TOMMY WILLIAMS
FINANCIAL FUNDAMENTALS

Shale income things to consider

The biggest topic dominating financial talk in our area is the impact of gas reserves in the Haynesville Shale, and that a lot of people are receiving very large checks. Millions of dollars of lease bonus payments, which are treated as ordinary income for income tax purposes, are flowing into people's pockets.

This means that a $1 million check will produce approximately $410,000 in taxes to be paid to the federal and state governments. That is 35 percent to the IRS and 6 percent to the state. Depending on the future political debate of estate taxes, your family may have even more to pay later. Hopefully, royalty checks will dwarf these lease bonus payments in the future — but you do not know that yet. Right now, you know you only get to keep 59 percent of the lease bonus payment. That's right; you get to keep $590,000.

It doesn't have to be that way. Here is an idea you should consider. Complete your negotiation and arrive at an agreed price with the oil and gas company. But before they write you a check, ask them to give you a little time to put together your family's charitable remainder trust (You must have an attorney experienced with trust documents to handle this). Then have your attorney re-register the "Executive Rights" to your minerals to the name of your trust. Now, you are in a position to negotiate as a trustee. Your tax-exempt Charitable Remainder Trust does not have to pay the 41 percent in taxes in a lump sum up front. A professional engineer can provide a "valuation" of your charitable gift (It may include future lease bonus payments as your lease expires and you re-lease.), so that you can determine how much of a tax deduction you will receive for your generosity.

Now, you are in a position to receive income on the entire $1 million rather than $590,000. That is a lot of extra income for the rest of your life. It is so much additional income that you might take a small portion of it and purchase a survivorship (or 2nd to die) life insurance policy. This policy can provide a tax-free lump sum for the children upon the passing of the parents — free of income and estate taxes if properly structured.

Upon your death, the remaining assets in the trust go to your favorite charity, the tax-free insurance goes to the kids, and you have received a significantly higher level of income for the rest of your life.

Who loses in this deal? That is right, the IRS and the state. Who wins? You, your family and your favorite nonprofit organization all win.

In the limited space of this article I have significantly over simplified this concept. So please, do not try this at home! There are a multitude of variables — your age, your health, your long-term financial objectives, the size of your bonus check, legal and accounting fees, investment management of assets in the trust, etc. — which must be considered. However, if I thought I could save 41 percent of a large sum of money and provide these benefits — I would want to know more about it. Ask a Certified Financial Planner with experience using Charitable Trusts before you sign a lease or agree to receive payment of any kind. It may well be the most important financial consultation you ever sat in on! ■

Tommy Williams is a certified financial planner, practitioner. He is a member of the Ark-La-Tex Chapter Financial Planning Association, a source for professional guidance, whose members contribute to this column weekly. If you have questions or topics you would like to see addressed in this space, send inquiries to Financial Fundamentals c/o The Times, Money/Business, P. O. Box 30222, Shreveport LA 71130-0222 or e-mail shreveportmoney@gannett.com.

The Time – July 28, 2008