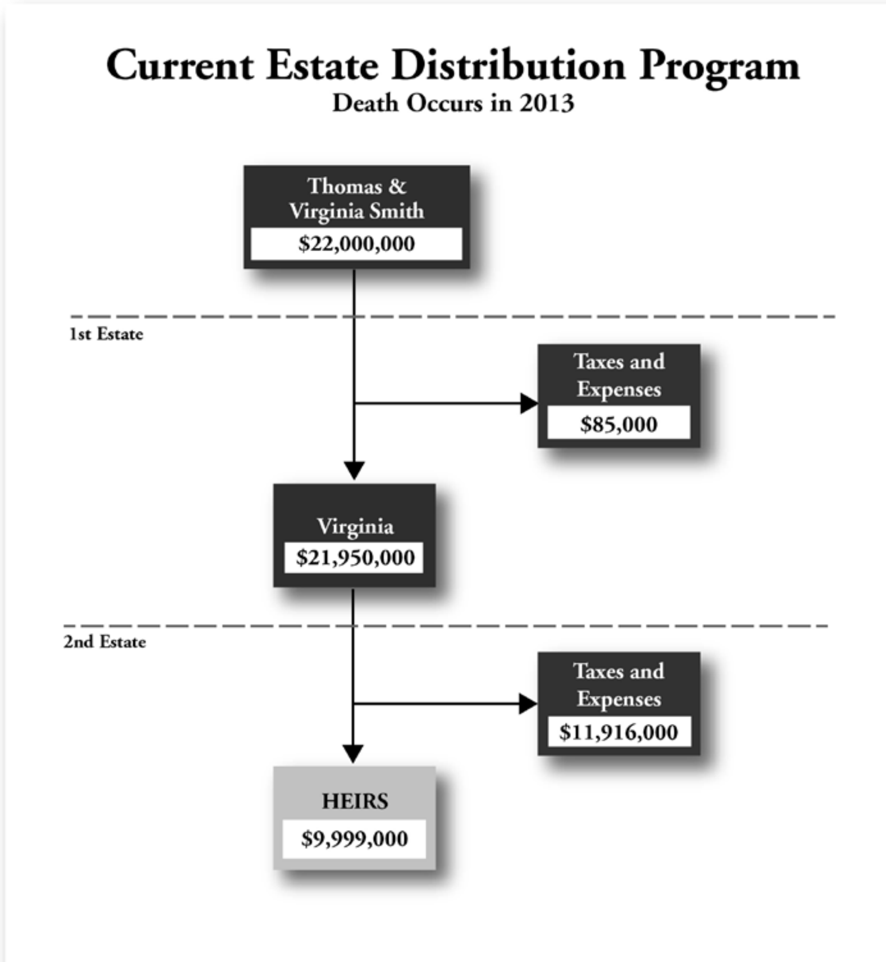
Optimizing Twelve Tax Planning Tools to Minimize Taxes and Maximize Benefits for Retirement, Family, and Favorite Charities

Thomas and Virginia Smith achieved substantial benefits from designing, drafting and funding the Dynasty Trust tactical plan discussed in the previous chapter. They then used the used the Blueprint process to complement the Dynasty Trust with other planning instruments. This lowered taxes dramatically while generating more wealth for their retirement, their family, and their favorite charities.

Using a Blueprint to Monitor Tax Efficiency

Initially, the Smiths had a net worth of more than $22 million with substantial tax exposure because, like many wealthy couples, they had done no significant planning. As shown in the graphics at the end of this chapter, the Smiths developed a plan to enhance after-tax income, eliminate more than $10 million of taxes, transfer tax savings to a family foundation, and give more than $20 million to their children. The Smiths realized millions of planning benefits for a relatively modest cost. More important than the financial benefits, however, was the peace of mind that came from knowing that the Smiths had projected a secure after-tax retirement income while establishing mechanisms to transfer the right amount of assets and income to heirs at the right time.

Before the Smiths began the Blueprint process, they were expected to waste $11.9 million on taxes and transfer less than $10 million of their $22 million to heirs. The baseline flowchart below shows the Smiths' estate distribution diagram before the planning began. The Smiths were paying substantial unnecessary taxes while failing to use appropriate trusts to transfer control, management, and ownership of assets to beneficiaries at the right time. In fact, like many wealthy individuals, the Smiths had a plan that transferred assets to heirs only when Thomas and Virginia died. Because of this failure to plan, the Smiths were not heeding the wisdom to "do your giving while you're living so you're knowing where it's going."

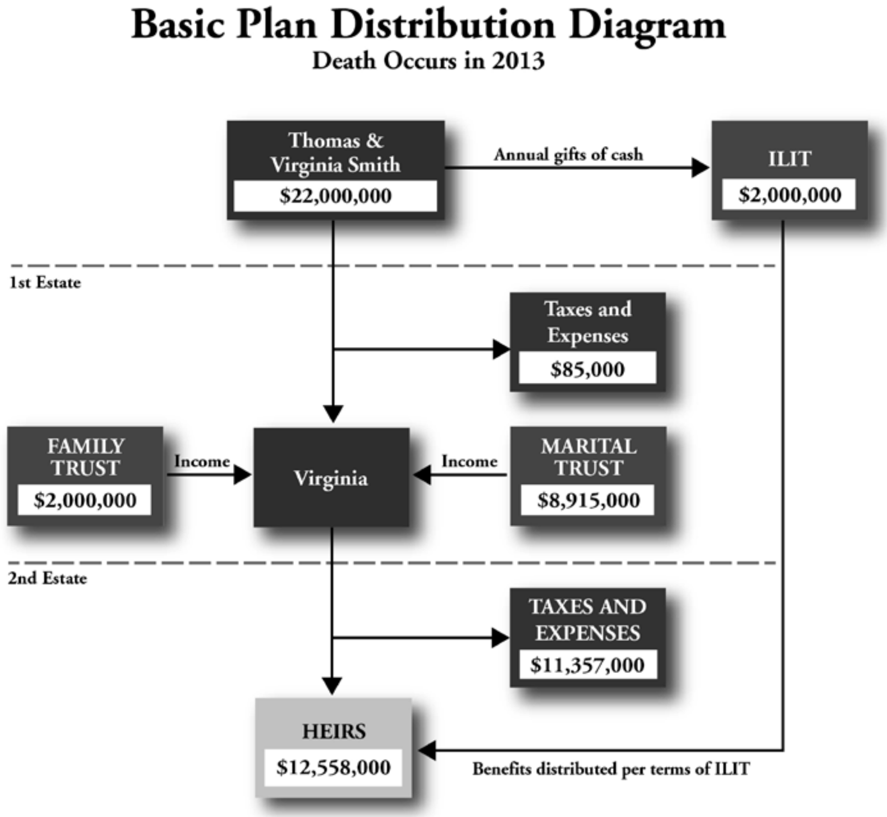


Starting with the Revocable Living Trust (RLT)

By developing a Basic Wealth Blueprint, Thomas and Virginia put in place the AB trust (Tool 1 of 12). This lowered their estate taxes if they died in the current year, but left them highly exposed to estate taxes on the portion of their wealth that exceeded the available exemption at death. They knew they wanted to use a series of irrevocable trusts to zero-out unnecessary taxes on the large portion of their estate that was subject to taxation, but they also knew that they needed to take their time with designing irrevocable trusts. Before transferring their business, home and other key assets to irrevocable trusts, the Smiths wanted to think through how to transfer ownership, management and control to their children at the right time in the right way.

Adding the Irrevocable Life Insurance Trust (ILIT)

While waiting to transfer their primary assets to irrevocable trusts, the Smiths were willing to put a safety-net in place by funding insurance in an Irrevocable Life Insurance Trust (Tool 2 of 12). The insurance was a second-to-die policy guaranteeing that if either Thomas or Virginia died with a taxable estate, the heirs would pay the taxes with the death benefit from the insurance paid to the insurance trust. The trust was funded with a gift and loan from Thomas and Virginia's estate. The Smiths had four married children, each of whom had two grandchildren who were eligible for annual gifts of $13,000 each from Thomas and Virginia. Because there were a total of eight second-generation heirs and eight third-generation heirs, a total of 16 heirs could benefit from the life insurance trust. Thomas and Virginia could, therefore, contribute $13,000 per year for each of the 16, meaning they could give a total of $208,000 to the trust each year as a gift without any current gift taxes. Contributing $208,000 for a few years allowed Thomas and Virginia to fund an insurance policy with a $2 million death benefit.



The insurance death benefit would not only pay the estate tax if legal tools were not fully implemented to zero-out the tax, but the policy would also allow for the Smiths toaccumulate cash value. Thomas and Virginia elected to have the cash value grow in a way that would let them make tax-free wash loans from the trust. (If the policy has a wash loan feature, the crediting rate on the cash value in the policy will equal the interest rate on the money borrowed from the life insurance company. In such cases, the borrowing transaction is cash flow neutral to the insured, and the insured receives tax-free loan money without having to use loan proceeds to pay interest.) The trustee provisions of the ILIT were designed so the loans could be paid to Virginia throughout her lifetime if she needed retirement income in the event of Tom's premature death. This added feature of providing retirement income appealed to the Smiths because they could accumulate retirement funds with minimal taxes. They could use their annual exclusion gifts to fund tax efficient growth of capital within the trust while planning to take the money out tax efficiently as a secure source of retirement income. The Smiths realized that accumulating money in the life insurance trust was more tax efficient than accumulating money through a traditional qualified retirement plan because traditional plans are subject to large potential taxes on distributions.

Adding Dynasty Trust Provisions

As the Smiths were working with their lawyer to draft the life insurance trust, their attorney asked them if they wanted to add Dynasty Trust (Tool 3 of 12) features. In effect, the attorney would be using generation-skipping tax provisions to allow the wealth to accumulate outside of the estate of not only Thomas and Virginia and their children, but also their grandchildren and great-grandchildren. The trust could break into separate shares at a later time for each of the living descendants. Each separate Dynasty Trust could have special-incentive trust provisions to encourage the descendants to use the money tax efficiently. The Smiths greatly appreciated this opportunity to design their irrevocable trusts to give the right amount of asset ownership and cash flow to their beneficiaries at the right time, while transferring management and control responsibilities to the most responsible heirs. The Smiths had much greater comfort about moving assets to irrevocable trusts when they saw how the trusts could reflect their dreams for each of their children and grandchildren.

A Basic Plan with just an AB Trust, ILIT, and Dynasty Trust provisions lowered taxes from almost $11,500,000 to under $11,000,000. Moreover, the plan allows the heirs to receive almost $2,600,000 of additional inheritance. The grid below shows how the projected inheritance for the heirs increased from under $10,000,000 on the original plan to almost $12,600,000 on the Basic Plan. Although the cost of drafting the AB Trust, ILIT and Dynasty trust might be $10,000 or more, the total expense is a small fraction of the expected tax savings. In fact, as is typical with advanced tax planning, the legal expenses should be less than 1% of the increased inheritance to the heirs.

Comparison of Benefits
If Death Occurs in Current Year

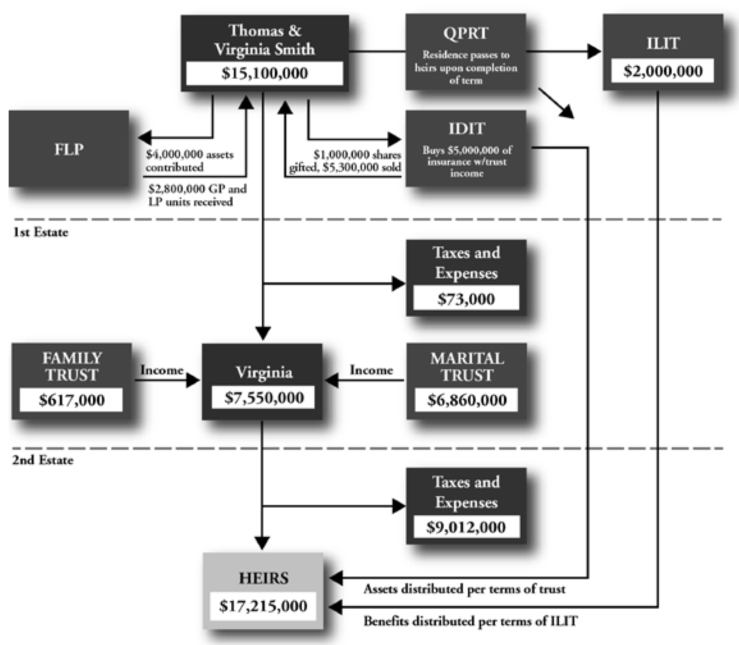
	CURRENT PLAN	BASIC PLAN
HEIRS RECEIVE IMMEDIATELY	$9,999,000	$12,558,000
FAMILY FOUNDATION	-	-
ESTATE TAX	$11,453,000	$10,914,000

	BASIC PLAN SUMMARY
INCREASED NET TO HEIRS	$2,559,000
INCREASE TO FAMILY FOUNDATION	-
ESTATE TAX SAVING	$539,000

Leveraging the Blueprint

After funding the insurance trust with appropriate policies, the Smiths sought to reduce taxes and reduce annual insurance premiums by developing a Leveraged Plan. The Leveraged Plan could increase the inheritance to the heirs to almost $17 million and reduce estate taxes to a little over $9 million. The Leveraged Plan added the QPRT, FLP, and IDIT.

Leveraged Plan Distribution Program
Death Occurs in 2013



To transfer their home out of their estate tax efficiently, the Smiths created a Qualified Personal Residence Trust (QPRT). The QPRT (Tool 4 of 12) allows the Smiths to live in their homes throughout their lives but then transfer them to heirs with minimal transfer taxes. After a term of years (determined by the Smiths), they can start to pay rent to their children and, therefore, make tax-efficient transfers to children without the usual gift-tax-planning challenges.

The Smiths appreciated how the QPRT leveraged reduced estate taxes by compressing the value of their estate using various discounting techniques. Their advisers then showed the Smiths how they could establish a Family Limited Partnership (FLP) for business purposes that would have the ancillary benefit of creating discounts for limited partners. When creating the FLP (Tool 5 of 12), the Smiths moved their marketable securities and income-producing real estate into a Family Limited Partnership that was divided into a general partnership interest (which they retained), and limited partnership interests (which they began giving to trusts for the benefit of their children). The limited partnership interests were subject to a variety of liquidity, marketability, and fractional share discounts that justified appraising the limited partnership interests at 65% of the value of the underlying assets.

Appreciating the Powerful Benefits of the IDIT

After the appraiser issued his appraisal opinion regarding the FLP value, the limited partnership interests were sold to an intentionally defective irrevocable trust (IDIT). By selling to the IDIT (Tool 6 of 12), the Smiths were able to move most of the assets outside of their taxable estate—thereby freezing what was left in the taxable estate. Moreover, the Smiths had the satisfaction of knowing that future growth on their primary assets would occur outside of their estate, inside the Family Limited Partnership interest that was owned by the intentionally defective trusts.

When creating the intentionally defective trust, the Smiths realized four significant tax benefits:

- First, they wanted to circumvent the gift taxes that would result from just gifting their limited partnership interests to the trust, so instead of gifting interests to the trust, they sold the interests to the IDIT.
- By selling, they avoided gift taxes, but because the trust was a defective trust, they also avoided recognition of capital gains taxes upon the sale.
- Moreover, the Smiths knew that the future growth of their estate would then be outside of their taxable estate, thereby avoiding estate taxes.

- To minimize ordinary income taxes, the Smiths took back a note when the trust bought their assets. This note made regular monthly payments throughout their lifetime. Normally, such a note generates ordinary income; however, in this case, the Smiths had all the note interest paid from the tax-sheltered rent from their real estate. Therefore, interest on the note was taxed at a much lower tax rate.

By adding the three leveraging tools (the QPRT, FLP, and IDIT) to the three basic tools (the AB Trust, ILIT, and Dynasty Trust), the Smiths were able to realize the benefits of the Leveraged Plan shown in the diagrams below. The Leveraged Plan dramatically improved on the current plan by generating the increased transfers to heirs and the estate tax savings shown in the box below.

Comparison of Benefits

If Death Occurs in Current Year

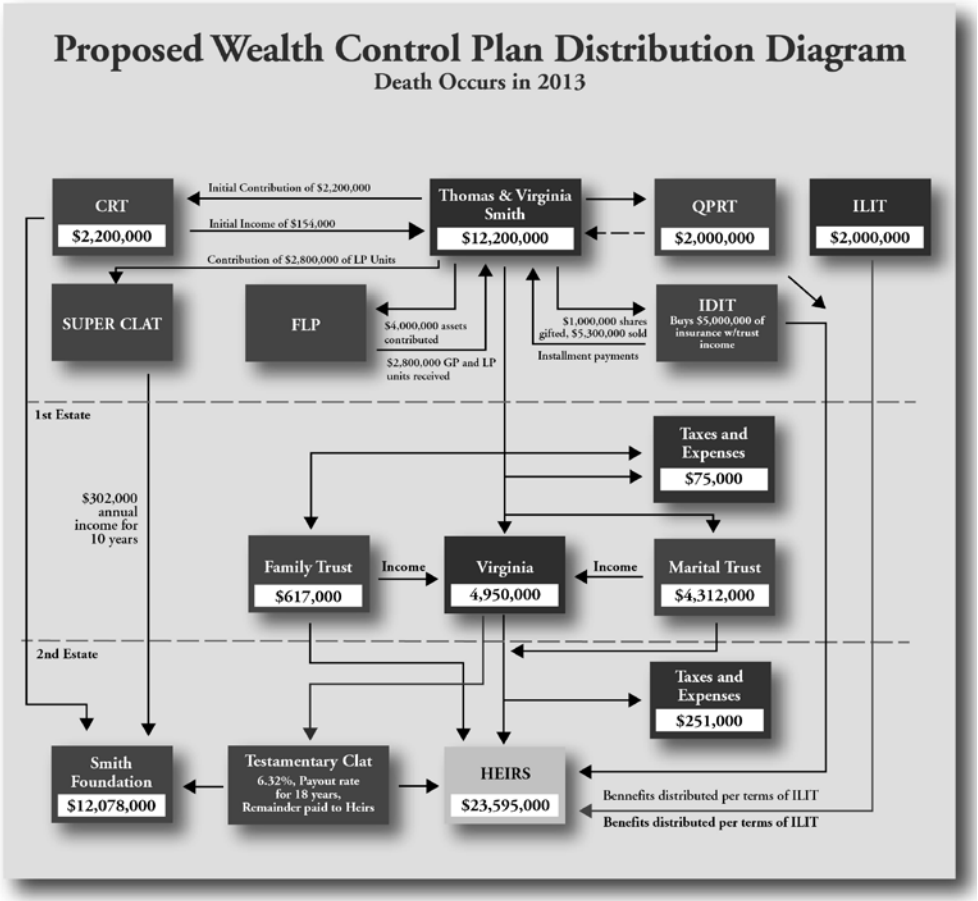
	CURRENT PLAN	LEVERAGED PLAN
HEIRS RECEIVE IMMEDIATELY	$9,999,000	$17,227,000
FAMILY FOUNDATION	-	-
ESTATE TAX	$11,450,000	$8,647,000

	LEVERAGED PLAN SUMMARY
INCREASED NET TO HEIRS	$7,228,000
INCREASE TO FAMILY FOUNDATION	-
ESTATE TAX SAVING	$2,805,000

The Basic and Leveraged Plans reduced the Smiths' transfer taxes and increased the inheritance for their children but did not generate significant income taxes benefits. Because the Smiths wanted to redirect all of their tax money to their favorite causes, they talked with their advisers about reducing estate and income taxes more significantly by using a Total Wealth Control Plan. This plan would improve upon the Leveraged Plan by adding a CRT, TCLAT, Super CLAT, and Public Family Foundation. The flowchart on the following page shows how these four new charitable tools have been added to the three tools used in the Leveraged Plan and the three tools used in the Basic Plan.

Integration of these instruments in the Total Wealth Control Plan increases (from the current plan) the inheritance to heirs to $23.6 million, eliminates estate taxes, and redirects $12.1 million of tax money to charity. In addition to providing the future elimination of estate taxes and larger inheritance for the heirs, the Total Wealth Control Plan produces immediate income-tax deductions. As illustrated in the charts on the next page, the Smith family would receive more than $3,400,000 of income tax deductions from the charitable tools. The Smiths can use these tax write-offs this year and in the subsequent five years.

Adding Tools with Significant Philanthropic and Tax Benefits



To generate a substantial lifetime income, the Smiths sold appreciated securities in a Charitable Remainder Trust (CRT). The CRT (Tool 7 of 12) gave them four significant tax benefits:

- First (as mentioned above), it gave the Smiths a deduction against their income tax in the current year and up to five subsequent years.
- Second, it allowed them to sell appreciated securities assets tax-free.
- Third, the Smiths were able to accumulate their wealth in a tax-efficient environment, thereby allowing them to generate ordinary income or short-term capital gains without paying current income taxes.
- Fourth, the Smiths arranged to take money out tax efficiently so that they could live on income taxed at capital gains rates, or even tax-free income, during their retirement years.

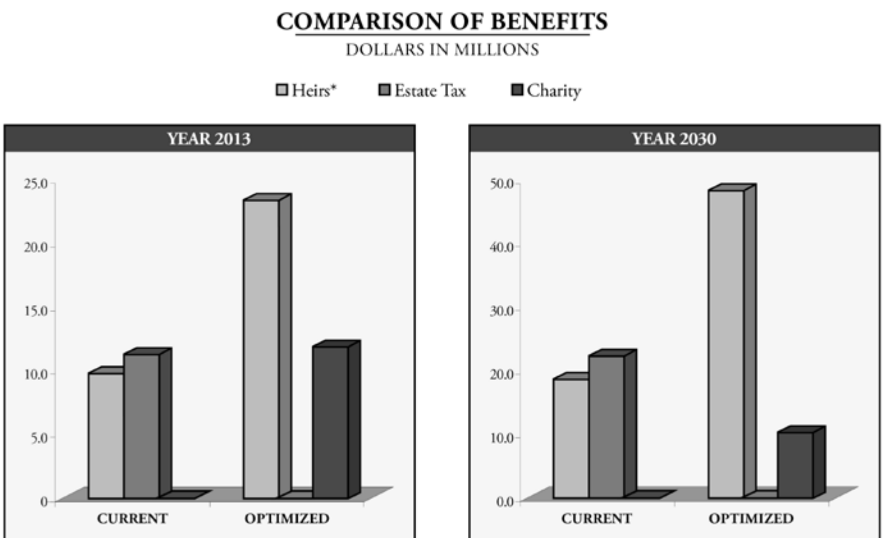
The Smiths designed the CRT to pay them substantial payments each month. This gave them assurance that they would have ample retirement income for as long as they lived. Once they had secured this lifetime income, the Smiths began to realize they did not need all of their wealth. The Smiths considered giving a portion of this wealth to their favorite charities and to their children. The TCLAT allowed the Smiths to transfer money tax-efficiently to their children while redirecting wealth to charity that would have just been spent on taxes. The TCLAT (Tool 8 of 12) complemented the charitable remainder trust as explained below.

As the Smiths recognized the power of the TCLAT as a technique to eliminate transfer taxes, they asked if they could use the TCLAT as a lifetime technique instead of a testamentary vehicle. They were delighted to learn that the lifetime version of the TCLAT can provide not just transfer tax reduction, but income tax reduction as well. The lifetime CLAT, known as the Super CLAT (Tool 9 of 12), works especially well for clients who give a large portion of their income to charity. A properly designed Super CLAT can help a client maintain an existing annual giving plan while transferring more wealth to non-charitable beneficiaries.

Whereas the Charitable Remainder Trust gave lifetime income to the Smiths and transferred the principal to charity, a Charitable Lead Trust gave the income to the charity and transferred the principal to the family. Because of how these tools complemented each other, it was possible for the Smiths to balance their desire to have secure lifetime income with a desire to help family and favorite charities.

The CRT and CLATs produced significant gifts for charity. So that the Smiths could retain maximum control over the management and disbursement of charitable funds, they created a Public Family Foundation (Tool 10 of 12). Their attorney drafted the Public Family Foundation to include Smith family members on a board that would decide how to invest the money, how to pay the money through salaries to board members, and how to disburse money at the right time to charities that best upheld ideals from the grantmaking policy of the Smith family.

By adding the four total wealth control tools (the CRT, TCLAT, Super CLAT, and PFF) to the three leveraging tools (the QPRT, FLP, and IDIT) and to the three basic tools (the AB Trust, ILIT, and Dynasty Trust), the Smiths were able to realize the benefits of the Total Wealth Control Plan shown in the following comparison of benefits grid. The Total Wealth Control Plan dramatically improved on the current plan by generating more after-tax income, increasing transfers to heirs, and providing the estate-tax savings shown in the boxes on the following grid.



YEAR 2013

	CURRENT	WEALTH CONTROL
Heirs*	10.0	23.6
Estate Tax	11.5	0
Charity	0	12.1

YEAR 2030

	CURRENT	WEALTH CONTROL
Heirs*	19.2	48.9
Estate Tax	22.7	0
Charity	0	10.8

* *A portion of the benefit to heirs in the proposed plan is shown at gross value, even where discounting strategies are in effect.*

Comparison of Benefits

	CURRENT PLAN	WEALTH CONTROL PLAN
INCOME TAX DEDUCTIONS	-	$3,415,000
HEIRS RECEIVE IMMEDIATELY	$9,999,000	$11,934,000
HEIRS RECEIVE FUTURE BENEFITS FROM CLATs	-	$11,661,000
FAMILY FOUNDATION	-	$12,078,000
ESTATE TAX	$11,453,000	-

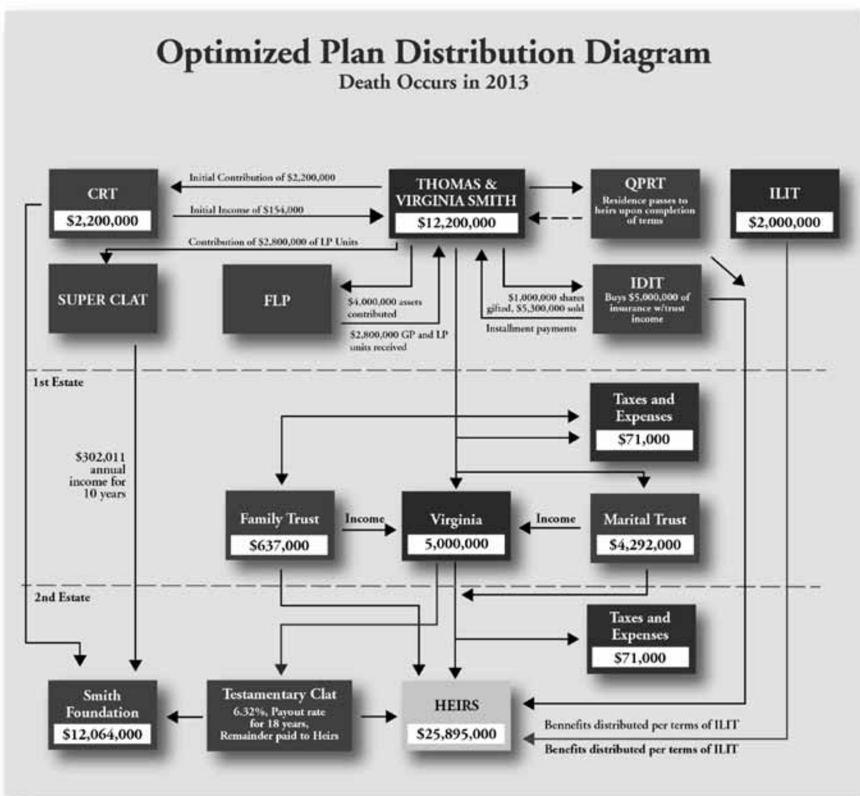
	WEALTH CONTROL PLAN SUMMARY
INCREASED INCOME TAX DEDUCTIONS	$3,415,000
INCREASED NET TO HEIRS	$13,596,000
INCREASE TO FAMILY FOUNDATION	$12,078,000
ESTATE TAX SAVING	$11,453,000

Optimizing the Blueprint

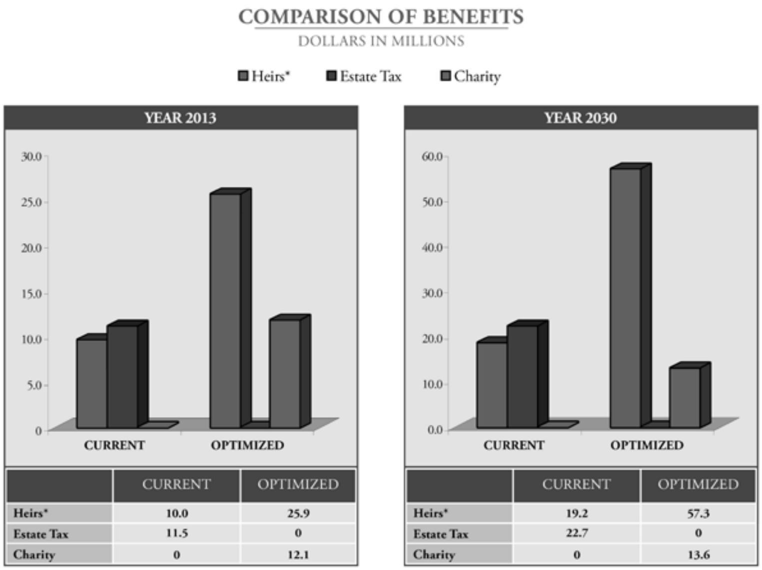
After the Smiths committed to the legal instruments in the Basic, Leveraged, and Total Wealth Control Plans, they began to wonder how they could enhance their overall plan by finding the optimal combination of the ten different estate planning tools they were considering. They realized that the design of each of the tools depended upon several different mathematical variables that were subject to many different possible outcomes. The Smiths realized they needed a financial adviser who could run numbers to show them different ways to design each of their trusts.

The Smiths therefore found an attorney who had expertise with estate optimization (Tool 11 of 12). The attorney reviewed each of the Smiths' trusts and suggested ways to adjust the returns on the assets funding the trusts while also adjusting the pay-out from the trust in a way that improved the overall tax benefits and cash available for the Smiths and their heirs. By running a series of different calculations, the attorney showed the Smiths how they could generate the right balance of tax-efficient lifetime income, transfers to heirs, and transfers to their family foundation.

The attorney realized that the estate optimization depended very much on how assets were invested inside each of the portfolios. In fact, all nine of the proposed estate planning tools in the Basic, Leveraged, and Total Wealth Control Plans required an Investment Policy Statement (IPS). The IPS used portfolio optimization techniques (Tool 12 of 12) to illustrate different rates of return under different market conditions in order to achieve the cash flow objectives of each of the trusts. After calculating how much cash flow would be paid from the trust, the IPS showed how remain-



ing cash would accumulate within the trust to maximize wealth available for heirs and charity. The IPS helped the Smiths understand how to get the best return after fees, after taxes, after trading decisions and after inflation; thus, the Smiths could be confident they had the best portfolio. In addition, by recording their desires in a written Investment Policy Statement, the Smiths could have a clear standard by which to judge the decisions of their investment advisers.



* A portion of the benefit to heirs in the proposed plan is shown at gross value, even where discounting strategies are in effect.

As shown above, the Smiths used estate and portfolio-optimization methodologies to achieve true wealth maximization. By using wealth optimization software, planners enhanced the Total Wealth Control Plan to generate $4 million of income tax deductions, zero-out estate taxes, transfer almost $26 million to heirs, and redirect more than $11 million of tax money to charity. The table below shows the incremental benefits attendant to using additional planning tools as the client progressed from the Basic Plan to the Leveraged, Total Wealth Control and Optimized Plans. The table to the left shows the incremental benefits attendant to using

Comparison of Benefits
If Death Occurs in Current Year

	CURRENT PLAN	OPTIMIZED PLAN
INCOME TAX DEDUCTIONS	-	$3,430,000
HEIRS RECEIVE IMMEDIATELY	$9,999,000	$11,954,000
HEIRS RECEIVE FUTURE BENEFITS FROM CLATs	-	$13,941,000
FAMILY FOUNDATION	-	$12,064,000
ESTATE TAX	$11,453,000	-

	OPTIMIZED PLAN SUMMARY
INCREASED INCOME TAX DEDUCTIONS	$3,430,000
INCREASED NET TO HEIRS	$15,896,000
INCREASE TO FAMILY FOUNDATION	$12,064,000
ESTATE TAX SAVING	$11,453,000

additional planning tools as the client progresses from the Basic Plan to the Leveraged, Total Wealth Control and Optimized Plans. The table shows only numerical benefits. As explained on the following pages, adding tools to a plan can produce numerous non-financial benefits as well. Nonetheless, a simple examination of just the financial benefits makes it is obvious that the benefits of planning can exceed the costs by many millions of dollars. In fact, as is typically the case, the tax savings exceed the planning costs by at least 100 to 1. (Please note that all of the numbers above are in current dollars. A Full Blueprint will typically project the net worth, inheritance amounts, and cash flow numbers out for several decades.)

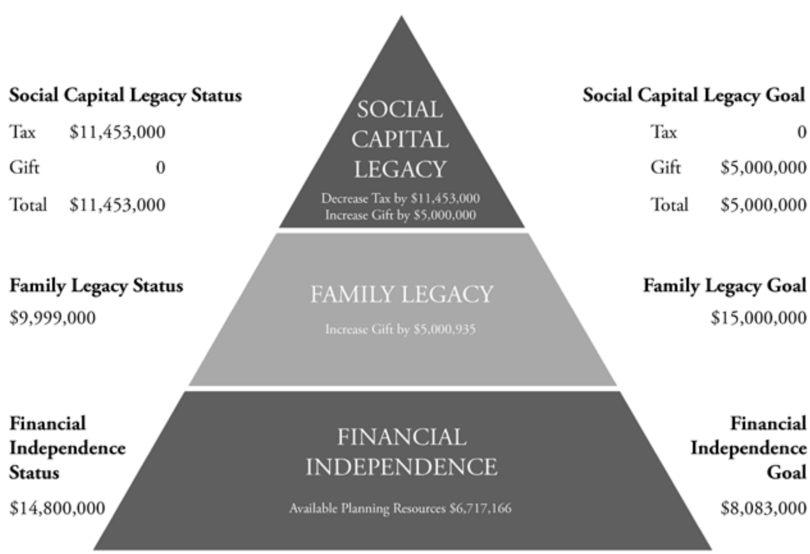
Benefits of Enhancing Your Blueprint

	Current	Basic Blueprint	Leveraged Blueprint	Total Wealth Control Blueprint	Optimized Blueprint
Heirs Receive	$9,999,000	$12,558,000	$17,215,000	$23,595,000	$25,895,000
Charity Receives	-	-	-	$12,078,000	$12,064,000
Estate Tax Savings	-	$539,000	$2,805,000	$11,453,000	$11,453,000
Income Tax Deductions	-	-	-	$3,415,000	$3,430,000

The process of adding tools allows the Smiths to see clearly how they move from their original plan to their proposed plan. A pyramid, like the one pictured on the next page, shows how developing the proposed plan can help the Smiths lock in financial independence with ample tax cash flow, accumulate extra wealth to increase the inheritance for heirs, and ultimately redirect social capital to charity instead of to taxes.

The benefits accumulating across time on the above four plans and illustrated in the table below are typically much larger than those described in the above paragraphs.
The benefits shown in the above case study provide

Financial Independence Triangle



The blueprinted benefits for family and favorite charities can be summarized on a pyramid showing wealth available for financial independence, family, and favorite charities clear documentation of how individuals can manage their wealth by progressively adding more planning tools to their approach as they move from their original plan to the Basic Plan, and then enhance the Basic Plan to create Leveraged, Total Wealth Control, and Optimized Plans. More important than the tax savings, the Smiths have the satisfaction of knowing that their hard-earned wealth will not be wasted on unnecessary taxes. Most importantly, the Smiths can delight in knowing they have put in place trusts that will transfer their values, as well as the value of what they own, to their children and community in a manner that maximizes retirement security, gifts to family, and donations to favorite charitable causes.

Conclusion

How to Maximize Tax-Efficient Lifetime Income, Transfers to Heirs and Gifts to Favorite Charities

Ralph Waldo Emerson reminds us that, "it requires a great deal of boldness and a great deal of caution to make a great fortune, and when you have got it, it requires ten times as much wit to keep it." Experience teaches that it is hard to accumulate wealth, harder to maintain it, and hardest to give it away prudently. Wealth is difficult to preserve and protect because of the relentless assaults from taxes, potential creditors, and misguided heirs.

The patriarch and matriarch who accumulated the wealth are most likely to maintain and give away wealth in harmony with their values if they follow a time-tested covenantal process. They must articulate their purpose, process, principles and priorities in a way that guides the beneficiaries of their provision and prepares heirs to the best use of present and potential resources.

A trained wealth adviser must clarify covenantal ideals that guide selection of the best business- and tax-planning vehicles. The wealth adviser must first help the G1 wealth creators hold onto enough income and control as long as they are alive. They must then help clarify how much after-tax income and control is enough for each individual in future generations. The wealth adviser can also help clients prepare the next generation of decision-makers to make decisions in harmony with core values, while increasing the value of assets that transferred to their beneficiaries.

Each step of the way along the pathway toward envisioned ideals, tax planning is both a sword and shield. Family leaders can use tax planning proactively as a sword to motivate decision-makers to take actions that lead to the design, drafting, and funding of appropriate trusts. Tax planning is also a shield that lowers taxes on income and allows for far greater accumulation of wealth for retirement cash flow, transfers to beneficiaries and gifts to favorite charities.

If, as a reader, you are like most wealthy people, you first took interest in this book because of an interest in zeroing-out taxes on income and wealth transfers. The concepts discussed in the previous chapters can certainly help you eliminate unnecessary taxes. Nonetheless, as you reflect on the issues attendant to zero tax planning, you should also see why Congress provides tax incentives to encourage Americans to create trusts that give loved ones much more than just tax savings.

Trained wealth advisers know how to take full advantage of tax incentives while helping clients implement solutions for costs that often amount to less than 1 or 2 percent of the total tax savings. In most cases, planning benefits far exceed the costs of implementing a plan for realizing your goals regarding resources, vision, governance, values, cash flow, and legacy.

Clients inspired to develop a zero tax plan must evaluate their level of commitment. Does the motivation from planning come mostly from the desire to lower taxes, or from an interest in seeking wise counsel, or from a passion for leaving the most meaningful legacy? Answering this question might be easier if reflecting on the answers to questions posted by a man whose journey along his pathway was disrupted by an encounter with three men working in a quarry.

The traveling man happened upon the three men as they labored under the hot sun. The traveler asked the men what they were doing. The first man responded, "I am slaving away at minimum wage cutting rocks. Can't you see?" The second man answered, "I am sharpening my skills as a master stonemason. I expect to be the highest paid rock cutter in the entire nation." The third man stepped back from us work and looked skyward. With dreamy words, he shared his excitement as he proclaimed that he was, "inspiring dozens of stonemasons to cut stones to build a majestic cathedral to glorify God!"

All three men in the above story shared a common task. Yet all three men viewed their work very differently. The man laboring to build the cathedral had a compelling sense of purpose that inspired him to enjoy what the first man hated and the second man did for mere earthly rewards. Moreover, the man focused on glorifying God had the passion and purpose to unite a team in realizing a divinely-inspired vision. The quarry worker with the higher purpose can inspire all of us to view what we do each day as building a castle in the sky.

If you choose to develop ideas from this book, then your purpose statement should resonates with your soul at a deep level while reflecting character qualities inspired by God. Images that define your purpose should coalesce

into an evolving sense of vision that inspires you to realize uncommon goals.

Clients can use the tools in this book to lower taxes but this pursuit, even if producing millions of additional dollars of wealth for the family, may not provide lasting enjoyment. Greater pleasure may result from working with the most technically competent advisers to create the best plan that planning resources allow. Ultimately, however, a client focused on mere tax savings or technical prowess may find no more fulfillment than the first two quarry workers.

Greater joy and meaning derives from viewing planning as a process that glorifies God and helps a family enjoy God-given resources across the generations. Qualified wealth advisers can help families pursue a divinely-guided process through the identification of resources, clarification of calling and purpose, collaboration of advisers, ranking of priorities and principles, redirecting of tax money to higher causes, and preparation of heirs. Developing a plan with these six elements helps clients reflect essential elements of God's character, as explained in endnote #8 (regarding communication of divine attributes through the covenants revealed in Scripture).

Of course, pursing timeless covenantal ideals can also produce substantial temporal benefits. Clients can design tools to uphold elements of the covenant and then integrate them using a Blueprint that illustrates more tax-efficient lifetime income, grater transfers to heirs, and larger gifts to favorite charities.

While covenantal ideals can remain constant across the generations, the Blueprint can evolve. Even if tax laws and favored tax instruments change, the Blueprint can guide updates to planning instruments so clients can capture new tax benefits. Family members can review the Blueprint during family meetings to help decision makers unite around plans for using growing amount of wealth to fund God-honoring ideals.

As family members and their advisers quest along a pathway toward a dreamy vision of the future, the Blueprint can inspire everyone to uphold the six aspects of the covenant described throughout this book while generating more tax-efficient wealth for funding the family's ideals. Therefore, it is this Covenantal Blueprint Process that may be the best of the zero tax planning tools.

APPENDIX A

100 Goals

To unite advisers around clear goals, it is important that each planning team member know the purpose statement of each client. Clarity about the purpose of the client fosters fruitful discussions about the client's priorities and principles.

Ideally, priorities should be defined with enough clarity so each advisory team member can articulate Specific, Measurable (quantified), Attainable, Ranked, and Time-bound goals for the client (SMART goals). This book emphasizes the need for all clients to rank and quantify goals so they can be reflected in lifetime cash flow statements.

Most financial advisers will say they know the client's priorities. If, however, members of the client's advisory team are interviewed separately, too often the advisers will offer differing perspectives on which priorities are most important and how much money is needed to fund each priority each year. The planning process will usually break down until a lead adviser ranks and quantifies priorities with enough clarity to guide allocation of adequate cash flow for lifetime income, funding of special projects, transfers to family members, and gifts to charity.

The process of ranking priorities can also guide the ranking of principles. Clients need to reflect on which moral and ethical precepts they want to uphold and pass on to successor managers. Such principles may involve minimizing risk, avoiding excessive complexity, providing for family members, and funding charities. Dozens of principles may guide the stewarding of resources to achieve relationship ideals.[1]

Stewardship principles will have the most meaning if applied to the management of the client resources. Clients should resist the temptation to focus on developing only financial resources. Qualified advisers can help clients identify pursue principled development of spiritual insights, emotional passions, intellectual capital, physical talents, social networks, and professional training. The cultivation of non-financial resources can foster stronger relationships, more effective teams, and greater success in delivering value to others. A focus on developing the non-financial resources often leads a client to greater financial resources.

The principles used to steward resources can be reflected in trusts and ethical wills. These documents can list time-tested truths that guide decisions and direct trustees, managers, or board members. For example, a board may be given the mandate to apply a set of investment management precepts when giving beneficiaries a sum of money to invest, budget, disburse, or otherwise steward.

Principles and priorities form statements of core values. Such values are not mere abstract ideals but practical concepts that guide decision-making. Financial priorities can easily be reflected in cash flow statements and balance sheets. Principles can be reflected in legal documents and the decision process of boards or trustees chosen to execute principles in the legal instruments.

By combining financial and legal planning tools, it is possible to achieve goals for the stewardship of all types of resources. Many of these diverse goals are articulated on the scrolling list of 100+ goals at http://www.vfos.com/. The goals emphasize relational ideals but also mention the need to minimize taxes on the resources needed to fulfill goals.

Wise advisers will spend ample time customizing a SMART list of goals for each client so that legal and financial instruments can guide tax-efficient stewardship of all the abundant resources available to each client. When the stewardship unites qualified advisers around clear sets of priorities and principles, the client has maximum likelihood of fulfilling a compelling purpose statement. Such purposeful planning invariably leads to great rewards during lifetime and in multiple future generations, as well.

APPENDIX B

200 Services

Clients request one-stop planning services. Advisers find that most clients routinely desire services in the 12 main areas listed on the right side of the following diagram. As advisers clarify how they will best serve a typical array of clients, it is common to see a need for most or all 200 services listed at http://www.vfos.com/services.asp.

Despite the breadth and depth of clients' requests, the most needed services tend to fall in the seven broad categories symbolized by the "CAPABLE Model" below. This model corresponds to 12 services most frequently delivered through a family office.

The Twelve Most Requested Family Office Services		
C	Counselors	1. Clarification of Vision and Mission, Decision-making Processes, Ranked Priorities/Principles, Provisions for Heirs, and Plans to Prepare Successors/Heirs
A	Analysts	2. Documentation and Reporting
P	Planners	3. Transfer of Control/Mgt/Ownership/Cash flow
		4. Comprehensive Cash Flow/Inheritance Planning
A	Adviser Coordinators	5. Coordinating Trust Maintenance
		6. Coordinating Philanthropic Projects
B	Blueprint Publisher	7. Comprehensive Illustrations and "Blueprints"
L	Licensed Implementers	8. Portfolio Management (RIA)
		9. Tax and Compliance Work (CPA)
		10. Legal Document Execution (JD)
		11. Risk Management (Insurance Professional)
E	Evaluators/Educators	12. Family Meetings and Education

The best family offices usually work in harmony with CPA, legal, and financial firms to provide counseling, analytical, planning, adviser coordination, blueprint publishing, and other capabilities not offered by many traditional wealth management practices. All of the diverse family office services can be delivered through advisers fulfilling the CAPABLE roles described on the left side of the above table.

Most clients need an advisory team with members who fulfill all seven of the CAPABLE roles. Sometimes one adviser can wear a few of the CAPABLE hats, but usually a planning team will need at least 2 or 3 advisers to facilitate delivery of the necessary services.

A lead adviser must oversee the CAPABLE team and monitor a case manager or adviser coordinator who manages the successful delivery of services. This is easiest when written deliverables correspond to services offered in the above areas. When an adviser gives advice, the recommendations can usually be summarized in a document delivered to the client to clarify how the service benefits the client. Ideally, this deliverable should have tables with numbers for the accountants, bullet-point summaries of legal document provisions for the attorneys, and flowcharts or other graphics for clients or advisers that prefer conceptual overviews. Below are seven common deliverables relating to the seven types of services offered by CAPABLE advisers:

The Seven Levels of Service Provided by a Capable Planning Team

7 Levels	7 Roles	7 Deliverables
C	COUNSELOR	Family Wealth Statement
A	ANALYST	Financial Checkup and/or Value Proposition Letter
P	PLANNERS	
A	ADVISER COORDINATOR	Tactical Plan and/or Comprehensive Plan
B	BLUEPRINT PUBLISHER	
L	LICENSED IMPLEMENTERS	Legal Documents
E	EVALUATOR / EDUCATOR	Annual Updates

Obviously, clients need to start with just a few of the many services and deliverables available during the planning process. Ideally, advisers should begin planning with a complete assessment of "what is" before progressing to discussions about "what ought to be." The first three deliverables above clarify the status quo during Phase 1. A Wealth Counselor reviews the client's vision and values in a Family Wealth Statement (FWS). The FWS addresses how a family currently does, or does not, steward wealth in accordance with the six element s of the covenant. The Financial Checkup reviews balance sheet, asset management, legal, tax, insurance, and cash flow data ("BALTIC data") vis-à-vis goals ascertained in the FWS. The Value Proposition Letter (VPL) then calculates the expected current estate taxes, income taxes, retirement income amounts, transfers to non-charitable beneficiaries, and gifts to charities. The VPL includes tables and graphs that quantify how wealth is allocated to taxes, lifetime income, family, or charity. When clients see the current allocations, they are often prompted to work with planners to clarify "what ought to be" during Phase 2 of planning.

A table at the center of the VPL shows the current numbers next to the proposed numbers. Before formal planning commences, planners calculate the likely reduction in income and estate taxes, as well as the probable increases in lifetime income, transfers to non-charitable beneficiaries, and gifts to charity. Usually the VPL shows how the benefits of planning exceed the costs of planning by a factor of at least 100 to 1! The very favorable cost-benefit ratio—or value proposition—usually motivates the client to advance to Phase 2 of planning.

Formal planning commences when the client engages for a blueprint during Phase 2. As explained in the previous chapters, a client may start with a simple tactical blueprint and upgrade to a full blueprint. All blueprints contain flowcharts, numbers, and text that illustrate clearly how the client can realize the benefits projected in the VPL created during Phase 1.

Assuming advisers effectively illustrate the details about planning strategies during the Phase 2 design process, the client usually wants to implement the strategies. The Phase 3 implementation may involve new engagements with the licensed accountant, licensed lawyer, licensed financial planner, or other licensed professionals.

Once the plan has been implemented, advisers may review the plan every year or two. The frequency of Phase 4 reviews depends on the magnitude and types of changes in asset values, tax laws, goals, or other variables.

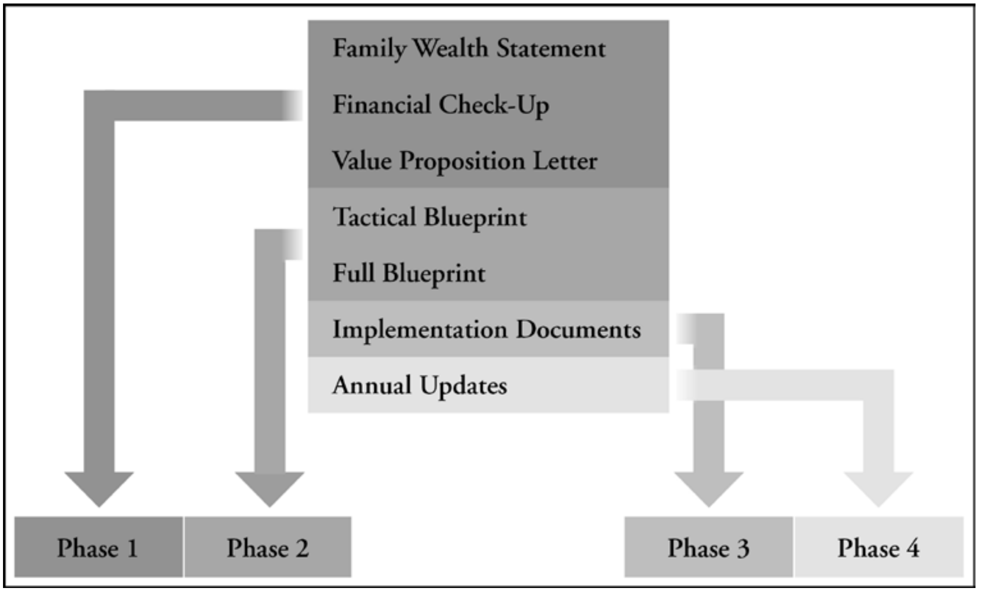
The following table shows how the CAPABLE services are defined succinctly in seven deliverables prepared for the client during four phases of planning. If clients have an urgent need, the first 3 phases may occur almost simultaneously. When developing simple Tactical Blueprints, Phases 1 and 2 may be combined. Nonetheless, clients usually receive the best service when the Phase 1 data gathering is completed before the Phase 2 design takes

Phase 1	1. Family Wealth Statement (Family Retreat)*
	2. Financial Check-Up*
	3. Value Proposition Letter*
Phase 2	4. Tactical Blueprint*
	5. Full Blueprint*
Phase 3	6. Implementation Documents
Phase 4	7. Annual Updates

*Certain planning instruments are offered individually so that you and your Adviser may select, tailor and integrate those that are most appropriate.

place. Moreover, experience teaches that Phase 3 implementation and Phase 4 maintenance seldom go smoothly unless the advisers have a clear blueprint developed during Phase 2.

The deliverables shown on the above table may be delivered over the course of several months. Phase 1 may take 30 days. Phase 2 may require another 30–90 days. If Phases 1 and 2 are completed well, advisers can complete Phase 3 efficiently over a relatively short period of time. The following table illustrates the planning sequence:



The above CAPABLE model provides a succinct and realistic model for effective design, drafting, and funding of planning solutions. Advisers who follow the above model consistently report high implementation rates. Nonetheless, the model merely summarizes many of the services needed by clients. As indicated in the first paragraph of this appendix, clients need to see that they can access the many diverse types of services summarized in the above model by utilizing the services of a family office.

A growing number of professional firms are creating Multi-Family Offices (MFOs) to provide the broad array of services described above. The MFO typically operates as an investment advisory firm and teams up with lawyers who design, draft, and administer appropriate planning instruments. The lawyers may also use tax law expertise to supplement the investment policy statement drafted by the investment advisers so that the tax and investment professionals collaborate to provide integrated trust funding advice. Investment policy statements created with input from tax professionals may show a variety of tax-efficient equity, bond, and insurance investments. When tax and financial professionals work together to develop the IPS documents, clients receive integrated advice that is not normally available from traditional stock brokers and investment advisers.

MFOs fill an important niche for clients with net worths between $1 million and $500 million. Whereas financial planners typically handle clients with less than $1 million of assets, and Single Family Offices (SFOs) usually hire internal staff to service clients with more than $500 million of assets, the MFO can have the necessary scale and technology to serve clients very effectively when estates values range from $1 million to $500 million.[1]

Having MFO resources is increasingly important as clients ask for as many as 200 services through one planning portal. According to respected industry consultant, Mark Hurley, firms that provide comprehensive financial solutions of the type listed above will be the "future dominant competitors."[2]

While attorneys, CPAs, bankers, money managers, insurance agents, and traditional financial planners now compete to be the most respected adviser in the high-net-worth market, very few of these advisers have the tools, experience, and resources to provide clients with the convenient "one stop shopping" access to the comprehensive planning resources most requested by affluent clients. So far, only a small minority of wealth managers offer true family office capabilities. Fortunately, however, a growing number of CAPABLE advisory teams maintain a proven process for providing seamless delivery of the 200 services alluded to in this appendix.[3]

APPENDIX C

300 Planning Tools

A Blueprint that illustrates just one of the 300+ planning tools is a Tactical Plan. Such a plan illustrates a planning instrument that is targeted to address the issue that most concerns a client. As shown throughout this book, Tactical Plans (or Tactical Blueprints) can be selected, customized, and integrated by qualified advisers who create Comprehensive Wealth Blueprints. This book focused on 12 common legal tools for estate tax planning. The list below summarizes 10 additional areas of planning that need attention from a wealth adviser. Each of these Planning areas can be subdivided into additional tools (12 each). Any one of the 120 planning instruments related to the grid below could potentially help a client increase lifetime income, enhance wealth transfers or achieve a variety of other financial and non-financial goals. For lists of these 120 planning tools, please contact my website.

Sets of the Twelve Best Strategies for Ten Different Planning Needs	
Email Info@vfos.com to request details about 12 of the best tools in the 10 areas below.	
Asset Protection Planning	The best tax asset protection tools often have significant asset protection benefits as well. Most of the tools involve LLCs and trusts. This list of 12 asset protection techniques summarizes the relative benefits of different domiciles used for advanced asset protection planning.
Business Sale Planning	Dozens of techniques help business owners sell assets or companies without current taxes. The list of the 12 best business sale tools reviews a range for charitable and non-charitable techniques.
Charitable Planning	Clients often express more interest in giving assets to favorite charities when they see that they can retain income and/or use of the assets in some way. The IRS has approved a variety of techniques to balance the interests of the donors and the charities. This list of 12 tools summaries some of the most popular techniques.
Executive Benefit Planning	Boards of directors face a broad array of Section 79, Section 162, Section 401, Section 408, and other executive compensation strategies. This list of 12 tools provides suggestions about which techniques work best in various situations.
Estate Tax Planning	Many clients fail to do estate planning because they are overwhelmed by the 100+ techniques advocated by various promoters. This list of 12 tools includes decision criteria to help clients evaluate which techniques can provide the greatest benefits in various situations.
Income Tax Planning	Myriad vehicles help clients defer ordinary income from businesses and investments. Many techniques can effectively convert ordinary income to capital gains or tax-free income. This list of 12 tools survey some of the most effective techniques for the current tax year.

Lifetime Wealth Transfer Planning	Tax laws limit gifting from parents to other beneficiaries because policy makers want to discourage people from shifting assets to people in lower tax brackets. Fortunately, there at least 12 effective techniques for minimizing gift taxes.
Retirement Income Planning	Businesses have a broad array of different options for maximizing tax deferral in retirement plans and then generating the most tax efficient distributions from retirement plans. This list of 12 techniques summarizes some of the more powerful strategies for maximizing retirement planning benefits.
Tax-Efficient Investment Management Planning	Clients are often surprised to see how they can improve investment returns more through tax planning than through investment planning. This list summarizes 12 vehicles for tax efficient investment management
Family Board Governance Planning	Boards of family businesses and family foundations provide outstanding forums for training the next generation of decision-makers. This list of 12 governance strategies suggests how boards can foster financial maturity and prepare beneficiaries to receive ownership and management responsibilities, ownership rights, and cash flow to reward responsible efforts.

APPENDIX D

400 Questions

Conservative planning tools can provide powerful benefits when they are combined prudently. By combining charitable and non-charitable trusts, advisers are often able to develop creative answers to the questions at www.vfos.com/400Questions. Some of the most common questions are summarized below:

A. ASSET PROTECTION
  1. How can I keep my residential properties if I am sued?
  2. How can I protect my business cash flow and assets from law suits?
  3. Which corporate structure best insulates my assets from attack by suit litigants?
  4. How can I avoid risks related to putting business assets in a corporation?
  5. How can spouses hold title to their assets in order to assure maximum asset protection?
  6. How should I to structure my partnership to minimize liability for my partner's negligence or debts?

B. BUSINESS PLANNING
  1. How can I grow my business value tax-efficiently?
  2. How can I transfer the family business into second generation without capital gains or estate taxes?
  3. How can I supplement executive retirement income beyond the limits of ERISA?
  4. How can I convert ordinary retirement income into tax-free income or capital gains income?

C. ESTATE PLANNING
  1. How can I avoid probate and estate taxes using the best trust?
  2. How can I protect my gifts to children from attachment in divorce proceedings?
  3. How can I eliminate taxes on insurance death benefits?
  4. Why are there at least 17 benefits attendant to trusts using the current estate tax exemption?
  5. What sort of estate planning is available for clients in their 80s and 90s?
  6. How can my wealth stay within my bloodlines even if I die and my spouse remarries?
  7. How can I prepare a prenuptial for each of my children to keep them from having the stressful prenuptial discussion with a prospective spouse?

D. INCOME TAX MINIMIZATION
  1. How does the tax code allow me to sell stock, partnerships, and

businesses without capital gains taxes?
2. How can I zero-out income taxes on capital that I retain within my business?
3. How can I sell real estate without capital gains taxes?
4. How can I create my own, exclusive private pension plan?
5. How can I fund college education with pre-tax dollars?
6. How can I fund my retirement plan with pre-tax dollars even if not using a qualified plan?
7. How can I avoid pitfalls of IRAs, Keogh's 401(K)s and pension plans?
8. How can I lower my income taxes through the wise combination of "C" and an "S" corporations?
9. How can I protect my accounts receivable from judgments?

E. INSURANCE PLANNING
1. How can I generate double-digit, after-tax returns using life insurance?
2. How can I shop multiple life insurance carriers to get the most competitive offers?
3. How can my trust can own a large life insurance death benefit while having my premium payments all refunded?
4. How can I ensure my life insurance death benefits will be paid to my family rather than the IRS?

F. WEALTH COUNSELING
1. How much of an inheritance should I give each child during my lifetime and when I pass away?
2. How can I know that my children are mature enough to manage the control or assets I am transferring to them?
3. How can I keep my planning team members working together in harmony?

APPENDIX E

What Is a Wealth Adviser?

Successful planning requires a team. Just like a basketball team has very different players in the roles of center, guard, and forward, a good planning team integrates advisers with unique talents. An effective and efficient team typically includes the advisers with the 12 types of skills listed in the table below.

Counselor at Law	The Counselor at Law (otherwise known as an attorney or lawyer) is responsible for designing and drafting state-of-the-art legal documents that reflect the client's values. This counselor normally has a Juris Doctorate (JD) degree. Some JDs will receive extra specialized education in an LLM, MBA or similar program. The JD program normally requires 3 years of school, the LLM typically requires 1 year of law school credits, and the MBA degree usually requires 2 years of masters level training. JDs who give tax advice must maintain a bar membership or related professional credentials.
CPA	The CPA reviews and audits balance sheet and cash flow summaries in planning documents. The CPA must satisfy comprehensive educational and practical experience requirements while also passing for one of the most demanding professional qualification exams.
Insurance Professional	The Insurance Professional designs and implements insurance strategies that accomplish planning objectives to achieve risk management, cash flow, and/or tax efficiency goals. The insurance professional must pass a state licensure examination and satisfy annual continuing education requirements.
Investment Adviser	The Investment Adviser designs, implements, and manages investment strategies to optimize portfolios in conjunction with optimizing estate plans. The investment adviser must affiliate with a state or federally-registered investment advisory (RIA) firm. Normally the adviser will serve as an Investment Advisory Representative (IAR) of the RIA. To act as an IAR, the investment adviser must pass the Series 65 exam or maintain a professional credential such as the Certified Financial Planner™ designation.
Pastor/Priest	The Pastor or Priest confirms that planning goals honor spiritual ideals important to a family and its religious community. Pastors and priests trained in the covenantal approach to Jewish and Christian Scriptures will typically have undergraduate and graduate degrees. Respected seminaries typically offer 4-year Masters of Divinity (M.Div) degrees to pastors who lead covenant communities and/or provide counseling from a covenantal perspective.
Philanthropic Planner	The Philanthropic Planner develops and implements a strategic charitable giving program to realize clearly articulated family values. Such planners can receive education from the American College and various other industry associations. Recently, the Chartered Advisor in Philanthropy (CAP) and Certified Specialist in Planned Giving (CSPG) designations have gained popularity. Some professional associations of lawyers, such as WealthCounsel®, provide similar training in workshops and conferences.
Plan Administrator	The Plan Administrators provides advice and oversight to manage retirement plans, insurance trusts, and other instruments that require careful attention to administrative formalities. Third Party Administration companies will typically have at least one actuary on staff. A registered actuary must complete a rigorous series of examinations.
Relationship Manager	The Relationship Manager (or Case Manager) reduces complex strategies into an understandable summary of desired outcomes and time-bound "next actions" assigned to specific team members. The best Relationship Managers earn the CFP® or similar credential to develop expertise in seeing the estate tax, income tax, insurance, investment, retirement planning, and other sides of the planning puzzle.

Strategies Counselor	The Strategies Counselor helps identify and customize a selection of strategies that are most likely to fulfill the client's goals. This counselor normally has advanced legal and investment training offered through law schools and business schools. Familiarity with strategies is best acquired during decades of practical experience.
Tax Adviser	The Tax Adviser provides advice about current Internal Revenue Code provisions throughout the planning process. Integrates charitable and non-charitable tools. Most tax advisers are practicing lawyers or CPAs. Certified Financial Planners™, Enrolled Agents, and Investment Advisers are also permitted to give some types of tax advice.
Wealth Counselor	The Wealth Counselor (WC) unites spouses or family members around a clear statement of vision and values while clarifying goals that guide the planning process. Wealth Counseling skills are normally developed in both spiritual counseling and technical training programs. Technical training may come from any of the programs listed above. Relationship training is usually developed in masters-level seminary courses and/or through the Institute of Christian Conciliation, which offers a certification for advisers who seek to develop the advanced conflict coaching and/or mediation skills. Such skills help the WC serve as a lead adviser when uniting planning team members and family members. For more information, see www.CertifiedWealthCounselor.com.
Wealth Strategies Counselor	The Wealth Strategies Counselor (WSC) initiates creative financial, legal, insurance, investment, and tax planning ideas that accomplish specific planning objectives. The WSC summarizes ideas in a Family Wealth Blueprint® or similar document with integrated flowcharts, cash flow projections, and summaries of legal documents. The WSC typically has legal training available through law schools as well as tax and strategic planning training available through businesses schools or professional associations. For more information, see www.FamilyWealthBlueprint.com and www.WealthStrategiesCounselor.com.

The client and advisory team should affirm one adviser as the lead adviser. The lead adviser needs the relational, process, and technical knowledge to integrate ideas from all team members into a clear written plan focused on fulfilling the client's vision. The lead adviser should have a robust process for assembling, managing, and monitoring the work of planning team members that possess all of the unique talents listed on the above table. Ultimately, the lead adviser should help each client make optimal use of resources to maximize tax-efficient lifetime income, transfers to heirs, and gifts to favorite charities. The most experienced lead advisers should know how to integrate tools that preserve, protect, and transfer a meaningful legacy through both charitable and non-charitable trusts.

The Strategies Counselor, Wealth Counselor, and Wealth Strategies Counselor may have the most qualifications to serve as the lead adviser. The following paragraphs explain how these advisers contribute to advisory team leadership.

Wealth Counselor. When guiding family members to build spiritual and emotional unity, as well as commitment to a family's vision and values, the adviser is often known as a Wealth Counselor. Instead of focusing on just the opportunities created by money, the Wealth Counselor unites spouses and/or other family members around a vision for realizing opportunities created by seven types of resources—including spiritual insights, emotional passions, intellectual capital, physical talents, social networks, professional training, and financial capital. While envisioning how each family member can most effectively exploit his or her assets to fulfill a personal calling and mission, the wealth counselor examines how to free-up resources needed for education, business acquisitions, or other investments in building the most meaningful future. The Wealth Counselor typically has training in theology, psychology or conciliation. For more information about the role of a wealth counselor, see www.CertifiedWealthCounselor.com.

Strategies Counselor. When the adviser oversees technicians engineering technical solutions, the adviser is often referred to as a Strategies Counselor. New resources for funding a vision will frequently come from tax savings attendant to using advanced planning instruments that reduce income taxes (including ordinary, capital gains, and IRD taxes) while minimizing or eliminating transfer taxes (including estate, gift, and GST taxes). Planners must know which of dozens of tax-planning instruments can generate tax savings most prudently. Moreover, because a client's vision for preserving, protecting, and transferring the legacy may involve a variety of non-tax goals, it is important that at least one adviser on each planning team know how to integrate tax and non-tax planning instruments. The Strategies Counselor typically has received advanced tax law training as a CPA or lawyer while developing relational skills as a member of planning teams creating comprehensive Blueprints. Given how advisers must evaluate hundreds of modern planning instruments when optimizing a Blueprint, an experienced Strategies Counselor can play an important role in helping the client realize his or her vision most effectively and efficiently.

Wealth Strategies Counselor. The Wealth Strategy Counselor (WSC) has developed skills as both a Wealth Counselor and Strategies Counselor. This broad training gives the WSC superior qualifications for serving as the lead adviser on a planning team. Using the Blueprint projections, the WSC helps clients and advisers unite around a shared plan for minimizing taxes and maximizing resources available throughout each family member's lifetime so that each family member can pursue his or her vision with freedom and confidence. The WSC knows how to unite family members in fulfillment of a vision based on core values so the family can leave the most meaningful legacy across the generations. For more information about wealth strategy counseling, see www.WealthStrategiesCounselor.com.

DISCLAIMER

Tim Voorhees and members of his planning teams do not give tax, accounting, regulatory, or legal advice to their clients unless clients have a current engagement documented in a signed engagement letter. Clients must consult with qualified advisers regarding the tax, accounting, and legal implications of these proposed strategies before any strategy is implemented. The effectiveness of any of the strategies described will depend on a client's individual situation and on a number of complex factors. While the Blueprint process can illustrate any type of strategy, planners developing the Blueprint will refuse to illustrate or implement strategies considered outside the letter and spirit of the tax code. Nothing in this text is intended to offer securities or investment advice. Any discussion in this presentation relating to tax, accounting, regulatory, or legal matters is based on our understanding as of the date of this presentation. Rules in these areas are constantly changing and are open to varying interpretations. To ensure compliance with requirements imposed by the IRS under Circular 230, we inform you that any US federal tax advice contained in this communication (including any attachments), unless otherwise specifically stated, was not intended or written to be used, and cannot be used, for the purpose of (1) avoiding penalties under the Internal Revenue Code or (2) promoting, marketing or recommending to another party any matters addressed here

ENDNOTES

1 The Tax Foundation publishes an annual "Tax Freedom Day." For 2012, the Tax Freedom Day was April 17th. The foundation used average compensation and tax rates to calculate that Americans would work 107 days from January 1 to April 17 to pay federal, state and local taxes at a combined rate of 29.2%. If budget deficits were funded through taxes, Tax Freedom Day would be extended to May 14th. If wealthy individuals calculated tax freedom dates at their higher marginal rates and included transfer taxes (including estate, gift, and GST taxes), "freedom" may not occur until the second half of the year. Using other methodologies that consider the cost of government as a percentage of the Gross Domestic Product, researchers conclude that Americans worked until July 15th in 2012 to pay the annual cost of government. See http://www.costofgovernment.org/files/files/COGD2012_hi%20res.pdf.

2 Please see Appendix E for a complete definition of these terms. Nearly 1,000,000 financial planners, accountants, insurance agents, stock brokers, and other advisers claim to offer some sort of advice regarding wealth. True wealth advisers normally document how they uphold fiduciary standards discussed in Chapter 3. A minority of these fiduciaries will have skills as wealth counselors, as discussed at www.CertifiedWealthCounselor.com. Even a smaller minority of the fiduciaries will have skill as Strategy Counselors. The strategy counselors have the experience, education, and technology required to design, draft, and fund the strategies used in a wealth plan. A fiduciary with skills as a Wealth Counselor and Strategies Counselor is a Wealth Strategies Counselor.

3 Mark S. Cornwall, *Estate Planning: The Heroes' Way for Baby Boomers* (Santa Barbara, CA: Baby Boomer Publishing, 2008), 99.

4 For information about the role and qualifications of the wealth adviser, see Appendix E of this book.

5 *The Holy Bible,* New International Version, (Grandville, MI: Zondervan, 1984), Proverbs 20:21.

6 Email info@vfos.com for a copy of, "Why Most Families Lose Their Wealth by the Third Generation" by Tim Voorhees.

7 Roy Williams and Vic Preisser observe that, "the odds of a successful estate transition are in the 30% range; and unless a cooperative learning

environment is created for the next generation, it's only a 9% success rate." See Roy Williams and Vic Preisser, *Preparing Heirs: Five Steps to a Successful Transition of Family Wealth And Values,* (San Francisco: Robert Reed Publishers, 2010), 92.

8 For a broad discussion of the elements of ancient covenants, see by Ray R. Sutton, *That You May Prosper: Dominion by Covenant* (Tyler, TX: Institute for Christian Economics, June 1987). Sutton's annotated bibliography includes references to several scholarly works on the elements of covenantal documents.

9 Chapters 8 and 9 show how planning teams can add four total wealth control tools (the CRT, TCLAT, Super CLAT, and PFF) to the three leveraging tools (the QPRT, FLP, and IDIT) and to the three basic tools (the AB Trust, ILIT, and Dynasty Trust) to create an optimized plan. Once these tools are implemented, their provisions should be grandfathered by Congress and the courts. Nonetheless, drafting attorneys can design these tools to accommodate updated goals, new investment policies, or opportunities created by new tax laws.

10 If the donor of a charitable lead trust is deemed to be the owner of the trust (e.g., he or his spouse retains a reversion worth more than 5% of the trust), he will be taxable on all of the trust's income, including long-term capital gains (even though allocated to principal) and current income (even though paid to the charitable income beneficiary). See Conrad Teitell, *Charitable Lead Trusts,* (Old Greenwich, CT: TaxWise Giving, 2012), http://www.taxwisegiving.com/practice/plangiv.html.

11 Roy Williams and Vic Preisser write, "Without a consensus on the long-term mission for the family wealth, the default focus for professionals resorted to that of wealth preservation, taxation minimization, and governance/control." By focusing on these activities not clearly related to the mission, the advisers typical fail to address the issues that cause planning to fail. See Roy Williams and Vic Preisser, *Preparing Heirs: Five Steps to a Successful Transition of Family Wealth and Values* (San Francisco: Robert Reed Publishers, 2010), 48.

12 See Jessica Hagy, "The Six Enemies of Greatness (and Happiness)," *Forbes*, Feb. 28, 2012, http://www.forbes.com/sites/jessicahagy/2012/02/28/the-six-enemies-of-greatness-andhappiness/

13 See Bronnie Ware, "The Top Five Regrets of the Dying: A Life Transformed by the Dearly Departing," *The Huffington Post,* July 2, 2012, http://www.huffingtonpost.com/bronnieware/ top-5-regrets-of-the-dyin_b_1220965.html. The most common deathbed regrets involve unfulfilled dreams. Laurie Beth Jones from Path Group Coaching indicates that 8 of 10 people wished that they had dreamed bigger. See www.lauriebethjones.com.

14 See Brian Tracy, *Goals!: How to Get Everything You Want—Faster Than You Ever Thought Possible,* 2nd Ed., (Williston, VT: Berrett-Koehler Publishers, 2010), 13. Tracy sites results of a longitudinal study that tracked 1979 Harvard MBA program graduates. The students were asked when graduating whether they had, "set clear, written goals for your future and made plans to accomplish them?" Only 3% of the graduates had written goals and plans. Ten years later, the 3% with written goals were earning, on average, ten times more than the other 97 percent put together. Other students with non-written goals also reported much greater success than those who had not recorded any goals. Pastor Rick Warren sites similar statistics in a sermon entitled "Making the Most of Your Time," delivered in Lake Forest California, at Saddleback Church on June 11-12, 2005. Warren's research shows that, "Only five percent of Americans have written down goals for their life. Only five percent. Ninety-five percent of the people in America have no written goals for their life. It's interesting. They've studied that five percent who have written goals. They are the same five percent that are the highest wage earners in the nation."

15 Henry David Thoreau, *Walden:A Fully Annotated Edition.* (New Haven: Yale University Press, 2004), p. 49

16 See Richard C. Wilson, *The Family Office Book.* (New York: Wiley, 2012). This book includes a section authored by Tim Voorhees on the importance of clarifying and articulating the vision that unites family leaders and their advisers.

17 Dr. Myles Munroe remarks, "I have observed firsthand the truth of this statement, paraphrased from John Stuart Mill: One person with vision is greater than the passive force of ninety-nine people who are merely interested in doing or becoming something." Myles Munroe, *The Principles and Power of Vision,* (New Kensington, PA: Whitaker House, 2003), 31.

18 These quotes are primarily from Leonardo da Vinci, *The Notebooks of Leonardo da Vinci,* trans. Jean Paul Richter (1888, notebook X), http://en.wikiquote.org/wiki/Leonardo_da_Vinci.

19 See Dave Holaday, "Better Results through Better Collaboration," *The Journal of Practical Estate Planning,* April-May 2010. This article explains why collaboration among advisers often fails and then suggests ways that advisers can maintain harmonious goals, management protocols, workflow steps, and outcomes. It suggests ways that advisers can maintain alignment and communication throughout a client-focused planning process. Ideas in this article by Dave Holaday are operationalized on practical basis using the project management methodology explained at http://RolesGoals.info.

20 Email info@vfos.com for a copy of "Implementing More Plans with Consistent Roles, Goals, Controls, Workflows, and Cash Flows" by Tim Voorhees.

21 Email info@vfos.com for a copy of, "Practical Tips for Designing and Drafting Irrevocable Trusts" by Tim Voorhees. This February 2011 article from *Estate Planning Magazine* is a sequel to a related Estate Planning article in September 2007 on the "Best Zero Tax Planning Tools." The article equips advisers with essential information for drafting, implementing, and funding irrevocable trusts. It suggests how most or all of America's 6+ million millionaires should need irrevocable trusts.

22 See "Fiduciary," *Wikipedia*, http://en.wikipedia.org/wiki/Fiduciary

23 The age of widowhood is on page 11 of http://www.census.gov/prod/2002pubs/p70- 80.pdf. The 14-year average widowhood statistic is from the 1999 Census, as quoted at http://www.widowsbridge.com/stats.asp.

24 Nikila Srinivasan, *Silver Linings,* (Mumbai,The Bombay Saint Paul Society, 2007), 112

25 Andrew Carnegie, *The Gospel of Wealth, and Other Timely Essays,* (New York: Century, 1901)

26 See "IRD Asset," *Wikipedia*, http://en.wikipedia.org/wiki/IRD_asset. IRD assets include:

- Uncollected salaries, wages, bonuses, commissions, vacation pay, and sick pay.
- Certain deferred compensation and stock option plans.
- Qualified pension plans, profit sharing plans, SEP, Keogh, and IRA except nondeductible contributions.
- Accounts receivable of a cash basis sole proprietor.
- Interest and dividends accrued but unpaid at death of cash basis decedent.
- Rents and royalties accrued before death of cash basis taxpayer.
- Gain from the sale of property if the sale is deemed to occur before death, but proceeds are not collected until after death.
- Difference between the face amount and the decedent's basis in an installment sales obligation.
- Interest accrued through the date of death on Series EE bonds, unless (1) decedent elected to report interest annually, or (2) the interest was reported on the decedent's final Form 1040.
- Annuity payments in excess of decedent's investment in the contract.

27 The fair market value of income In Respect of Decedent (IRD) is included on the income tax returns of beneficiaries under IRC section 691. Double taxation can result from inclusion of IRD income on both the estate tax return and the income tax return of the recipient. Tax laws provide for relief under IRC section 691(c). A deduction is allowed to the beneficiary when IRD causes an increase in the estate tax of the decedent.

28 It is increasingly common to have a tax and fiduciary lawyer work with an investment manager to create the investment policy statements (IPSs) that guide funding of trusts designed and drafted by the attorney. Whereas the traditional investment adviser can develop the IPSs to track or out-perform the market, thereby adding "investment alpha," the tax attorney can often help the client add tax alpha. Clients increasingly recognize the need to enhance returns by adding tax alpha, e.g., minimizing taxes on investment returns. Many clients realize that they spend 4 to 6 months each year working for the government when they add up all of the estate, gift, GST, income, IRD, capital gains, AMT, property, and other taxes that they pay. Moreover, clients are often alarmed to see how taxes erode the value of investment portfolios. For example, as shown on the following chart, $1 invested in the market for 85 years grows tax efficiently to $2,658 unless the growth is reduced by taxes, in which case the $1 grows to only $460. A client who fails to develop a tax-wise portfolio ends up with only 17% of the capital accumulated by the client with a tax-efficient asset-management

solution. Clients interested in reducing taxes will typically contact a tax law firm. The tax lawyers will structure trusts to minimize a wide variety of taxes. When funding these trusts, lawyers need to comply with the

Year	1926	1936	1946	1956	1966	1976	1986	1996	2010
S&P 500	$1	$2	$4	$20	$48	$91	$331	$1,371	$2,658
After Taxes	$1	$2	$3	$12	$23	$37	$103	$292	$460

Uniform Prudent Investor Act and other fiduciary rules when urging clients to create an investment policy statement (IPS). The IPS may recommend a combination of securities and insurance to accumulate and distribute assets most tax efficiently.

29 Max Skjönsberg sites an SEI study documenting how only about 25% of affluent individuals believe their financial adviser has a complete understanding of their business, financial and personal goals. See Max Skjönsberg, "Most Advisors Lacking The Full Picture on Clients' Goals," *Wealth Briefing,* Jan. 6, 2012, http://www.wealthbriefing.com/html/article.php?id=43443. Experience teaches that only a small percent of this 25% would say that their advisory team members have agreed to follow ranked and quantified goals.

30 You may also email info@vfos.com for more information about the benefits of a Blueprint.

31 See http://www.24-7-wealthdashboard.com. This website illustrates how clients can monitor plan implementation success online.

32 The illustrations in Chapter 7 assume taxes based on a $1 million lifetime exemption and 55% tax rate. At the time of publication, this rate is scheduled to be in effect after 12/31/2012. If rates change, please email info@vfos.com to request an addendum to this book with updated numbers.

33 Alpha refers to generating returns above market returns. Half of all managers underperform the market before taxes and fees. After taxes and fees, the vast majority of managers do not add value to the management process. To overcome these problems with traditional investment planning, it is wise to integrate estate and investment

planning in a way that minimizes taxes. The brochure at www.T-E-A-M-Solution.com shows how clients can access integrated planning to generate tax alpha.

34 Laurence J. Peter, *Peter's Quotations: Ideas for Our Times,* (New York: Morrow, 1977), 46.

35 For more information about using wealth to find fulfillment during the second half of life, see Lloyd Reeb, *From Success to Significance: When the Pursuit of Success Isn't Enough,* (Grandville, MI: Zondervan, 2004). This book builds upon themes first developed by Bob Buford in Halftime (Grandville, MI: Zondervan, 2000).

36 Roy Williams and Vic Preisser observe that 85% of estate plans fail because of the failure to instill values in the next generation. They observe, "Of every 1,000 estates that were studied through transition, 700 failed. Of the 700 that failed, 420 (60%) failed due to a breakdown of trust and communication within the family. A consequential failure to prepare the heirs for responsibility caused another 175 failures." See Roy Williams and Vic Preisser, *Preparing Heirs: Five Steps to a Successful Transition of Family Wealth and Values* (San Francisco: Robert Reed Publishers, 2010), 49

37 See relevant statutes for each state under http://www.oshins.com/dynastytruststates.html

38 The $22 million net worth used in this example may seem high or low to you. $22 million is a surprisingly common net worth if one considers the value of a client's business and real estate holdings. E-mail info@vfos.com for examples of tax reduction plans for clients that have lower or higher net worth.

39 Email info@vfos.com for a copy of, "The Best Zero Tax Planning Tools Help Clients Achieve Their Goals" from *Estate Planning Magazine,* September 2007. Chapters 4 and 6 of this book incorporate ideas first published by Tim Voorhees in Estate Planning Magazine.

40 Ralph Waldo Emerson, "Power from the Conduct of Life," In *The Works of Ralph Waldo Emerson, Volume 3* (New York: Hearst's International Library, 1914), 49.

41 Saint Augustine wrote extensively on the ranking of priorities and

principles in his works on axiology. The Augustinian system of "graded absolutism" continues to inspire philosophers today as they define systems for making decisions in light of the most important principles. See, e.g., Norman L. Geisler, *Christian Ethics: Contemporary Issues and Options* (Ann Arbor, MI: Baker Books, 1989).

42 Multi-Family Offices (MFOs) are taking the place of Single Family Offices (SFOs) because of new Dodd Frank regulations. Professional firms capitalize on this new opportunity by licensing marketing, case planning, training, and other resources to open MFO departments. Such departments help advisers attract and serve affluent clients much more effectively. See Tim Voorhees, "New SFO Regulations Create Opportunities with the Affluent," *Insurance News Net Magazine,* January 2011.

43 Mark Hurley, "The Future of the Financial Advisory Business and the Delivery of Advice to the Semi-Affluent Investor," *J.P.Morgan,* Sept. 1999, September, 1999, www.undiscoveredmanagers.com, 36.

44 Email info@vfos.com to receive a large 42" wide poster listing 200+ services offered most often by advisory teams/family offices.