LUKINOVICH LAGNIAPPE

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Preparing Heirs for the World & Beyond

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Over the last several years, our firm has assisted clients in their transition of wealth inter-generationally by implementing strategies to pass wealth downstream to many generations (i.e., children, grandchildren and beyond) minimizing their gift and estate transfer tax liabilities.

More and more during our meetings with these clients and their family members they are coming to the realization that transferring "Maximum Wealth" does not necessarily guarantee wealth (or family harmony) for the next generation(s). Research indicates that 70% of wealth transitions fail and only 30% succeed; those that succeed primarily do so because the clients have taken proactive steps to prepare their heirs by developing and adhering to family mission statements that focus on preserving human and intellectual capital as well as financial assets for future generations.

Once our clients realize that they have successfully transitioned sufficient wealth to their children, grandchildren and beyond, they begin to ask the question "have they transitioned proper family values and taught responsibility and stewardship to their descendants." Many of these clients discuss leaving charitable bequests in their wills; however, when clients are charitably inclined, we encourage them to "bring their legacies to life" by implementing charitable strategies and monitoring them during life as a mechanism to help them teach their heirs philanthropy and values.

In this edition of Lukinovich Lagniappe, we will discuss a case study of a family plan (made up from a number of real life plans that we recommended) to assist a family in successfully transferring to their descendants wealth along with important family values and responsible wealth management and stewardship habits.

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Lukinovich, APLC has law offices in Metairie and Baton Rouge, Louisiana. Our areas of practice include estate planning, wills and trusts, business planning, wealth preservation, probate administration and charitable gift planning.

Our mission is to devote our best skills, efforts and resources to advise our clients enthusiastically and creatively to accomplish their business, tax, family and estate planning goals and objectives, and we offer superior personalized attention with the utmost regard for privacy and confidentiality.

Learn more about our areas of practice online:
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Suggested Reading:

Preparing Heirs
By Roy Williams & Vic Preisser

(Enhancing Changes of Intergenerational Wealth with Family Harmony)

Case Study of Joe and Mary Gratitude

Joe and Mary Gratitude operated a family company inherited from Joe's parents when it was a mom and pop business. Joe and Mary were extremely grateful for the opportunity to preserve the family name and business and parlayed the mom and pop business into an extremely successful business over their 30 years at the helm; the family business currently is managed by outside management because the Gratitude's four (4) children decided to pursue other dreams outside of the family business.

At our initial meeting with Joe and Mary, we inquired about their goals and objectives and they indicated that they wanted to: (a) enhance but not supplant their children's lifestyles; (b) instill proper family values in their children and grandchildren and teach them conservative and sustainable wealth management habits; and (c) perpetuate the support of several community charities both during their lives and after their deaths. They also didn't want their children to wait for their inheritances until after Joe and Mary died. Joe and Mary invited their four (4) children to a follow-up meeting in which the Gratitude family adopted a family mission statement in which all family members took into consideration not only the objectives of Joe and Mary to pass on $5 million of assets to each of their four (4) children and their children's respective descendants but also considered the goals of the children to pursue their interests outside of the family business and to pass on to their own descendants their family values and responsible wealth management habits.

The Gratitude family was convinced that they should mitigate gift and estate taxes to the extent reasonably possible through philanthropy in the Greater New Orleans Metropolitan Area by creating donor designated funds as well as continuing their support of Volunteers of America, which itself already had in place a myriad of programs benefiting the community including the delivery of hot lunches and breakfasts to children in need, supporting Veterans with housing and other opportunities and Intellectual and Developmental Disability Services.

Joe and Mary had accumulated combined estates of forty ($40) million (including (a) $5 million in retirement plan assets, (b) $5 million in cash and portfolio investments, and their business valued at $30 million with a tax basis of $20 million), had available remaining estate and gift tax exemptions of $10 million, and realized if they died without any further planning, their estates would be divided as follows at the death of the second of them to die:

With No Planning

(1)	Inheritance by Descendants:	$28,000,000
(2)	Estate Taxes payable to Government: ($40 million – $10 million exemptions =$30 million x 40% Estate Tax Rate) [Not counting income taxes on future Retirement Plan distributions]	$12,000,000

Total Estate Distribution to Heirs and Government: **$40,000,000**

Recommended Plan

Once Joe and Mary discovered what they could be transferring to the federal government (which they believed was woefully inefficient with little accountability), they asked for us to recommend a plan that would benefit their community by supporting charitable organizations which had a higher degree of transparency and accountability oversight. We began by recommending that Joe and Mary effect a discounted sale of their $30 million business to separate but equal multigenerational grantor trusts for their four (4) children and their children's descendants at $20 million (discounted value because of the sale of four (4) twenty-five (25%) percent non-marketability/minority interest shares of their business to each trust) and a resale of the family business by the trusts to a selected management group using a 10-year Installment Sale.

Result:

(1)	Multigenerational Trusts for four (4) Gratitude children and their descendants (ultimate cash proceeds excluding interest received over 10 year payment period) ($30 million received in sale to management less $20 million owed to Joe and Mary by four (4) trusts):	$10,000,000
(2)	Joe and Mary (proceeds from Sale to Trusts for descendants):	$20,000,000
(3)	Joe's and Mary's Capital Gains Taxes on sale to Management Group (due to grantor trust status causing Joe and Mary to remain taxable on sale by trusts to management group) ($30 million sales price to management less $20 million basis = $10 million x 25% capital gains tax rate):	<$ 2,500,000>
(4)	Other Assets of Joe and Mary:	$10,000,000
	Net Available to Gratitude Family:	**$37,500,000**

As the installment proceeds began being received by the trusts and paid to Joe and Mary over the 10-year installment period, Joe and Mary would be able to offset a significant portion of the $2,500,000 of capital gains taxes by donating $500,000 per year for 10 years (i.e., $5 million), (a) one-half as an endowment into a Donor Advised Community Foundation Fund (with Joe and Mary and their children as the Donor Advisors to the Fund) and (b) the other one-half to Volunteers of America.

At the end of the 10-year period of lifetime planning, the Gratitude family wealth was projected as follows:

(1)	Endowment Funds at Community Foundation and Volunteers of America:	$ 5,000,000
(2)	Joe and Mary Retained Assets:	$25,000,000
(3)	Multigenerational Trusts for four (4) Gratitude Family Branches:	<u>$10,000,000</u>
TOTAL ASSETS:		**<u>$40,000,000</u>**

This family plan enabled Joe and Mary to establish a program to teach philanthropy to the Gratitude family by utilizing income from the charitable endowments to fund community needs according to their desires over the 10-year period, and provided income to the four (4) Gratitude family branches to enhance their standard of living (with distributions of $100,000 per year to each family branch).

As part of the family plan, Joe and Mary executed new wills and retirement plan beneficiary designation forms leaving their $25 million of remaining assets as follows upon their deaths:

(1)	Bequests to supplement the Multigenerational Trusts for the benefit of the four (4) Gratitude branches (fully utilizing their remaining Federal Estate and Generation-Skipping Tax Exemptions):	$10,000,000
(2)	Balance of assets left to the Community Foundation and Volunteers of America (including Retirement Plan Benefits that would have been subject to income tax):	<u>$15,000,000</u>
TOTAL DISTRIBUTIONS:		**<u>$25,000,000</u>**

CONCLUSION

As can be seen by the Case Study discussed above, the Gratitude Family will be able to accomplish their family wealth transition plan by leaving $20 million to their descendants ($5 million per family branch), endow the community charities selected by them with $20 million of assets ($5 million) during life and ($15 million) at death and exchange $12 million of potential estate tax liability for $2.5 million of capital gains taxes, most of which will be offset by charitable donations during Joe's and Mary's lives. The multigenerational trusts will be managed in four (4) separate subtrusts with each Gratitude child as trustee and the four (4) Gratitude branches will be able to each designate a designating advisor to sprinkle charitable endowment income from the Community Foundation Fund to address various community needs that they and their own descendants have an interest in supporting.

Our firm will be happy to answer any questions you may have regarding the strategies utilized in the Case Study presented in this newsletter.

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