

Jesse,

There are three matters in respect to which the accompanying sets of attachments may be helpful.

The first is the question of dividend payments by Berkshire. In 1-1, the history of our unusual shareholder constituency is described. More than 50 years ago, many of this group (or their parents or grandparents) opted for long-term reinvestment. New owners have continued to do so: Our owners like and expect a re-investment approach.

A unified constituency is formed in the manner I describe as Phil Fisher's "restaurant" – self-selected (1-2). Many large shareholders, including me, enjoy the long-term buildup in value, knowing that it is destined for philanthropy, not consumption or dynastic aspirations.

Attachment 1-3 illustrates the incredible breadth and depth of shareholder enthusiasm for Berkshire's save-and-build philosophy. I can't think of any large public company with shareholders so united in their reinvestment beliefs: a 50 to 1 vote *against* dividends is simply unheard of.

The U.S. government has benefitted from our reinvestment policy as well. In the decade prior to the change of control at Berkshire, the company paid no net federal income tax. (Over that period the business lost a significant sum.) In both 2019 and 2020 Berkshire paid about 1½% of the total corporate income tax receipts enjoyed by the U.S. government (see 2-1).

The second question involves my personal tax situation. My returns have long been available. On August 1, 2016, in a talk introducing Hillary Clinton (available on YouTube), I offered to meet candidate Trump and make public our returns together. (We were both under audit, which did *not* restrict displaying returns.)

Subsequently, in one of the Presidential debates, candidate Trump made an inaccurate reference to my deductions. I announced the correct figures immediately (2-1). He did not challenge my correction.

PBS subsequently invited me to discuss taxes with Judy Woodruff. I agreed and sent her my most recent return. PBS had a tax expert examine the return before she interviewed me in June 2017, and I put no restrictions on questions she could ask me about any item.

In 2-2, I tallied the tax benefits received from contributions made pursuant to the philanthropic pledges I made in 2006. Subsequent to that pledge, and counting the 2021 contribution I will soon make, I have donated roughly half of my 474,998 "A" shares of Berkshire to the five foundations. Berkshire shares, for long, have constituted about 99% of my net worth. The tax benefit I have realized from the \$40 billion of shares I will have contributed since 2006 (now worth more than \$100 billion) is as stated in 2-2 – less than 50¢ for every \$1,000 I have donated.

Finally, the third matter is what do I ultimately hope to accomplish by finalization of my gifts following my death. My philosophy remains the same as stated in 3-1, a Fortune cover story from 1986.

After the run-off period following my death, about 99.5% of what I have will go to some combination of taxes and disbursements to various philanthropies. The split depends on future U.S. tax policy.

I believe the money will be of more use to society if disbursed philanthropically than if it is used to slightly reduce an ever-increasing U.S. debt. But that will be for Congress to determine. Lawyers recommend trusts for avoiding public scrutiny of wills. My will eschews this technique and the public will be able to check what I did compared to what I have said.

I continue to believe that the tax code should be changed substantially. I hope that the earned-income tax-credit is greatly expanded and additionally believe that huge dynastic wealth is not desirable for our society. Perhaps annual payout requirements should be increased for foundations. Some time ago, I testified before Senator Baucus in favor of increasing and tightening estate taxes. (My persuasive powers proved to be limited.)

For any who may read this, the NYT article to which you refer is attached as 4-1. I remain OK with what I said, though its effect in Washington was zero.

Warren Buffett

1-1

## From Berkshire Hathaway 2020 Annual Report

### The Berkshire Partnership

Berkshire is a Delaware corporation, and our directors must follow the state's laws. Among them is a requirement that board members *must* act in the best interest of the corporation and its stockholders. Our directors embrace that doctrine.

In addition, of course, Berkshire directors want the company to delight its customers, to develop and reward the talents of its 360,000 associates, to behave honorably with lenders and to be regarded as a good citizen of the many cities and states in which we operate. We value these four important constituencies.

None of these groups, however, have a *vote* in determining such matters as dividends, strategic direction, CEO selection, or acquisitions and divestitures. Responsibilities like those fall *solely* on Berkshire's directors, who must faithfully represent the long-term interests of the corporation and its *owners*.

Beyond legal requirements, Charlie and I feel a special obligation to the many *individual* shareholders of Berkshire. A bit of personal history may help you to understand our unusual attachment and how it shapes our behavior.

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Before my Berkshire years, I managed money for many individuals through a series of partnerships, the first three of those formed in 1956. As time passed, the use of multiple entities became unwieldy and, in 1962, we amalgamated 12 partnerships into a single unit, Buffett Partnership Ltd. ("BPL").

By that year, virtually all of my own money, and that of my wife as well, had become invested alongside the funds of my many limited partners. I received no salary or fees. Instead, as the general partner, I was compensated by my limited partners only after they secured returns above an annual threshold of 6%. If returns failed to meet that level, the shortfall was to be carried forward against my share of future profits. (Fortunately, that never happened: Partnership returns always exceeded the 6% "bogey.") As the years went by, a large part of the resources of my parents, siblings, aunts, uncles, cousins and in-laws became invested in the partnership.

Charlie formed his partnership in 1962 and operated much as I did. Neither of us had *any* institutional investors, and very few of our partners were financially sophisticated. The people who joined our ventures simply trusted us to treat their money as we treated our own. These individuals – either intuitively or by relying on the advice of friends – correctly concluded that Charlie and I had an extreme aversion to permanent loss of capital and that we would not have accepted their money unless we expected to do reasonably well with it.

I stumbled into *business* management after BPL acquired control of Berkshire in 1965. Later still, in 1969, we decided to dissolve BPL. After yearend, the partnership distributed, pro-rata, all of its cash along with three stocks, the largest by value being BPL's 70.5% interest in Berkshire.

Charlie, meanwhile, wound up his operation in 1977. Among the assets he distributed to partners was a major interest in Blue Chip Stamps, a company his partnership, Berkshire and I jointly controlled. Blue Chip was also among the three stocks my partnership had distributed upon its dissolution.

In 1983, Berkshire and Blue Chip merged, thereby expanding Berkshire's base of registered shareholders from 1,900 to 2,900. Charlie and I wanted everyone – old, new and *prospective* shareholders – to be on the same page.

Therefore, the 1983 annual report – up front – laid out Berkshire's "major business principles." The *first* principle began: "Although our form is corporate, our attitude is partnership." That defined our relationship in 1983; it defines it today. Charlie and I – and our directors as well – believe this dictum will serve Berkshire well for many decades to come.

\* \* \* \* \*

Ownership of Berkshire now resides in five large "buckets," one occupied by me as a "founder" of sorts. That bucket is certain to empty as the shares I own are annually distributed to various philanthropies.

Two of the remaining four buckets are filled by institutional investors, each handling *other people's money*. That, however, is where the similarity between those buckets ends: Their investing procedures could not be more different.

In one institutional bucket are index funds, a large and mushrooming segment of the investment world. These funds simply mimic the index that they track. The favorite of index investors is the S&P 500, of which Berkshire is a component. Index funds, it should be emphasized, own Berkshire shares simply because they are *required* to do so. They are on automatic pilot, buying and selling *only* for "weighting" purposes.

In the other institutional bucket are professionals who *manage* their clients' money, whether those funds belong to wealthy individuals, universities, pensioners or whomever. These professional managers have a mandate to move funds from one investment to another based on their judgment as to valuation and prospects. That is an honorable, though difficult, occupation.

We are happy to work for this "active" group, while they meanwhile search for a better place to deploy the funds of their clientele. Some managers, to be sure, have a long-term focus and trade very infrequently. Others use computers employing algorithms that may direct the purchase or sale of shares in a nano-second. Some professional investors will come and go based upon their macro-economic judgments.

Our fourth bucket consists of individual shareholders who operate in a manner similar to the active institutional managers I've just described. These owners, understandably, think of their Berkshire shares as a possible source of funds when they see another investment that excites them. We have no quarrel with that attitude, which is similar to the way we look at *some* of the equities we own at Berkshire.

All of that said, Charlie and I would be less than human if we did not feel a special kinship with our fifth bucket: the million-plus *individual* investors who simply trust us to represent their interests, whatever the future may bring. They have joined us with no intent to leave, adopting a mindset similar to that held by our original partners. Indeed, many investors from our partnership years, and/or their descendants, remain substantial owners of Berkshire.

A prototype of those veterans is Stan Truhlsen, a cheerful and generous Omaha ophthalmologist as well as personal friend, who turned 100 on November 13, 2020. In 1959, Stan, along with 10 other young Omaha doctors, formed a partnership with me. The docs creatively labeled their venture Emdee, Ltd. Annually, they joined my wife and me for a celebratory dinner at our home.

When our partnership distributed its Berkshire shares in 1969, *all* of the doctors kept the stock they received. They may not have known the ins and outs of investing or accounting, but they *did* know that at Berkshire they would be treated as partners.

Two of Stan's comrades from Emdee are now in their high-90s and continue to hold Berkshire shares. This group's startling durability – along with the fact that Charlie and I are 97 and 90, respectively – serves up an interesting question: Could it be that Berkshire ownership fosters longevity?

. . . . .



Berkshire's unusual and valued family of individual shareholders may add to your understanding of our reluctance to court Wall Street analysts and institutional investors. We *already have* the investors we want and don't think that they, on balance, would be upgraded by replacements.

There are only so many seats – that is, shares outstanding – available for Berkshire ownership. And we very much like the people already occupying them.

Of course, some turnover in “partners” will occur. Charlie and I hope, however, that it will be minimal. Who, after all, seeks rapid turnover in friends, neighbors or marriage?

In 1958, Phil Fisher wrote a superb book on investing. In it, he analogized running a public company to managing a restaurant. If you are seeking diners, he said, you can attract a clientele and prosper featuring *either* hamburgers served with a Coke *or* a French cuisine accompanied by exotic wines. But you must not, Fisher warned, capriciously switch from one to the other: Your message to potential customers must be consistent with what they will find upon entering your premises.

At Berkshire, we have been serving hamburgers and Coke for 56 years. We cherish the clientele this fare has attracted.

The tens of millions of other investors and speculators in the United States and elsewhere have a wide variety of equity choices to fit *their* tastes. They will find CEOs and market gurus with enticing ideas. If they want price targets, managed earnings and “stories,” they will not lack suitors. “Technicians” will confidently instruct them as to what some wiggles on a chart portend for a stock's next move. The calls for action will never stop.

Many of those investors, I should add, will do quite well. After all, ownership of stocks is very much a “positive-sum” game. Indeed, a patient and level-headed monkey, who constructs a portfolio by throwing 50 darts at a board listing all of the S&P 500, will – *over time* – enjoy dividends and capital gains, just as long as it *never* gets tempted to make changes in its original “selections.”

- I would be remiss if I didn't salute another key constituency that makes Berkshire special: our shareholders. Berkshire truly has an owner base unlike that of any other giant corporation. That fact was demonstrated in spades at last year's annual meeting, where the shareholders were offered a proxy resolution:

RESOLVED: Whereas the corporation has more money than it needs and since the owners unlike Warren are not multi billionaires, the board shall consider paying a meaningful annual dividend on the shares.

The sponsoring shareholder of that resolution never showed up at the meeting, so his motion was not officially proposed. Nevertheless, the proxy votes had been tallied, and they were enlightening.

Not surprisingly, the A shares – owned by relatively few shareholders, each with a large economic interest – voted “no” on the dividend question by a margin of 89 to 1.

The remarkable vote was that of our B shareholders. They number in the hundreds of thousands – perhaps even totaling one million – and they voted 660,759,855 “no” and 13,927,026 “yes,” a ratio of about 47 to 1.

Our directors recommended a “no” vote but the company did not otherwise attempt to influence shareholders. Nevertheless, 98% of the shares voting said, in effect, “Don't send us a dividend but instead reinvest all of the earnings.” To have our fellow owners – large and small – be so in sync with our managerial philosophy is both remarkable and rewarding.

I am a lucky fellow to have you as partners.

Warren E. Buffett

1-4

From Page 14 of 2019

Berkshire Hathaway Annual Report

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In 2019, Berkshire sent \$3.6 billion to the U.S. Treasury to pay its current income tax. The U.S. government collected \$243 billion from corporate income tax payments during the same period. From these statistics, you can take pride that your company delivered 1 1/2% of the federal income taxes paid by *all* of corporate America.

Fifty-five years ago, when Berkshire entered its current incarnation, the company paid *nothing* in federal income tax. (For good reason, too: Over the previous decade, the struggling business had recorded a net loss.) Since then, as Berkshire retained nearly all of its earnings, the beneficiaries of that policy became not only the company's shareholders but also the federal government. In most future years, we both hope and expect to send *far* larger sums to the Treasury.



2-1

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### Some Tax Facts for Donald Trump

Answering a question last night about his \$916 million income tax loss carryforward in 1995, Donald Trump stated that "Warren Buffett took a massive deduction." Mr. Trump says he knows more about taxes than any other human. He has not seen my income tax returns. But I am happy to give him the facts.

My 2015 return shows adjusted gross income of \$11,563,931. My deductions totaled \$5,477,694, of which *allowable* charitable contributions were \$3,469,179. All but \$36,037 of the remainder was for state income taxes.

The total charitable contributions I made during the year were \$2,858,057,970, of which more than \$2.85 billion were not taken as deductions and never will be. Tax law properly limits charitable deductions.

My federal income tax for the year was \$1,845,557. Returns for previous years are of a similar nature in respect to contributions, deductions and tax rates.

I have paid federal income tax every year since 1944, when I was 13. (Though, being a slow starter, I owed only \$7 in tax that year.) I have copies of all 72 of my returns and none uses a carryforward.

Finally, I have been audited by the IRS multiple times and am currently being audited. I have no problem in releasing my tax information while under audit. Neither would Mr. Trump – at least he would have no *legal* problem.

**BERKSHIRE HATHAWAY INC.**

**NEWS RELEASE**

**FOR IMMEDIATE RELEASE**

**July 8, 2020**

Omaha, NE (BRK.A; BRK.B) —

Yesterday, Warren E. Buffett, CEO of Berkshire Hathaway, contributed 15,971,345 “B” shares of Berkshire to five philanthropies.

The shares, valued at about \$2.9 billion, were given to the following foundations: Bill and Melinda Gates Foundation, Susan Thompson Buffett Foundation, The Sherwood Foundation, Howard G. Buffett Foundation and NoVo Foundation.

Mr. Buffett’s current contribution of Berkshire stock is the 15<sup>th</sup> installment of an annual giving plan he initiated in June, 2006 and increased in August, 2012. A procedural part of his plan is to annually convert sufficient “A” shares that he owns into “B” shares, which are then used to make his gifts.

Including the contributions just made and a few miscellaneous philanthropic gifts that over the years have involved far smaller sums, Mr. Buffett has since 2006 contributed Berkshire “B” shares that had a value totaling more than \$37 billion (as calculated by Berkshire’s market price on the date of each contribution). These gifts, over the period that his giving plan has existed, have reduced his holdings of “A” shares from 474,998 to 248,734. He has meanwhile *sold* no shares nor does he expect to sell any shares between now and his death.

Mr. Buffett has received only minor benefits from tax deductions arising from his gifts to the five foundations. During the 15-year span of his program, including projected figures for 2020, every \$1,000 of contributions he has made pursuant to his plan has allowed him to deduct slightly less than \$1 from his taxable income. Consequently, the combined federal and Nebraska income taxes he has paid, again including projections for 2020, have been reduced by about 43 cents for each \$1,000 of value he has given the foundations.

Looking ahead, Mr. Buffett envisions that all of the Berkshire shares he owns at his death will be distributed to various philanthropic organizations over the following 12 years. Again, “A” shares will be converted to “Bs” immediately before the specified distributions are made. The recipients of the gifts will be obliged to both spend their gifts in a prompt manner and to prevent their use, either directly or indirectly, for any kind of endowment purpose.

— END —

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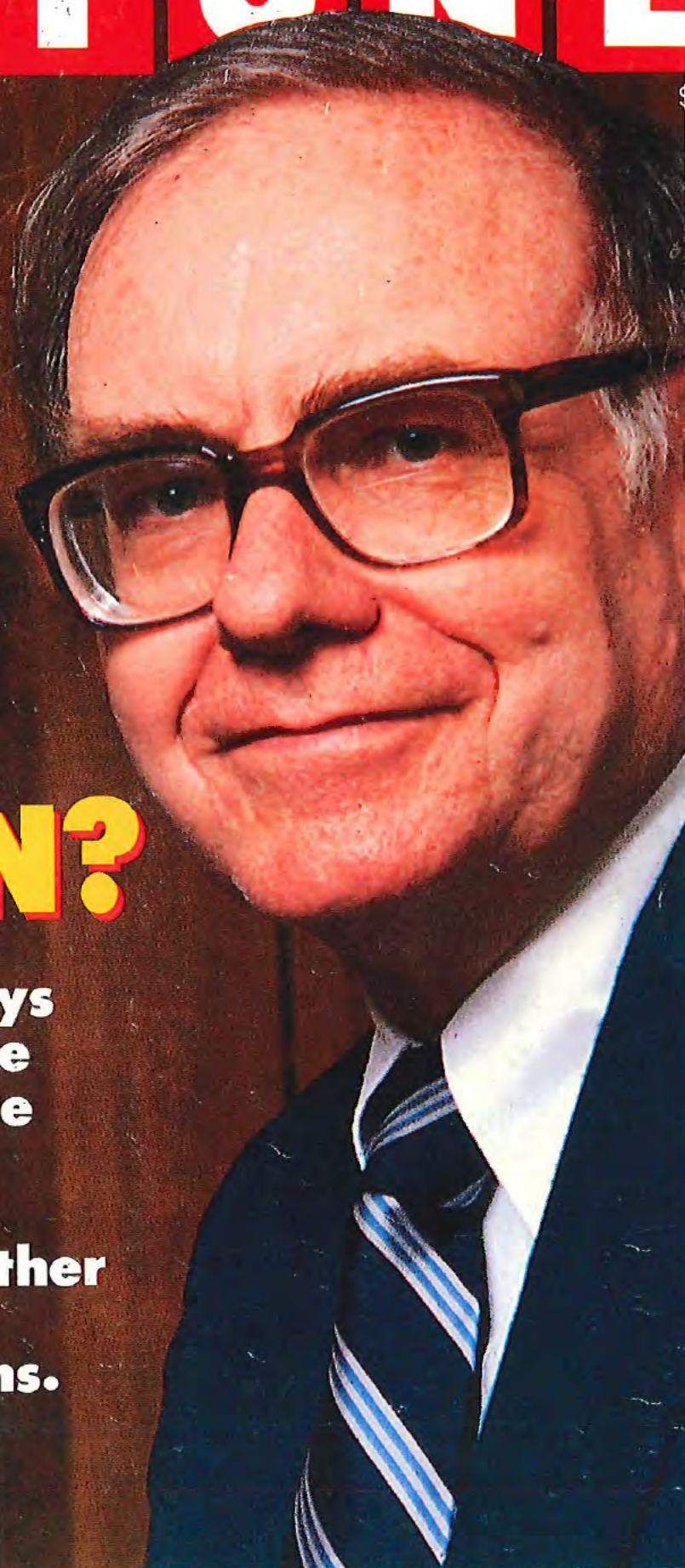
■ THE BEST AIRLINE BOSS ● JAPAN'S COMEBACK PLAN ■

# FORTUNE

SEPTEMBER 29, 1986

## SHOULD YOU LEAVE IT ALL TO THE CHILDREN?

**"No!" says  
self-made  
billionaire  
Warren  
Buffett—  
among other  
wealthy  
Americans.**



3-1



# SHOULD YOU LEAVE IT

If you do, you may not be doing them a favor. But if you want to, there are sensible ways of passing on what you have without depriving the kids of a feeling of achievement.

■ *by Richard I. Kirkland Jr.*

**W**ARREN BUFFETT, 56, the chairman and guiding genius of Berkshire Hathaway, the phenomenally successful holding company, is worth at least \$1.5 billion. But don't bother being jealous of his three children. Buffett does not believe that it is wise to bequeath great wealth and plans to give most of his money to his charitable foundation. Having put his two sons and a daughter through college, the Omaha investor contents himself with giving them several thousand dollars each at Christmas. Beyond that, says daughter Susan, 33, "If I write my dad a check for \$20, he cashes it."

Buffett is not cutting his children out of his fortune because they are wastrels or wantons or refuse to go into the family business—the traditional reasons rich parents withhold money. Says he: "My kids are going to carve out their own place in this world, and they know I'm for them whatever they want to do." But he believes that setting up his heirs with "a lifetime supply of food stamps just because they came out of the right womb" can be "harmful" for them and is "an antisocial act." To him the perfect amount to leave children is "enough money so that they would feel they could do anything, but not so much that they could do nothing." For a college graduate, Buffett reckons "a few hundred thousand dollars" sounds about right.

How much *should* you leave the kids? Agonizing over that question is a peculiarly American obsession. In much of the world custom and law dictate that children, unless they have committed some heinous crime, automatically receive most of the parents' wealth when they die. Only Britain and her former colonies—common-law countries



Travel magnate Curt Carlson, left, asks, "How the hell do we keep our money from destroying our



# ALL TO THE CHILDREN?



ids?" He and wife Arleen will leave most of their estate to their daughters, right, with their husbands.

all—give property owners the freedom to leave their children whatever they want.

And nowhere is the feeling about inherited wealth so ambivalent as in the U.S. No country so readily celebrates the self-made man, no culture is more suspicious that the silver spoon contains something vaguely narcotic. Says Curtis L. Carlson, 72, the Minnesota travel and real estate magnate (Radisson Hotel Corp., TGI Friday's restaurants, and the Ask Mr. Foster travel agency), who has a net worth of \$700 million and two married daughters: "There's nothing people like me worry about more—how the hell do we keep our money from destroying our kids?"

Certainly nowhere else in the world do so many parents enjoy the privilege of grappling with this dilemma. The Federal Reserve Board estimates that some 1.3 million U.S. households enjoy a net worth of at least \$1 million. The vast majority of millionaires inherited their wealth or built it on a business they founded. Plenty of corporate careerists have also racked up seven-figure estates by taking advantage of profit-sharing and pension plans. But concern for how best to provide for the offspring is not exclusive to the millionaires' club. Estate planning is fast becoming a major concern of the middle class.

Whatever their misgivings about inheritance, most Americans—rich, poor, and somewhere in between—keep the bulk of their estates in the family. Once formed, a chain of inherited wealth is rarely broken—until the money runs out. It has pretty much run out for some of the great names of U.S. business: the Dodges, Reynolds, and Vanderbilts. The sons of Texas oil tycoon H. L. Hunt, whose fortune was once estimated at \$8 billion, have just filed for bankruptcy protection for the family's corporate jewel, Placid Oil Co.

Of 30 multimillionaires recently surveyed by FORTUNE, six say their children will be better off with only minimal inheritances. Almost half plan to leave at least as much to charity as to their heirs. In an area where almost no research exists, Alexander Sanger, a partner with the law firm White & Case in New York, offers a revealing statistic. Of 20 wills Sanger has drawn up for newly wealthy parents with net worths of \$20 million or more, 16 left at least half the estates to charity. Of 12 comparable old-mon-





Leaving nothing to his children, \$50-million man Eugene Lang, middle, lets his family help decide which worthy causes to fund.

ey estates, only one gave so much away.

Old money tends to keep its wealth in the family. "After a generation or more, inheritance becomes a stewardship kind of thing," says Alexander Forger, head of estate law at the New York firm Milbank Tweed Hadley & McCloy. Sometimes, as in the case of one of the firm's clients, the Rockefeller family, the progenitor already fattened some foundation with a big endowment years ago.

Even inheritors who want to give their money away feel duty-bound to pass on some of their wealth to their children. George Pillsbury Jr., 37, a scion of the Midwestern baking family, inherited more than \$1 million while still in college. He has spent his adult life building and bankrolling a network of foundations that tap young inheritors for a variety of liberal causes. "Robin Hood was Right," declares one foundation pamphlet. Pillsbury believes in "much, much higher" inheritance taxes. Yet despite his

REPORTER ASSOCIATE Carrie Gottlieb

politics, he says "it seems unfair" not to leave his two young children at least a few hundred thousand dollars.

Why shouldn't parents leave it all to the children? Newspaper headlines shriek the more lurid reasons—drugs, derangement, even murder. In July a Pennsylvania judge ruled Lewis du Pont Smith, 29, heir to \$1.5 million of the Du Pont fortune, "mentally incompetent" to manage his affairs; Smith had been handing over thousands of dollars to political extremist Lyndon H. LaRouche Jr. This month a Florida judge sentenced Steven Benson, 35, heir to a \$10-million tobacco fortune, to 72 years in prison for killing his mother and her adopted son with a car bomb.

**W**HAT usually troubles successful entrepreneurs and executives, however, is the mundane but far more likely prospect that large inheritances will encourage their offspring to do nothing useful with their lives. They worry that Commodore Vanderbilt's grandson

William, heir to some \$60 million in 1885, was right when he declared that "inherited wealth . . . is as certain death to ambition as cocaine is to morality." (An indifferent businessman and dedicated bon vivant, William suffered a fatal heart attack at a fashionable French race track in 1920.) Says centimillionaire Curt Carlson: "I know one extremely wealthy Minnesota family that has 63 heirs in the fourth generation, and none is gainfully employed. I think that's terrible."

One self-made multimillionaire wants to ensure that his heirs are leading productive lives before they get a share of his estate. He has set up trusts for each of his children—a sound estate-planning practice even for middle-income families (see box, page 24). None of the trusts pays a penny until the child reaches 30. Until then, the entrepreneur says, he expects his sons and daughters, all still under 30, to "live on the salaries that young adults who are college graduates can make." The terms of his trusts also allow him or his executors to withhold the kids' patri-





Leaving something to his two children seems only fair to George Pillsbury, scion of the baking family. But he also believes in higher inheritance taxes.

mony in certain situations. Says he: "I believe you've got to be doing right, or you don't get anything. If I end up with a 30-year-old who's not worth a plugged nickel, all his money goes to my personal foundation."

**E**NCOURAGING rich children to be self-supporting can be good for them. John L. Levy, executive director of the C.G. Jung Institute of San Francisco, has spent the past five years studying the effects of inherited wealth on 30 families. He concludes that many wealthy children experience "considerable suffering and deprivation" because they have little self-respect. "It's hard for them to take much satisfaction in their accomplishments since they always suspect that their successes are at least partly the result of the wealth and position they have inherited."

To let children grow up free of their parents' long shadows is the main reason rich individuals choose to withhold or limit their legacies. New Yorker Eugene Lang, 67, for

example, built a fortune of more than \$50 million by founding REFAC Technology Development Corp., a high-tech licensing company. Lang paid for the education of his three children and after college handed each "a nominal sum"—he won't say how much. Since then he has given them nothing but encouragement. Says Lang: "To me inheritance dilutes the motivation that most young people have to fulfill the best that is in them. I want to give my kids the tremendous satisfaction of making it on their own." Now in their 30s, his children are a lawyer, an actor, and an investment analyst. They will get nothing from their father's estate. Lang plans to provide "adequate security" for his wife and bequeath the rest to a charitable foundation. He has already given away more than \$25 million to hospitals, colleges, and a scholarship program for Harlem schoolchildren.

Californian Gordon Moore, 57, who co-founded semiconductor maker Intel and is worth \$200 million, agrees that "children ought to have a sense of accomplishment for

what they've done." Moore set up small trusts for his two sons when they were young—"the sort of thing that let my older boy make a down payment on the house"—but does not plan to do much more. He expects to leave "almost everything" to charity.

Still, the urge to heap most of the wealth upon the family continues to be powerful. "I'd rather give my money to my kids than do anything else with it," says Jackson T. Stephens, 63, chairman of Stephens Inc. of Little Rock, Arkansas, the largest investment bank outside New York. "If my heirs want to clip coupons, that'll be their business. I can't control the future, and I'm not going to worry a whole bunch." Stephens, who has four children, and his older brother Wilton, who also has four children, share a net worth of at least \$500 million.

Some entrepreneurs and their heirs argue that rather than being a disincentive to work, an inheritance can give a child a target to outstrip. "I feel I've got to make my mark equal or better than my father," says Warren Ste-



phens, 29, Jackson's son. California real estate developer M. Larry Lawrence, 60, who has three children and a fortune worth more than \$200 million, concurs. Says he, "If the children have been brought up right, they end up attempting to outdo the parents."

**NEVITABLY** those who hand on their wealth see proper upbringing as the ultimate safeguard against potential problems. Says Katharine Graham, 69, chief executive of the Washington Post Co. and head of a family whose fortune totals some \$350 million: "My instinct would be to just pass the money on and hope that in doing so you also pass on your values—how to use it, the life to lead, the standards to have."

Besides, some rich individuals argue, not giving it to the children can cause problems too. Says one: "If you're the child and you

see your father with all this dough and you get some but not much, I just can't help thinking resentment will enter in." Susan Buffett, who works in Washington as an administrative assistant to the editor of *U.S. News & World Report* and is married to a public interest lawyer, admits her father's position is tough to live with: "My dad is one of the most honest, principled, good guys I know," she says. "And I basically agree with him. But it's sort of strange when you know most parents want to buy things for their kids and all you need is a small sum of money—to fix up the kitchen, not to go to the beach for six months. He won't give it to us on principle. All my life my father has been teaching us. Well, I feel I've learned the lesson. At a certain point you can stop."

Parents who disinherit not on principle but because they disapprove of their young

heir's behavior face a troubling prospect—they might be making a mistake. Just days before committing suicide in 1963, R. E. Turner Jr., the father of maverick television mogul Ted Turner, arranged a quick sale of his Atlanta billboard business to Curt Carlson. Recalls Carlson, who had no idea that the elder Turner was planning to kill himself: "He told me he wanted to have some money to leave his wife when he died, but that everything he had was tied up in his business. He said he was sure if Ted got his hands on the business, he would run it into the ground." Within days of Turner's death, Carlson got a call from his widow, Florence, and a visit from Ted, then 24. Says Carlson, "His mother wanted Ted to have the business back, and Ted, who can be very convincing, talked about how this was his one chance to get going in life." Persuaded, Carlson sold

## A TALE OF THE RICH AND INFAMOUS

■ Dexter D. Coffin III, 37, grew up with servants, yachts, private boarding schools, and a U.S. family tree that dates to the mid-1600s. That's when his Dexter and Coffin forebears settled Cape Cod and Nantucket Island. He is heir to more than \$6 million, held in three trusts. Their principal holding is stock of Dexter Corp., a manufacturer of specialty chemicals that is the nation's oldest publicly traded company; his uncle is chairman. But Coffin's wealth has not helped him: He is serving



Imprisoned in Virginia: Dexter Coffin III, right, with his lawyer

a 17-year term in a Virginia state prison for prescription fraud.

His first skirmish with the law came at 24, when he was convicted of stealing a yacht in Florida. Four years later, after a bout with pancreatitis, he became addicted to Tussionex, a potent, opiate-based cough suppressant. He claims that treatment for subsequent illnesses reinforced his addiction. In 1978 he was first charged with using fraudulent prescriptions. The sentence: five years' probation.

Then Coffin attempted a comeback. Thrice divorced, he married for a fourth time, moved to Virginia, and invested in a computer store. Coffin's drug habit led to the store's bankruptcy. "I was out every single day trying to obtain drugs to keep myself from going through withdrawal," he says. He was up to 60 Tussionex pills and 30 other painkillers a day, a dosage doctors say could be fatal.

Articulate and well groomed, Coffin got the drugs by imper-

sonating doctors and lawyers. Says his attorney, Michael Morchower: "Put him in a suit and tie and put him in front of a doctor and he could pass for anyone." His impersonations landed him in a Charlottesville, Virginia, prison. In April he escaped. He had been returning from a psychiatric session with his wife and two armed guards when he sneaked out of a roadside restroom and sped away in his wife's Lincoln Continental. He says he ran because he felt his life was in danger. He was caught

trying to buy drugs in New Hampshire.

While Coffin was on the lam, the Connecticut Bank & Trust Co., the family's bank for generations, cut off his trust funds. They had not been paying much: \$185,000 in 1984; \$109,000 in 1985. One trust has been the subject of a six-year court battle in which Coffin, his mother, and his three siblings sought the removal of the bank as trustee. "The problem is these bankers play God," Coffin says. "They decide how much you're going to get, and how you're going to live." Citing client confidentiality, the Connecticut bank declined to comment.

Reflecting on his early life of privilege, Coffin says, "I had everything and more." With his lawyer nearby, he is not now willing to blame his problems on his inheritance. But in June he told a *Washington Post* reporter: "If I had not known there would always be money, I would have done something more constructive with my life."

— Carrie Gottlieb



the business back to Ted, who has been going fast ever since.

Estate planning is particularly tough when the legacy is a family business. Most entrepreneurs do not plan to sell out, as R. E. Turner did, but try to keep the business in the family. Says Curt Carlson, whose privately held Carlson Cos. brought in revenues of more than \$3 billion last year: "You think of your company as your own baby. You hate to think of someone buying it and then the name is gone."

But leaving it to the children will not guarantee that the business stays in family hands. Because of fraternal fights, the Bingham family's Louisville newspaper and broadcasting empire went up for sale last January. Destructive squabbles are most likely to break out when family members try to sell company stock to outsiders, an act viewed as disloyal by those desperate to keep control. In St. Louis the heirs of legendary Joseph Pulitzer staged a noisy row this year over the attempted sale of some Pulitzer Publishing Co. stock. The family members who wanted to sell backed a takeover bid by Alfred Taubman, a Detroit-based real estate developer. Chairman Joseph Pulitzer Jr., his half brother, and a cousin struck a deal to buy out the dissidents' shares at three times the pre-feud price. Taubman is still fighting in the courts.

Chicago centimillionaire Lester Crown, 61, worries that mercenary motives among family members could one day force the breakup of his very private business empire. The Crowns' holdings range from building materials, hotels, and real estate to 23% of General Dynamics, one of the largest U.S. defense contractors. Over the years, says Lester, he and his father, Henry, 90, have "always treated our operations as a common pot." They have handed out voting shares and limited partnerships in the various businesses to Lester's uncles, cousins, brothers, nieces, and nephews, as well as his seven children. Lester predicts that "one of these days we're going to get hit in the back of the head because we did this." If he could do it over again, he would still give the family "the ability to enjoy the good life" by setting up a single trust to pay out a guaranteed income to everyone. But he would make sure that control of the companies was "re-



Investor Warren Buffett says leaving children a lot is "harmful."

tained by those who operate the business."

The Coors family of Colorado has kept its brewery bubbling with just such an arrangement since 1969. All the company's voting stock sits in a trust, whose trustees can only be family members active in the business. Says Bill Coors, 70, chairman of Adolph Coors Co. and grandson of the founder: "We've minimized family feuds by concentrating control in the hands of those most dedicated to preserving the family values."

Warren Buffett argues that most proprietors should forget trying to keep the management of their beloved companies in the family; he assumes current nonfamily management will continue running Berkshire Hathaway after he is gone. He grants that occasionally an heir may be the most suitable



Oilman T. Boone Pickens, with wife Beatrice, will give half his estate to charity.

candidate to manage a company but believes the odds are against it. Says Buffett: "Would anyone say the best way to pick a championship Olympic team is to select the sons and daughters of those who won 20 years ago? Giving someone a favored position just because his old man accomplished something is a crazy way for a society to compete."

Buffett especially admires how fellow Omaha businessman Peter Kiewit solved his legacy problem. Kiewit arranged his affairs so that when he died in 1979 his 40% stake in the family's enormously successful construction company was sold to employees. The proceeds from the sale then went to a charitable foundation that he had established to promote education and social services in Nebraska. Kiewit left approximately 3% of his \$186-million estate to his widow, his son, Peter Jr., 60, and other relatives. Peter, a successful Phoenix lawyer, was surprised by the \$1.5-million legacy he received at age 53. Says he, "I was raised to expect nothing, and supported myself all my life. In the end, I think my father was saying from the grave that he approved."

FOR WEALTHY PARENTS, and even for those with more modest estates, the question of how much to leave the kids is a highly subjective matter. But here are a few points worth keeping in mind.

► **Don't play hide-and-seek.** Forget locking your will away in mystery like some 19th-century miser. Bring the family finances into the daylight, so the children will know what they are getting and where it came from, and they will have some idea how to hold on to it. They should also, of course, know if they are not getting anything. For example, George Pillsbury knew that he would get more than \$1 million when he turned 21—"It's tough to be unaware of your wealth when you have a brand name," he says. But many of his friends had no idea what was coming to them. "A lot of them were shocked," he recalls, and some had trouble coping with their new fortunes.

John Train, whose investment firm claims to be the largest in New York City serving rich families, recommends that talks about money, like those about sex, begin as early as possible. These can evolve into full-scale sessions on the family finances. Lester



## HOW TO—AND NOT TO—GIVE IT AWAY

■ Go ahead, give it all to darling daughter Debbie. And while you're at it, disinherit John Jr. He can't spend it in reform school anyway. But remember, merely putting such desires in a will may not ensure that your estate winds up in the right hands.

Debbie may need some elaborate trust arrangements. She is too young to handle all that wealth now, and her favorite beau is a no-good whose principal aspiration is to marry your money. You must also make sure Johnny will not have his day in court and collect an inheritance anyway. Finally, you must account for that other needy, if much-unloved, relative that estate planners refer to simply as "Uncle." If your estate runs into the millions, he could get 55 cents on the dollar.

The first estate-planning priority is usually to provide for the surviving spouse; the kids can always inherit the second estate. You can leave your entire estate to your spouse without paying federal estate taxes. But if you do that, you will miss an additional break: \$500,000 can go to your children or other beneficiaries tax-free. Next year the limit will rise to \$600,000. If you hang in till then, you can use the \$600,000 exemption two ways. First, you can leave that amount to the children outright. Or you can set up a \$600,000 trust that gives income to your spouse and principal to the children when your spouse dies.

If you set up a "qualified terminable interest property," or QTIP, trust, you can control the destiny of the unlimited amount you leave to your spouse tax-free. After you are gone, your spouse will collect the income on the trust but will not be able to tap the principal, except in emergencies. When the spouse dies, the principal will go to the beneficiaries you have chosen, probably your children. Your spouse's estate will have to pay taxes, but only on the amount over the \$600,000 exemption. The QTIP trust is popular in the case of second or third marriages. It prevents the surviving spouse from diverting the wealth to someone other than the original heirs.

Tax incentives should make you want to give some of your estate away while you are still alive. Every year you can give \$10,000 to each of your children or anyone else. Your spouse can give yet another

\$10,000 to each. Thus a couple can pass \$20,000 a year to a child.

A logical gift for children is an asset that may well appreciate, such as a growth stock or undeveloped real estate. Such a gift will not hurt your pocketbook much and could easily fall under the annual exemption. But if you continue to hold on to the asset, it could trigger a huge tax later on.

Larry Biehl, a financial adviser in San Mateo, California, recommends another way to avoid estate taxes. When you purchase a condominium, say, you can divide the ownership into two parts: a "lifetime interest," which you buy, and a "remainder interest," which your child buys. The Internal Revenue Service requires that the child put up the money, although gifts from grandparents could boost his purchasing power. Your life expectancy, according to IRS actuarial tables, determines how the ownership is split—80% to 20%, for example. When you die, the lifetime interest is legally dissolved and—presto—the child assumes full ownership tax-free.

After a lifetime of lavishing gifts on the kids, you might want to turn over most of your estate to your grandchildren. In the past that made sense, particularly since wealth could pass to several generations in trust, with estate taxes paid only once. Congress tightened this loophole in 1976 with a tax on "generation skipping" trusts, though direct transfers to grandchildren

were not affected. The current tax reform bill would also apply the generation-skipping tax to direct transfers. But only the very rich need worry: You can leave up to \$2 million to each grandchild without paying the extra levy.

If you do plan to skip your children altogether, you had better say so in your will. If you simply omit any reference to Johnny in that document, rather than specifically disinheriting him, he might have the makings of a successful will challenge.

Where big bucks are involved, a will contest can be a real grave-spinner, like the case brought by the children of multimillionaire Charles S. Payson, who died last year at 86. Most of Payson's wealth came from industrialist Payne Whitney, the father of his first wife, Joan. When she died in 1975, the bulk of her \$172-million estate went to Charles.

His will gave his son a cemetery plot, land, and personal property; his three daughters got only some paintings. Payson gave \$20 million in cash, stock, and real estate to his second wife, Virginia, and put much of the rest in a QTIP trust. The income from the trust goes to Virginia.

But this case demonstrates a flaw in the QTIP setup: stepmother Virginia and the Payson children are of the same generation (at 56, she's younger than two of them), so the "kids" may not live long enough to collect the QTIP principal. Charles's children are challenging the will on many grounds, including a claim that the second Mrs. Pay-

Department of the Treasury - Internal Revenue Service	
Notice of Deficiency-Waiver	
of Taxpayer(s)	Estate of Samuel I. Newhouse Samuel I. Newhouse, Jr. and Donald E. Newhouse, Co-Personal In Care of Steinhauer, Sheiman 360 Madison Avenue, New York,
Copy in Authorized Representative	Steinhauer, Sh 360 Madison Av New York, New
Deficiency	Deficiency Addit
Increase in Tax	Fraud Pen.
\$609,519,855.00	Sec. 6653(b)
	\$305,759,927.00



**Disagreeing with the IRS over an estate's value can be extremely costly. The feds clashed with the Samuel I. Newhouse estate over the value of his company's stock. The result: an overdue notice of \$609 million and change.**



son used "undue influence" in directing so much wealth her way.

Such squabbling is not limited to the rich. "Will contests are more a matter of frustrated expectations than anything else," says Jonathan Blattmachr of the New York law firm Milbank Tweed Hadley & McCloy. Blattmachr tells of a widower who sought to leave 95% of his \$200,000 estate to his impoverished daughter and 5% to his son, a successful doctor, who was worth about \$2 million. The son challenged the will and settled out of court for another \$5,000.

"Uncle's" appetite for a share shows up dramatically where estate assets are hard to value, notably family-held companies. For example, take the estate of Samuel I. Newhouse, the newspaper king who died in 1979. In valuing his Advance Publications Inc., estate experts at Chemical Bank looked at price-earnings ratios of similar but publicly traded companies and set a market price of about \$1 billion. The bank then assigned a substantial part of the value to the nonconvertible preferred stock, owned by the Newhouse heirs. The patriarch's holdings, all the common stock, came to only \$179 million.

The IRS saw things differently. It calculated the company's market value at \$1.5 billion, then discounted that price by the cost of liquidating the preferred stock. (The assumption is that an outside buyer would have balked at the burden of paying the preferred dividend.) The remaining value, all assigned to Newhouse's estate, was \$1.2 billion. In 1983 the IRS mailed off a "notice of deficiency" to the estate, levying more than \$609 million in additional taxes and a \$306-million penalty for fraud. The valuation is still in dispute.

Marion Fremont-Smith, an estate planner at the Boston law firm Choate Hall & Stewart, suggests that founders of growing companies consider swapping their common stock for preferred stock and a new issue of common. Such transactions are tax-free. The preferred shares can provide steady income for an aging founder, while the new common stock can be given to children through annual exclusions and the one-time exemption. Their stock will appreciate as the business thrives. So if you want to leave your children a legacy, let it be something other than a dunning notice from the IRS.

—Maggie McComas



Ross Perot, with part of his family in 1982, says children should not grow up in "fairylane."

Crown is a big booster of this idea: "We started when the kids were young and put the dollar signs in as they got older."

Former Treasury Secretary William Simon, who has made tens of millions in leveraged buyouts since leaving Washington, says that at one of his family's regular meetings, his seven children had to read and discuss 19th-century steel magnate Andrew Carnegie's essay "The Gospel of Wealth." (Carnegie argued that by giving away their great fortunes, rich men would produce "an ideal state in which the surplus wealth of the few will become, in the best sense, the property of the many.")

Though the children of Eugene Lang will not share in his estate, they and Lang's wife are trustees of his private foundation and join in deciding where to give. Says Lang: "In a way they're spending their inheritance with me here and now and getting a lot of satisfaction and joy from it."

No amount of family talk will guarantee that the children will not turn out like Tommy Manville, the asbestos heir who went through 13 marriages and millions of dollars, or Huntington Hartford of the A&P fortune, who has lost a reported \$90 million in a lifetime of bad business deals. But it should help.

► **Shelve the silver spoon.** Psychiatrists say the lack of work experience not only alienates heirs from humanity, but also contributes to insecurity about their ability to survive without their inheritance. H. Ross Perot, 56, the Texas billionaire who founded Electronic Data Systems, a computer services company, and sold it to General Motors, puts it this

way: "If your kids grow up living in fairylane thinking that they're princes and princesses, you're going to curse their lives."

T. Boone Pickens Jr., chairman of Mesa Petroleum and worth tens of millions of dollars, remembers his middle-class upbringing as "the best a boy could have." When he graduated from college, Pickens thought his father, a buyer of oil leases for Phillips Petroleum, might give him \$500 or so. Instead, all he got was "good luck." Pickens plans to leave at least half his estate to charity; he has arranged what he considers small trusts for his five children and three stepchildren. Says he: "If you don't watch out, you can set up a situation where a child never has the pleasure of bringing home a paycheck."

► **Don't be afraid to experiment.** Robert D. Rogers, chief executive officer of Texas Industries, a manufacturer of cement and steel, swears by a Texas-size version of every parent's basic financial training tool—the allowance. At 18, each of his three children began receiving annual stipends that covered living expenses and then some—college costs, clothing, travel. The youngsters were not accountable for the money, but if it ran out, tough luck. As an incentive to save, the children could claim whatever remained when they reached 25. "My oldest son ran through his first year's income in nine months and had to go to work," recalls Rogers, who credits a Texas Instruments co-founder, Eugene McDermott, with the idea. Young Rogers never ran out again. If you are going to leave money to your children, a generous living allowance





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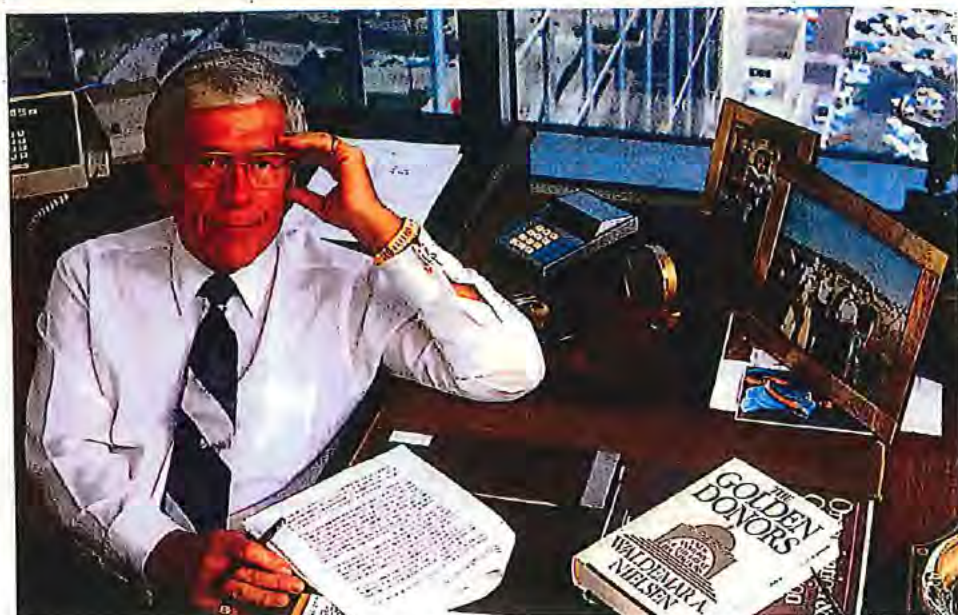
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## EXECUTIVE LIFE



Phoenix lawyer Peter Kiewit Jr. received only \$1.5 million of his father's \$186-million estate.

should give you a good idea what they will do with it.

Parents who want to encourage their offspring to work, and provide them a little extra money besides, can create incentive income trusts designed to match or double the child's salary. The trusts also can be set up to pay out principal if a child achieves some objective, such as attaining tenure at a university or even holding down a steady job.

► **Give later rather than sooner.** Most estate advisers now agree that 21, the age of majority, is too early for most children to reap a windfall. Warns John Train: "Very large sums handed over to children who have done nothing to deserve them almost inevitably tend to corrupt them." Ross Perot, as usual, is more blunt: "Anybody who gives kids a lot of money at 21 doesn't have much sense." Bill Simon suggests that "sensible parents" put a reasonable amount in trust that only starts paying interest at, say, 35, and then allows access to principal in two installments at 40 and 45. What's a reasonable amount? Says Simon: "Everybody has to define that for himself."

► **Trust in God and take short views.** It's 2075. Do you know who your great-great-grandchildren are? Do you really care? Louis Auchincloss, the novelist, estate lawyer, and scion of one of America's most prominent families, believes the "dynastic impulse" is on the wane in America. "When I came out of law school, people were always deeply concerned about their great-grandchildren," he says. "Not now." That may be no bad thing; the U.S. is littered with indolent people who

were ruined by trusts set up by adoring grandparents.

Besides, Congress has tightened tax loopholes that encourage generation-skipping trusts. If you want to ensure some accountability among your heirs, you might consider Ross Perot's advice to make bequests one generation at a time. Says he: "Let your children decide how much to give their children."

► **Don't live and die in Louisiana.** The Bayou State adheres to the Napoleonic Code, which requires forced heirship: A single child is entitled to claim one-quarter of any estate, two or more children split half. If you want to give more, that's no problem. If you want to disinherit, Baton Rouge lawyer Gerald Le Van says the state recognizes a few reasons as valid—attempted assault against the parent, conviction for a felony, and a debatable rule, just passed by the legislature last session, "failure to communicate for two years without just cause." If you want to give it all to charity, Le Van advises moving to another state.

► **Put child rearing before estate planning.** Chicago psychoanalyst Roy Grinker Jr. worked with the children of the very rich for 15 years. Often the problem in wealthy households, he says, is that parents pay too little attention to their children's upbringing. "Rather than give rich parents money advice, I would give them child-rearing advice," says Grinker. "I would say, 'Pay attention to your kids, spend some time with your kids, love your kids.'" Warren Buffett cheerfully agrees: "Love is the greatest advantage a parent can give." □



August 14, 2011

# Stop Coddling the Super-Rich

By WARREN E. BUFFETT

Omaha

OUR leaders have asked for "shared sacrifice." But when they did the asking, they spared me. I checked with my mega-rich friends to learn what pain they were expecting. They, too, were left untouched.

While the poor and middle class fight for us in Afghanistan, and while most Americans struggle to make ends meet, we mega-rich continue to get our extraordinary tax breaks. Some of us are investment managers who earn billions from our daily labors but are allowed to classify our income as "carried interest," thereby getting a bargain 15 percent tax rate. Others own stock index futures for 10 minutes and have 60 percent of their gain taxed at 15 percent, as if they'd been long-term investors.

These and other blessings are showered upon us by legislators in Washington who feel compelled to protect us, much as if we were spotted owls or some other endangered species. It's nice to have friends in high places.

Last year my federal tax bill — the income tax I paid, as well as payroll taxes paid by me and on my behalf — was \$6,938,744. That sounds like a lot of money. But what I paid was only 17.4 percent of my taxable income — and that's actually a lower percentage than was paid by any of the other 20 people in our office. Their tax burdens ranged from 33 percent to 41 percent and averaged 36 percent.

If you make money with money, as some of my super-rich friends do, your percentage may be a bit lower than mine. But if you earn money from a job, your percentage will surely exceed mine — most likely by a lot.

To understand why, you need to examine the sources of government revenue. Last year about 80 percent of these revenues came from personal income taxes and payroll taxes. The mega-rich pay income taxes at a rate of 15 percent on most of their earnings but pay practically nothing in payroll taxes. It's a different story for the middle class: typically, they fall into the 15 percent and 25 percent income tax brackets, and then are hit with heavy payroll taxes to boot.

Back in the 1980s and 1990s, tax rates for the rich were far higher, and my percentage rate was in the middle of the pack. According to a theory I sometimes hear, I should have thrown a fit and refused to invest because of the elevated tax rates on capital gains and dividends.

I didn't refuse, nor did others. I have worked with investors for 60 years and I have yet to see anyone — not even when capital gains rates were 39.9 percent in 1976-77 — shy away from a sensible investment because of the tax rate on the potential gain. People invest to make money, and potential taxes have never scared them off. And to those who argue that higher rates hurt job creation, I would note that a net of nearly 40 million jobs were added between 1980 and 2000. You know what's happened since then: lower tax rates and far lower job creation.

Since 1992, the I.R.S. has compiled data from the returns of the 400 Americans reporting the largest income. In 1992, the top 400 had aggregate taxable income of \$16.9 billion and paid federal taxes of 29.2 percent on that sum. In 2008, the aggregate income of the highest 400 had soared to \$90.9 billion — a staggering \$227.4 million on average — but the rate paid had fallen to 21.5 percent.

The taxes I refer to here include only federal income tax, but you can be sure that any payroll tax for the 400 was inconsequential compared to income. In fact, 88 of the 400 in 2008 reported no wages at all, though every one of them reported capital gains. Some of my brethren may shun work but they all like to invest. (I can relate to that.)

I know well many of the mega-rich and, by and large, they are very decent people. They love America and appreciate the opportunity this country has given them. Many have joined the Giving Pledge, promising to give most of their wealth to philanthropy. Most wouldn't mind being told to pay more in taxes as well, particularly when so many of their fellow citizens are truly suffering.

Twelve members of Congress will soon take on the crucial job of rearranging our country's finances. They've been instructed to devise a plan that reduces the 10-year deficit by at least \$1.5 trillion. It's vital, however, that they achieve far more than that. Americans are rapidly losing faith in the ability of Congress to deal with our country's fiscal problems. Only action that is immediate, real and very substantial will prevent that doubt from morphing into hopelessness. That feeling can create its own reality.

Job one for the 12 is to pare down some future promises that even a rich America can't fulfill. Big money must be saved here. The 12 should then turn to the issue of revenues. I would leave rates for 99.7 percent of taxpayers unchanged and continue the current 2-percentage-point reduction in the employee contribution to the payroll tax. This cut helps the poor and the middle class, who need every break they can get.

But for those making more than \$1 million — there were 236,883 such households in 2009 — I would raise rates immediately on taxable income in excess of \$1 million, including, of course,

dividends and capital gains. And for those who make \$10 million or more — there were 8,274 in 2009 — I would suggest an additional increase in rate.

My friends and I have been coddled long enough by a billionaire-friendly Congress. It's time for our government to get serious about shared sacrifice.

*Warren E. Buffett is the chairman and chief executive of Berkshire Hathaway.*