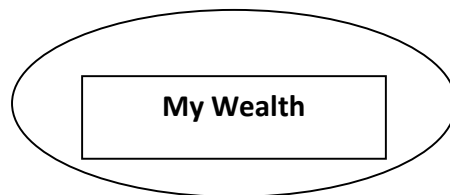


## Your Foundation Can Enhance Lives and Reduce Tax! by Dr Robb Musgrave

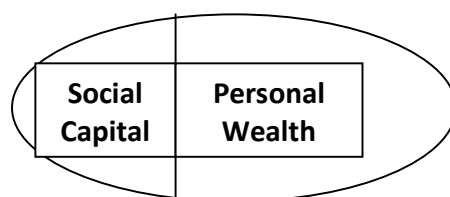
*Redirecting your tax dollars can help others, be incredibly rewarding and do wonders for your family.*

Most people who have a reasonable amount of money or assets in addition to a home think they understand their wealth, but many do not. People often think of their wealth in total and perceive it like this:



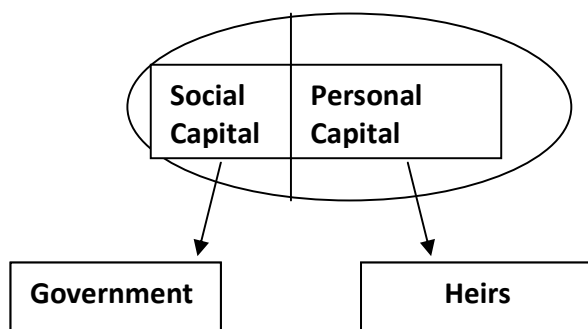
Wealth could include investment real estate, a portfolio of shares or managed funds, businesses, and collectibles. Do you consider that you own and control your wealth alone? Hopefully, my question has led you to suspect that the reality is somewhat different – wealth and personal wealth are different things. Your *personal* wealth is that portion of your wealth over which you have complete control and ownership. You may sell it, consume it or pass it on to your heirs. You may do with it as you wish.

A component of your wealth does not belong to you. This part of your wealth is destined to become a part of Australia's social capital and is used to provide benefits for the welfare of the country; it is levied by taxing profits on the sale of your assets (capital gains tax) as well as on other forms of income. The diagram below represents how you should correctly perceive your wealth:



The idea that the government has a hold (or "lien") on your wealth is generally not well understood. The government is waiting for you to sell your assets or arrange a dispersal event so that it can get its share of your wealth. Just how much is calculated according to your total wealth position. The sum total of this social capital can be substantial, considering the amount of wealth Australians have accumulated from earnings, investments and inheritances over their lifetime.

In fact, the government is so good at collecting its share of wealth that it can even afford “not for profit” collection offices in every state capital as well as major population centres.



While you’re around, you may prefer to think of your wealth as being all yours (as in the first diagram), but you would be mistaken. Once you die, everyone who survives you – your children, your attorney, your accountant, your executor and the government – will think of your wealth as being in two categories (as in the above diagram). It serves no one’s best interest to deny this fact. So let’s consider the two great misconceptions that lead many families to make less than optimal decisions concerning their wealth. Without doubt, well considered and well informed planning can significantly improve the results for you and your family.

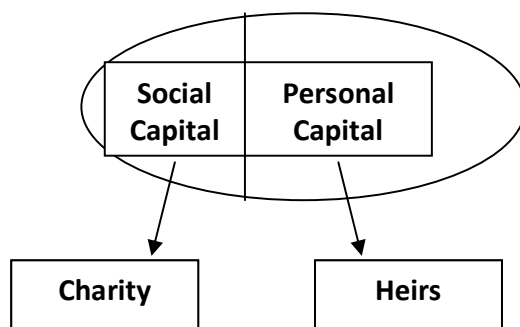
**The first misconception: all my social capital must go to pay tax**

Benjamin Franklin, the famous American inventor/philosopher said, “There are only two things inevitable in life; death and taxes”. Many of us hold this saying to be true. Because of this profound realisation, Franklin went on to structure his estate to severely limit the amount he paid in taxes. How did he do this? He set up a personal foundation to benefit young printing apprentices (he was a printer by trade) by gifting money to charities through his estate.

**The second misconception: anything I give to charity will reduce my children’s inheritance**

If charity competes with your heirs then charity will usually lose. However, when charity competes with the government for your tax dollars, then charity normally wins. If charities and wealthy families understood the extent of ATO approved tax deductions for charitable donations and bequests, there would be a tsunami of wealth flowing to worthwhile charitable organisations. Unfortunately, this is not yet the case.

If we were to ask, “Who is more likely to deliver effective charitable results from the dispersement of your tax dollars: you, your family or the government?” The answer is almost always, “Me and my family”. So now we have a new model:



During initial discussions with a wealthy person, I often hear, “I am not charitably inclined.” My response is always the same, “You say you’re not charitably inclined, but your current plan shows you to be very charitable.” What might surprise us all is just how philanthropic we really are!

Everyone with wealth is philanthropic in one way or another. The important thing is you can choose for any charitable organisation with Deductible Gift Recipient status to be the beneficiary of your social capital. How do you want to be remembered after you’re gone, as a taxpayer or as a philanthropist who voluntarily gave it away? The choice is yours.

When families choose to self-direct their social capital to their chosen charities rather than the ATO, there is often a significant result. The parents can end up with an increase in their spending income for a considerable period. They make a profit by giving it away. This increase in the parent’s income may translate into a larger inheritance for the heirs.

I have come to realise that although lawyers and accountants know and understand these methods, but if the question of philanthropy is not raised these concepts and benefits can be overlooked.