

Social capital is the gift that keeps giving

"Social capital" is something we all have. It allows people to benefit our community and better their personal financial lives.

What is social capital?

Conceptually, everyone has two kinds of capital. Personal economic capital is what we earn, spend and, if fortunate, leave to our heirs. It is generally all post-tax money and, in traditional financial planning, we focus on maximizing our inflow and retention of personal economic capital.

What many do not traditionally focus on is our social capital - what is paid out in taxes. The government will spend the social capital it receives from us in ways it sees fit.

However, we generally can plan to redirect our social capital to benefit our local community in ways that we think are appropriate. What this means is if we employ charitable planning tools such as current gifts, after-death gifts or gifts in trust, we can direct our social capital almost exactly how we desire. We can decide what organizations and causes our money supports.

Guest Column



Eric S. Smith, J.D.

Some people think giving to a nonprofit means the loss of something valuable. On the contrary, by giving up something, we gain more control of the final outcome than if we had held on to the money with an iron fist. In many cases, we might plan wisely and come out ahead in our own personal financial situation because of the tax incentives for gifts to organizations such as churches, colleges or medical research foundations.

We can use planning tools to rearrange our personal balance sheet to meet our financial goals and unlock our social capital at the same time.

Let us say, for example, that you own a piece of real estate that is highly appreciated but provides you with no income. If it's time to retire and you need income, there are tools that might allow you to sell the property in a tax-favorable manner, receive lifetime income and provide an eventual benefit to community organizations after you are gone.

Taxes -- or undirected social capital -- could be minimized. By thinking about how you would direct your social capital, you may find financial opportunities on many levels that would have been invisible with a traditional approach. There is such a thing as a win-win outcome.

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