

## Help &amp; Direction



### A Tale of Two Families and Financial Planning

Learn how knowledge and action can save millions of dollars in taxes. Equality under the law is one of the core principles of the American legal system. It's been a revered keystone of our body of laws and taxes for over 200 years. With that in mind, it may surprise you that there are two sets of federal estate tax laws.

There are those people who are ignorant or choose to take no action and there are those people who understand the laws and take advantage of the tax-saving opportunities provided by them. The steps a family chooses to use when transferring assets makes a tremendous difference in the size of their estate taxes.

Section 2001 of the United States Tax Code defines how federal estate taxes work. It mandates that estates which have assets in excess of \$650,000 will pay taxes on that excess at rates which begin at 37% and go as high as 55%. This is the set of laws which impacts those who either don't understand them or do nothing about them.

The alternative set of laws is defined in Section 664. This section provides a variety of opportunities that can protect estates of \$1 million, \$10 million, \$100 million or more from paying any federal taxes at all.

How these two sets of laws work - and the very different ways that they can impact wealthy families - is well-illustrated by the stories of Joseph Robbie and Jacqueline Kennedy Onassis.

#### Fumbling the ball

Joseph Robbie was a successful businessman, an attorney and an avid sports fan. He combined his good business sense and his love for sports in his ownership of the Miami Dolphins, one of the NFL's most successful teams. But in March, 1994, Financial Planning magazine reported, "the year's biggest loser in the National Football League is the Robbie Family, the former owner of the Miami Dolphins. Torn apart by family rift, general mismanagement and estate taxes reportedly in excess of \$45 million, the family was forced to sell the team, one of the most valuable franchises in professional sports, at a bargain-basement price."

Robbie's estate was somewhat less than \$100 million and almost 50% of it vanished in federal estate taxes. It compelled his family to sell the Dolphins at a fraction of its value. Strife and bitter resentments developed within the family because of the actions they had to take to pay the taxes. The real tragedy is that it all could have been avoided.

"If that \$45 million could have been paid with a life insurance check," concluded Financial Planning, "it would have certainly changed the financial complexion of the family's situation."

#### Smart and elegant planning

Four months later, the death of Jacqueline Kennedy Onassis also generated articles about her estate. But, in stark contrast to the Robbie Family's tale, the press told of Ms. Onassis' wise and careful planning.

Fortune Magazine reported, "...she left behind, to the rest of us, a model of smart estate planning. At a very basic level, the fact that she had a will may be the most important lesson of all. A surprising number of smart people don't make a will and that opens the door for the government to have a potential field day. On a more sophisticated level, the Onassis will makes smart use of estate planning vehicles like trusts to pass money on to heirs and charities while reducing the bite from estate taxes."

Fortunes summarized the terms of the Onassis will in a sidebar titled "What Jackie did...and why it was smart:"

1. Left gifts of cash to friends and specified that the estate taxes be paid out of the rest of her estate. That was smart because if the will does not direct the taxes be paid by the estate, the value of a gift could be cut in half by the taxes due.
2. Specified exactly who would inherit each of her real estate properties. That was smart because homes are laden with emotion and should be disposed of directly, not lumped into total assets.
3. Put the bulk of her estate into a charitable lead trust. The trust gives money to charities for 24 years, then the rest goes to her grandchildren. That was smart because a charitable lead trust is a good way to give money to heirs who don't need income immediately. The donation to charity reduced the estate taxes.
4. Gave her personal property and letters to her children and requested that they respect her wish for privacy. That was smart because when giving personal property, one should make their wishes known but give the beneficiaries some flexibility.

### Stark Contrast

While her estate exceeded \$200 million, less than 3% of it was reportedly lost to federal estate taxes. By contrast, the Robbies lost \$45 million from an estate which was half the size of Ms. Onassis.

Fortune concluded its Onassis estate article, "One nice thing about writing a will and thinking about your estate - it is a chance to leave a final word in black and white. You could see the thought beyond the legal verbiage and that's what a last will and testament should ultimately reflect. It's a rare look at how a good estate plan is done."

The Robbie articles conclude less happily. "Good planning can help contain and eliminate the damage estate taxes cause" notes Financial Planning. "The ways of minimizing the effect of estate taxes range from holding life insurance in an irrevocable trust to gifting out portions of the estate to creating charitable trusts. Clients should realize that the tax collector is waiting to make a big hit on an estate. In the case of the Robbie Family, being blindsided by estate taxes meant fumbling away the team."

These stories end so differently for one simple reason: Jackie Onassis decided to use the provisions of Section 664 to reduce her estate taxes to approximately 3%. Joseph Robbie chose to take no action at all. His inaction allowed Section 2001 to tear his estate and his family in two.

Two sets of laws. Two different stories. Which one will be in your family's future? It's your choice.

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