

## Right strategies can help lower taxes

As wealth managers we know many very high-end professionals such as CPAs, M&As and attorneys. In this article we will share some strategies that can be utilized by the ultra wealthy to lower overall tax rates.

According to the Internal Revenue Service 31,382 federal tax returns with incomes exceeding \$1 million were audited in 2007 compared to 17,015 in 2006. The number for tax returns audited with incomes exceeding \$200,000 were 113,105 in 2007 and 87,558 in 2006. This is precisely why we recommend our clients hire the best CPA they can afford.

During a recent lunch meeting one of our resources shared the fact that ultra wealthy families are averaging 13 percent as a combined state and federal income tax rate.



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**BUILDING WEALTH**

identified."

So how are Buffett and his fellow billionaires keeping their tax rates so low and how can you lower your over all taxes?

Additionally, we read a recent interview from October 2007 where Warren Buffett told Tom Brokaw that he paid 17.7 percent taxes on his income of \$66 million. Buffet said he would bet \$1 million that any Forbes 400 member's federal tax rate is less than the average rate of their receptionists. "So far only three close friends, all 400 members, have made the calculation for me," he told Forbes. "They all came up with results similar to mine but have no interest in being



We'll start by sharing some quotes from Buffett and his fellow Forbes 400 members, then we'll share with you some actual potential solutions.

Buffett, worth over \$50 billion, says he mainly receives dividends and capital gains, which are taxed at 15 percent, this explains his overall low rate. Furthermore, Buffett claims that he doesn't have an accountant and that he doesn't do any tax planning. We guess that Buffett may be unique in this regard and even though he isn't worried about payroll and income taxes, it is clear that he is making plans to give most of his wealth to charity. He is probably doing this for two main reasons: (1) he is aware of the devastating estate taxes (2) he believes that vast wealth would rob his loved ones from life's experiences.

Mark Cuban, worth \$2.6 billion, responded to Buffett's comments by saying, "I agree with him. I put a lot of money in tax-free instruments. So, yes, I do pay less as a percentage of income than those that work for me, and I have no problem admitting it. Conceptually, I have zero problem with paying more taxes."

John Catsimatidis, worth about \$2.1 billion, was quoted saying, "The numbers can fool you. ... I own real estate, stocks and bonds, and so I have depreciation and write-offs. But I do pay a lot in taxes."

Now we'll go over some strategies for tax reduction. For more information you can download "Four Factors the Affluent Must Know to Avoid Financial Disaster and Secure Their Dreams" through our Web site.

Cary Collins, a CPA who handles ultra-high-net-worth clients, said his goal is to make his clients' circumstances fit the tax code. Cary makes clients aware that tax planning isn't about coming in in February of each year to crunch out a tax return. Cary's view is that the cascade of importance is usually minimization of the estate/gift tax, followed by income taxes and then property or transfer taxes related to the step up in value because of gifts or sales.

We asked Cary who the best candidates for this type of high-end planning are. His answer was families with estates worth \$50 million-plus and incomes exceeding \$1 million. Another critical factor is the client's willingness for

dialog and to make changes. Cary once spent five hours with one of his clients, on the client's private jet, discussing the client's needs and tax strategies.

High-end tax planning is an all-year affair and is completely customized based on each client's situation. Cary uses his expert knowledge of the tax code and the beneficial treatment it provides to certain tax entities to help deliver high-end tax planning.

Cary does admit that most clients don't like complexity or change, but both are needed in his work.

One of the great tax strategies you can utilize is a family foundation (for more about foundations visit the articles tab on our Web site and look for "What you should know about family wealth"). Foundations are a great way to take massive deductions yet retain your valuables. If, for example, you have an antique car collection worth \$25 million, you may consider gifting them to your own foundation/museum where the cars are held. This would allow you to remove the \$25 million out of your estate to avoid estate taxes as well as receive a substantial tax deduction, probably around \$12 million.

Another strategy the ultra wealthy are utilizing is family investment vehicles where \$100 million of liquid family wealth - from LLCs and trusts, etc. - can be consolidated and invested based on each family member's wishes. In one scenario we know of (with \$100 million-plus), the six grandchildren have irrevocable trusts with \$1 million each. Yet due to the consolidation of wealth, their money can be invested with money managers whose minimums are \$5 million. Advantages to such families include receiving a consolidated balance sheet as well as a P&L.

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