Estate plans: a three-step approach

How to transition your estate to other entities **Interviewed by Kristen Hampshire**

Last month, we discussed how owners can devise cash-flow planning strategies to fund their lifestyles and long-term goals after their business is sold. The next step is planning how to transition the rest of the estate to other entities, whether they are future generations, charitable organizations or a family foundation. But, estate planning includes more than mitigating taxes or deciding how to distribute wealth.

"Whether owners plan for it or not, the emotional and social aspects of their capital are part of the estate they pass on to future generations," says Joel J. Guth, an advisor in the Citi Family Office at Smith Barney, a division of Citi Global Markets. "It's important to define a strategy so all categories of capital work together."

Here, Guth discusses how owners can leverage discounted gifting mechanisms to help preserve the financial aspect of the estate and why owners should seriously consider the values and social impact future generations will carry on.

Joel J. Guth
Advisor, Citi Family Office
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What are the main goals of estate planning?

There are three pots of capital owners pass on to future generations. First is physical capital, which is the financial piece: How can owners preserve their wealth and mitigate exorbitant estate taxes by leveraging discounted gifting techniques before they sell their businesses? The second is emotional capital: How will they structure their estate in a way to perpetuate their goals, values and vision for the family? Third is social capital: How do founders want future generations to impact the community?

When should owners begin estate planning?

Estate planning should begin at least three to five years before owners sell the business, but the sooner the better. The current tax rates are punitive toward estates. The marginal estate tax bracket, including state and federal taxes, might be as high as 50 percent. Owners who spend a lifetime accumulating their wealth want to retain as much of it as possible to pass to future generations. This can only be done by planning well in advance because prior to selling the company, there are several discounted gifting techniques that owners can leverage that may allow them to pass as much as 65 cents on the dollar to future generations — if the stock is privately held. If done correctly, the owner can use various trust strategies to pass private stock down to future generations at a discounted value compared to the real market value.

Why are the emotional and social pieces of estate planning so important?

Most owners start estate planning by asking the question: How can I mitigate or reduce tax costs? But there are times when they could reduce tax costs at the expense of what they really want to instill in their children. In an industry survey, wealthy families said it was much more important to pass their values to future generations than their money. But typically, owners spend a lot of time talking about how to pass on money and very little time discussing how they will instill the family values.

How should an owner start family conversations about the estate and future plans?

We are taught at a young age not to talk about money. But when owners are wealthy, the family recognizes that they are living a different, more privileged life. So it's important to have open dialogues that many families do not have concerning money and values. Do the children understand the family's net worth? Do they understand the parents' intentions for the money? If the owners of the estate plan to leave half of their money to charity, how will the children feel about that? Will the owners choose to support one child who has an entrepreneurial spirit, and will the other children feel like they still were treated fairly? These are all issues to consider as owners plan all three aspects of their estate so they can preserve their wealth and values for generations to come.

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