



### ***The More Things Change...***

This summer's debt-ceiling debate led to creation of a 12-member "Supercommittee," charged with finding \$1.2 trillion in deficit cuts over the next decade. And wouldn't you know, the committee's progress seems to be sticking over *taxes* instead of spending. Both sides have said they're willing to close loopholes that benefit particular groups of taxpayers. But Democrats generally want to use new revenue to close the deficit, while Republicans generally want to use it to lower overall rates.

This debate over tax loopholes is hardly new. Way back in 1937, Treasury Secretary Henry Morgenthau drafted an 11-page memo for President Franklin Roosevelt revealing some of the perfectly legal "devices which have caused our revenues to be less than they should have been, and some of the taxpayers employing them." And Morgenthau didn't just reveal *how* his era's bold-face names used proactive planning to avoid taxes. He revealed *who*, naming names in a way that would delight today's Wikileaks fans! Here are a few cases Morgenthau thought had been taken to an inappropriate extreme:

- **Creation of multiple trusts.** Mr. Louis Blaustein of Baltimore established 64 different trusts for his wife and three children, saving them \$485,257. Merrill Lynch founders Charles Merrill and Edwin Lynch had 40 trust funds and 23 personal holding companies. "They operate a great many numbered brokerage accounts and only at the end of the year identify for whose benefit the account has been operated. In this way innumerable transactions are carried on between the different corporations and trusts which have no effect upon the beneficial interests of Merrill and Lynch, but which are designed to reduce their tax liability very greatly."
- **Foreign personal holding corporations.** George Westinghouse, Jr. "has a \$3 million Bahamas corporation and in an attempt to prevent the Bureau of Internal Revenue from catching up with him, moves his home address from one small hamlet to another each year." Razor king Jacob Schick renounced his citizenship (renouncing his U.S. Army pension in the process), formed Schick Industries in the Bahamas, and transferred to it his stock in his Connecticut company, thereby evading U.S. law imposing a 25% tax on transfers of securities to foreign corporations.
- **Incorporated yachts and country places.** "Mr. Alfred P. Sloan's yacht is owned by Rene Corporation, one of his personal holding companies, along with \$3 million in securities. He rents the yacht from his company and the company uses its income from securities to pay depreciation on the yacht, the wages of the captain and crew, and the expenses of operating the yacht." Wilhelmina Du Pont Ross used a corporation to own her \$421,000 country place, saving \$20,000 in tax, and even paid her husband a salary for managing it - "she thereby supplies him with pocket money, and in effect secures a deduction for the expense of maintaining him."
- **Percentage depletion.** Morgenthau attacked the percentage depletion allowance, which lets oil and gas producers deduct part of their income as an allowance that the well will someday run dry. He reports that he had recommended eliminating this break back in 1934, "but nothing was done, presumably because of the heavy pressure from the large oil and mining companies which are profiting immensely" from them. (Sound familiar?)

- **Municipal bonds.** John D. Rockefeller, Jr. owned over \$32 million worth of municipal bonds, while Frederick W. Vanderbilt owned \$28.7 million. Morgenthau found wealthy taxpayers gradually increasing their purchases of these tax-free bonds.

Morgenthau's report reveals that legal tax avoidance is nothing new, and sophisticated planners have *always* worked the Tax Code to their clients' best advantage. All of the strategies he describes were legal back then, and many of them - such as percentage depletion and tax-free municipal bond income - remain legal today. (Is there *anyone* who seriously proposes eliminating the tax exclusion for municipal bond income?) You may not have the income or assets that Charles Merrill or Frederick Vanderbilt enjoyed. But you have the same right to arrange your affairs so that your taxes are as low as possible. Our job is to help you do just that. And make sure your family, friends, and colleagues know we're here for them, too!