Inspired Life Centers

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From Success to Significance

Social Dollars and Taxes

The measure of a truly significant individual can easily be determined by how responsible that individual is in the spending of his “social dollars”, those dollars that are shared with others, typically through taxes or charity.

To a few, it is nothing more important than simply paying his “fair share” of various income, capital gain, gift and estate taxes. Even then it is not all that unusual to find a very wealthy individual attempting to avoid or even evade taxes with all manner of sordid shelters, schemes and shams, hardly the working of a truly significant individual. But rather, nothing more than that of a selfish, boorish rich person.

Fortunately, what is much more common is the inner feeling that there is a social responsibility to share the blessings of abundance with those less fortunate or gifted. We clearly see this in so many wonderful examples of successful people who have found the joy and peace that comes from a life of philanthropy. The truly significant individual.

Taxes, As Required Redistribution of Wealth

It is not really a matter of whether or not a wealthy individual will or will not be spending his “social dollars”. The progressive nature of income and estate taxes obviously look to the more wealthy individuals among us to provide a much greater percentage of his resources to share with others. The redistribution of wealth is a major concern of most clear thinking wealthy individuals. Actually it is not really a matter of the redistribution as much as it is the attitude of just taking wealth from one and giving it to another, especially in a democracy were votes can be bought with nothing more than promises of entitlements that are paid for from tax dollars, without any real control or say in how the redistribution of wealth will be accomplished by the wealthy tax payer.

Incentives to be Charitable

At the same time, Congress has clearly put forward incentives for wealthy individuals to easily reduce income and capital gain taxes by 50% by just making tax deductible charitable contributions to public charities. (Income and capital gain taxes can be reduced by 30% by making tax deductible charitable contributions to private foundations.) The unified transfer tax (formerly the gift and estate tax) can be completely eliminated, either in life or in death by making charitable contributions to charity.

Of course many wealthy individuals take advantage of this opportunity by liberally making charitable contributions to public charities and private foundations. It is very similar to congress telling wealthy individuals that if they will take responsibility for the management of their own "social dollars", congress will pitch in a dollar for every dollar that the wealthy individual contributes to a public charity, or almost one dollar for every two dollars that a wealthy individual contributes to a private foundation.

When you think about it, it is really a quite a major incentive for wealthy individuals to actually become more philanthropic. Does anyone really think that Bill Gates does not understand the economic incentive to being philanthropic? Sure he understands, as do most wealthy individuals.

Two Simple Choices

So the question for the wealthy individual really becomes if they are going to just sit there and be abused by extremely aggressive progressive tax structures and have absolutely no control over their social dollars, or are they going to take advantage of the opportunity to have a much greater control over the use of their social dollars and at the same time have the government match them dollar for dollar for public charities and a dollar for each two dollars for private foundations. These are really the only two choices.

Economic Realities

As a side bar, it really needs to be pointed out that the economic realities for the truly wealthy are substantially different than the rest of us. Consider the client who expressed that it really did not matter what the cost of gas was ($1.00 per gallon to $3.00 per gallon), the number of miles he would drive or not drive each year or the type of vehicle he would be driving. At the end of the year - as a percentage of his annual income or as a percentage of his net worth, it really did not matter at all, the percentages would be virtually the same from year to year. His cost of gas had never equaled even 1/10 of 1% of his annual income. He simply did not worry about the cost of gas, nor did he keep mileage or gas records.

As a matter of taxes, wealthy individuals can easily afford the best and the brightest to find all the loop holes, tax dodges, shelters, deferred capital gains, or any of the thousands of ways to beat the tax man, and many do. It is almost the gamesmanship of it all for some. Unfortunately it is easy to lump making charitable contributions into the game of just beating the tax man. This is not the measure of a truly significant individual. There needs to be a heart and soul associated to the giving of resources for charitable causes for the successful individual to truly be significant. It cannot possibly be about just beating the tax game.

The Purpose of This Paper

The interest here is in helping that successful wealthy individual who genuinely desires to be a significant force, by taking as much control over the management and use of his social dollars as possible. Of course taxes are going to be part of the discussion, but hardly the reason for the discussion. It is all about social responsibility and the opportunity to really make a stunning difference with clear and prudent management of the social dollars. Consider the importance of the Howard Hughes Medical Institute (www.hhmi.org) with respect to so many life-changing medical discoveries over the years. True legacy and sharing with all mankind is what it is all about.

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Using some very serious numbers to clearly make the point that no matter how it is sliced, wealthy individuals are always thinking about how their social dollars will be spent. It is not a reach to realize that even an average billionaire would easily have an annual income of well over $100 million.

The Worst Case Scenarios

The absolute worst case scenario would be direct income in a high tax state, such as California where the wealthy individual were to take the weird position of just paying the tax and "being done with it", whatever that means. Of the $100 million direct income, in California the resulting social dollars would be right at $45 million. That would be $45 million that will be spent on everything from funding a very unpopular war, paying for single mothers in the poorest communities to have more babies, and we cannot overlook the completely inefficient bloated bureaucracy that has the privilege of administering the redistribution of $45 million of wealth, rather mindlessly. Beyond living in the greatest country on the planet, there is no real pride in the oversight of the social dollars. No one could suggest that there was any value in the rather wasted $45 million. Pretty much a complete shame. This has to be a most unfortunate example of how not to spend $45 million social dollars. And it becomes the benchmark that must be bettered.

Pulling a close second, in at least attitude, would be the same worst case scenario of $100 million of capital gain. In recent memory the long term capital gain rate has been lower than the direct income rate. But still in California, the combined state and federal tax liability would be right at $25 million. Clearly a significant redistribution of wealth with virtually the same disappointing ultimate use of the $25 million social dollars.

Contribution to a Private Foundation

The deductibility of a charitable contribution to a private foundation is limited to just 30% of the adjusted gross income. Thus the tax payer could reduce his income from $100 million to $70 million by giving $30 million to a private foundation. The resulting tax liability in California would be $31.5 million. In this scenario $61.5 million social dollars are redistributed, with the tax payer having some say as to what private foundation received the $30 million, the $31.5 million was again a complete waste of social responsibility. And yet this is actually a remarkable improvement over simply paying the tax. There is an almost $15 million tax savings and $15 million more going to some form of social spending ($61.5 million compared to $45 million in the worst case scenario). Obviously the $30 million given to a private foundation is a good thing.

Contribution to a Public Charity

Similarly, the deductibility of a charitable contribution to a public charity is limited to 50% of the adjusted gross income. With a direct income of $100 million, $50 million could be given to a public charity. The California state and federal tax would be approximately 45% of just $50 million, or $22.5 million, exactly one half of the worst case scenario. Any tax payer can always reduce his income tax by one half by just taking advantage of the charitable contribution deduction to a public charity. The social dollars have increased from $45 million to $72.5 million with less than one third ($22.5 million) being abusively spent by mindless bureaucrats. A lot of truly significant things can be accomplished with the $50 million.

Public Charities are Always Better than Private Foundations

It is obvious from just the number crunching alone that a public charity is much better than a private foundation. Normally the discussion would simply end right here. However, the premise for “from success to significance” as the measure of a truly significant individual can easily be determined by how responsible that individual is in the spending of his “social dollars”. What if the true intent of the wealthy individual was to sincerely maximize the spending of as many of his social dollars as possible? What then?

He could make charitable contributions of virtually all of his income to charity. Of course he could only deduct 30% of his adjusted gross income for contributions to private foundations and 50% to public charities. There would always be that nagging tax liability, even if as small as just one half of what it could have been. If the tax payer were to donate the entire $100 million to a public charity, there would still be the $22.5 million in tax liability. It could get a bit awkward.

Income Shifting

Rather than a charitable contribution of cash to offset or “shelter” income or capital gain, a better solution would be to make the charitable contribution of the income producing asset itself. This income shifting concept is actually quite common, especially with appreciated assets. It is a direct result of the number crunching that results from the limitation of the deductibility of the charitable contribution with respect to the adjusted gross income. If there were no limitations on the deductibility of the charitable contribution, wealthy individuals would just sell their assets and make after-sale charitable contributions.

There are rules as to what can be shifted to a charity, either private foundation or a public charity. Generally speaking, passive income can be shifted to a charity, direct income cannot be shifted. This income shifting strategy is a very powerful tool used extensively by the largest and most successful public charities.

Common sense suggests a billionaire earning $100 million a year would receive the vast majority, if not all, of the income from passive investment sources. Thus all of the income generating assets could be contributed to a charity. The deductibility of these contributions would be called into question with the prospect that the limitations, either 30% or 50%, would prohibit the deductibility of the entire contribution. This need not be a concern as the objective is not to just generate charitable contribution deductions but rather to be much more responsible in the spending of social dollars long-term. The result of this strategy would be striking.

The Perfect World Scenario

Consider again the billionaire with the $100 million income. This time the billionaire wants to be as effective with all of his social dollars as possible and avoid as much as possible the wasted redistribution of wealth that is classically accomplished by paying taxes. This billionaire knows for sure that he can be much better at focusing where his social dollars will be spent than the tax man will ever be.

His chosen strategy is to set up his own charity and give the income producing asset base to that charity, it does not matter if it is a private foundation or a public charity. There is no way that he will ever realize the tax benefit of the charitable contribution deduction as his current and future income will be minimized to practically nothing. The charitable contribution deduction is of no concern in this strategy as there will be no income to offset in future years anyway.

After the charitable contribution has been accomplished, the asset base continues to generate the $100 million a year in income. Now that it is owned by the charity there are no taxes on the income. (There is a 2% tax on passive investment income earned by a private foundation. This tax is to administer the policing of the compliance issues attached to a private foundation.) More important, the former billionaire now has little or no income. Structured and managed correctly the total income tax, both state and federal, would never be as much as $1 million, more than likely just a few thousand dollars.

The billionaire now has almost 100% control over the use of his social dollars. Seriously, the earnings from a billion dollars and no taxes. In this perfect world, 100% of the $100 million income would be available for purely charitable purposes with no tax liability.

When The World Changed – Forever

If this is all there is to it, why wouldn't billionaires simply structure their estates into a charity to completely eliminate all taxes and take total control of their social dollars? Simply, the Tax Reform Act of 1969 introduced the concept of a two-tiered charity structure with a much inferior private foundation that replaced the philanthropic foundations of the early years of charity. Prior to 1969 all charities were public charities and were subject to the same accountability rules and regulations.

Attorneys and accountants are quick to point out the host of onerous compliance issues brought forward in Sub Title D, Chapter 42, Sections 4940 through 4948 of the Internal Revenue Code, introduced in 1969. A private foundation is not the solution to any logical quest to be in greater control over the management and spending of social dollars.

Obviously it has become so complicated to the point where most attorneys really don't begin to understand how tax-exempt laws, rules and regulations actually work. They just do not understand what the playing field looks like in the world of tax exempt organizations. Sure, almost everyone knows what a 501(c)(3) organization is, or at least they think they know. But they don't understand the difference between accountability and compliance. What charities are required to file a 990, a 990PF, a 990T or not file any tax returns at all? Yes, the universe of tax-exempt organizations is complicated.

A Private Charity That Is Not a Private Foundation

The real important question for the billionaire who understands the difference between being just successful and a truly significant life of complete control of his social dollars would be if it is now possible to somehow emulate the early philanthropic foundations. (Not to be confused with the much inferior private foundations, introduced in 1969). Yes, it is possible to very closely replicate the early philanthropic foundations of yesterday, and it is actually much easier than one might imagine.

What is the real benefit to the billionaire with an income of $100 million per year? Complete control of his wealth, including every social dollar. It is a given that social dollars will be spent. Just how, why, when, where and how much is now in the hands of the wealthy individual. Operating in the world of charity is much different than operating in the world of taxes. The most beneficial attribute is that a billionaire can easily have control over every social dollar spent.

Nine Out of Ten People Are Lost

At this point nine out of ten people are mostly lost because they are reflecting on what they know about charity and they have no idea what they don't know about charity. The terminology has gotten too precise, the number crunching with all of the percentages and variables has become tedious. Or, they think they have the perfect charity structure already in place and don't need any constructive evaluation of what they are doing. It becomes easy to be dismissive.

When comparisons of different strategies with respect to various tax laws and the different charity structures is the focused landscape, the much more important opportunities are missed entirely. It is easy to get bogged down in the number crunching and different terminology. The data assault becomes brain numbing. Then the legal mind takes over with realizations that there are laws that prevent things from happening, in short this cannot be true.

Unfortunately this is the battlefield of attempting to show someone the purely economic advantages to being involved with us. It is not at all what we are about and we are just as uncomfortable in this discussion as the one attempting to understand what is in this for them.

A Few of The Building Block Concepts

We can agree on some simple concepts that will serve as building blocks in the construction of a well thought out strategy for taking control of the spending of every social dollar.

- **Charity always trumps taxes** — Whenever a charity gets up against taxes (income, capital gain, gift or estate taxes) the charity will always win, and completely defeat the taxes. In some instances there will even be additional incentives to stimulate more charitable behavior. This concept is true both in life and in death. The United States laws have always favored and rewarded being charitable.

- **Not all charities are created equal** — There is a vast difference between a non-operating private foundation and a church. There are hundreds of different types and structures of charities with very subtle differences. Knowing which one to use where is more important than just thinking that it is a 501(c)(3) organization. An individual truly seeking to take control of the management and spending of his social dollars would be well served to consult with us as to how to best accomplish his goals and dreams. We have the correct tools and capabilities to provide a substantial value-added to the accomplishment of wisely managing and spending social dollars.

- **There is a synergistic effect in combining different charities** — Going it alone in the world of charity is foolish and not at all effective. There is no mystery why Warren E. Buffett joined forces with Bill Gates to better focus his social dollars. The synergy of being part of a larger picture provides significant opportunities and minimizes tasking responsibilities. One of the most important concepts we work with is the blending of different charities into very focused programs and projects.

- **Legacy building is the true measure of significance** — How will you be remembered is really what it is all about. The successful person has little of real value. It is when the successful person becomes significant that the true legacy is determined. From success to significance is what we are all about. It is not about saving taxes, it is not even about having more money at the end of the day, week, month or year than you have right now. It is about what you did with what you had. Was yours a life of significance or just a life? How many years do you have left to focus on your legacy? Are you doing the most effective job possible at building your legacy? Do the people you have in your organization really understand the world of tax-exempt charities? How efficient is the management and spending of your social dollars in building your legacy?

- **Charities accomplish public responsibilities** — Generally speaking the reason charities are tax exempt is that they accomplish various services that the public sector would otherwise need to be responsible for. In the past decades the politicians have abused these social responsibilities by making economic promises to needy voters that could only be paid for from high taxes on the wealthy. Thus the politicians have compromised the freedom of a wealthy person to have control over the wise management and spending of his own social dollars.

- **Endowment investing is the sustaining capability of a charity** — The smart and successful major public charities accomplish their mission tasks from the earnings of endowment investing. This approach will assure the sustainability of the charity for decades without any infusion of new money from charitable contributions. We teach wealthy individuals how to structure investments to maximize the return on investment to their charity and not look to tax incentive investments. Investing from a tax exempt position is much different than looking for tax shelter investing or using techniques to defer taxes such as a 1031 exchange. There is a lot of power in investing a tax-exempt endowment fund contrasted to investing an estate fund.

- **The vast majority of private foundations must distribute 5%** — All non-operating private foundations are required to make grants of at least 5% of their asset base to other qualified charities, mostly fully recognized public charities. This is huge, with an economic resource in the billions for public charities. In 2005, the Gates foundation granted nearly $1.4 billion to public charities. In the coming years the Buffett/Gates foundation will need to grant between $4 to $5 billion a year to stay compliant with Chapter 42, Section 4940 of the Internal Revenue Code. The cumulative total granting requirement of all private foundations is incalculable. It is in the tens of billions of dollars each year. Most private foundations are nothing more than tax-exempt endowment investment funds that are required to distribute through grants 5% of their net worth each year to “real” public charities. The flow of billions of dollars is from private foundations to pubic charities; yes, there is a difference between private foundations and public charities. We provide the tools and capabilities for wealthy individuals to be able to fund their own charity work with grant funding from private foundations.

So What Is This Really All About

No, there is absolutely nothing mysterious about what we do, or how we do it, or why. Every tool, strategy or technique we work with is common in the world of tax-exempt organizations. We pay very little attention to what the IRS might think of our work, knowing full well that we are not just within proper guidelines but actually go the extra mile to precisely follow all of the laws, rules and regulations as they apply to tax-exempt charities. We are not tax protestors in any way, shape or form, but rather enjoy the IRS and have not taken up a single issue with them.

All of our services and capabilities could easily be accomplished with and through any number of other charities and consulting firms. We are more than happy to work with other groups of individuals and charities to become better at being charitable. If we can be at all helpful to anyone desiring to be better stewards of their social dollars, this is our first love.

Unfortunately, there are not a lot of people who have the same level of understanding and expertise when it comes to structuring and working with tax-exempt organizations on a broad scale. Most people simply know what they know, and have not a clue what they do not know. It is in the years and years of study and heartfelt desire to return to the days of the early philanthropic foundations that so motivates us.

The New Inspired Life Centers

As Inspired Life Centers enters the fourth decade, a new vision is unfolding. Rather than a self-centered hierarchical organized and managed charity, where the specific programs drive the content of the charity and fund raising follows, the revolutionary vision is a charitable environment where support and facilitation capabilities are available, individuals are encouraged to bring their charitable dreams to more comfortably and efficiently be accomplished. This open architecture with shared resources brings different charities together where they interact with one another providing synergistic opportunities.

Inspired Life Centers is a fully qualified faith-based public charity with a 30 year old IRS letter of determination classifying Inspired Life Centers as a "church", the highest level of charity that is possible. This puts Inspired Life Centers on the other end of the charity spectrum than a private foundation.

For the successful individual who is striving to enjoy the truly significant lifestyle we have much to offer. (Please note, we are not the least bit interested in dealing with selfish, boorish rich guys attempting to beat the IRS out of some tax dollars.) We can provide a very effective structure that is much more flexible and efficient than a private foundation. We provide support infrastructure and guidance in maximizing the management and distribution of social dollars that can truly make a difference. We provide the tools and strategies for creating a legacy that will endure for generations to come. Most important we provide satisfaction and contentment, knowing that social dollars are being wisely spent and achieving the greatest impact possible.

In Closing

If you have gotten this far in reading this, you should be rewarded in some way. Most stopped reading long ago when they realized we were not interested in just avoiding tax liability. Suggestions have been made as to what we do, and even why we do it. But not much has been said about how we do it. For those of you who stayed the course and are still with us, enjoy.

Once we have identified a social need or program that we feel is worth pursuing, typically the product of passion presented to us by a successful individual desiring to enjoy the significant lifestyle, we define a mission statement and set of objectives. We then, by resolution, bring into existence an integrated auxiliary of Inspired Life Centers as the structure that will be used.

This integrated auxiliary of Inspired Life Centers is a fairly autonomous stand-alone charity with minimal hard connections back to Inspired Life Centers. The integrated auxiliary can easily be used as a private charity that very closely emulates the early philanthropic foundations. What is important is that the integrated auxiliary shares the Inspired Life Centers tax identification number and letter of determination. Thus the integrated auxiliary is a faith based public charity with the classification of a church, rather than a non-operating private foundation.

The integrated auxiliary of a church is a class of organization that are related to a church or convention or association of churches, but are not such organizations themselves. In general, the IRS will treat an organization that meets the following three requirements as an integrated auxiliary of a church. The organization must:

- Be described both as an IRC section 501(c)(3) charitable organization and as a public charity under IRC section 509(a)(1), (2) or (3),

- be affiliated with a church or convention or association of churches, and

- receive financial support primarily from internal church sources as opposed to public or governmental sources.

The same rules that apply to a church apply to the integrated auxiliary of a church, with the exception of those rules that apply to the audit of a church.

It is from the platform of an integrated auxiliary that we provide a substantial value added contribution to the mission. The successful individual has an opportunity to accomplish the management and sharing of his personal social dollars with the same freedom as was once available with the early philanthropic foundations. Structured properly, the integrated auxiliary is essentially a “private” public charity that is governed by the exact same laws, rules and regulations as a church.

As part of the family of Inspired Life Centers integrated auxiliaries, this new member enjoys all of the support and infrastructure that is common to all of the other charities. This association with other like-minded charities that all play nicely together minimizes operating expenses and provides an array of collateral opportunities. It is a perfect environment for growing charities.

Our next counsel would be for the integrated auxiliary to design programs and projects that can be grant funded from private foundations. By taking advantage of receiving grants from private foundations we amplify the accomplishment of mission and minimize the erosion of capital within the integrated auxiliary. We know that private foundations are required to distribute an amount that equals 5% of their net worth, and we know that they accomplish this by making grants to public charities. The successful individual now has the opportunity of managing and being responsible for the spending of other people's social dollars. It is sort of like the opposite of paying taxes.

Of course the integrated auxiliary is encouraged to be investing the endowment. We provide structure and investment opportunities, many of them designed to accomplish the mission of other integrated auxiliaries, to give the integrated auxiliary sustainability over decades.

The most amazing part is that the successful individual can and should be the chairman of the board and chief operation officer. There is no need for a foundation manager. Board members are determined by the chairman of the board, which can be family members.

Yes, there are better ways of doing charity than the private foundation. The integrated auxiliary for one. Yes, there are other tools as well. If you are interested in the significant lifestyle of complete control over your social dollars, you probably should get in touch with us. We can help you.

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