

## Great Grandfather Story

Here is an example of assuming you know the answer by applying correct math when trying to understand money and taxes. Sounds confusing so look at the example below.

In 1913 my great grandfather put \$20.00 into a trust for his future grandchildren. The trust was administrated by one of the oldest law firms in NJ. Their responsibly was to maintain the trust principal and oversee its growth. The growth rate was extraordinary and it did a full 20% for the next 84 years. At that rate, the account value would have grown to \$74,657,496.

Given the complexity in the tax laws and the difference in the tax rates over the years (it was a high as 90% in some years) an average rate of 45% was used. The law firm was not allowed to take their fee until the trust was terminated. The fee amounted to \$100,000 which included all the legal, accounting, and investment decisions. There were 4 great-grandchildren how much did each one receive?

### Quick Math:

**Total growth \$74,657,495 Less 45% taxes = about \$33,595,872** This leaves **\$40,961,623 Subtract the legal fee of \$100,000.** The balance is divided by (4 beneficiaries) = **\$10,240,405.**

Isn't family great! Although the math is correct, the beneficiaries got far less. In fact they only received **\$3,892**. Sounds impossible so let's look at the math when taxes are calculated. Each year as the money grew taxes were taken so after 84 years the account (less the taxes) grew to only **\$115,567**. Now subtract the **legal fee of \$100,000 = \$15,567**. Divided four ways so **\$3,892** went to each beneficiary. The biggest beneficiaries of this legacy was the IRS and the lawyers.

The key to understanding is learning how the corrosive effect of taxes can cause legacies to be destroyed - forever lost to taxes and other costs. This story illustrates how many families unknowingly miss the boat and disinherit their family. Math and money are different. The next chapter will reveal some great ideas, at least 15, that disinherit the IRS and the lawyers by getting the bulk of your money to the family.