

# **The Family Owners & Next Generation Leadership Conference**

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## The Age-Old Old Age Problem: Navigating the Family and Financial Dynamics of Succession

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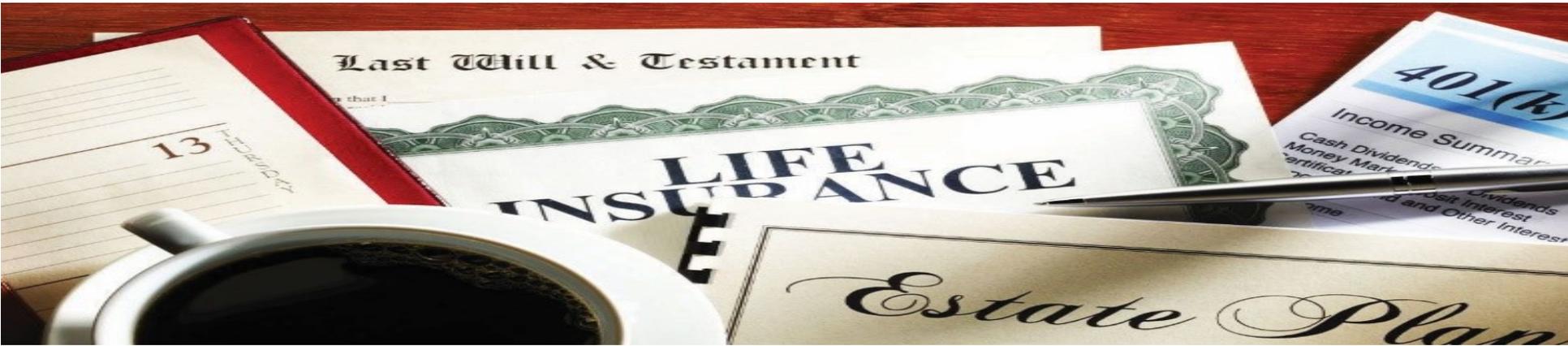
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# Benefits of an Estate Plan

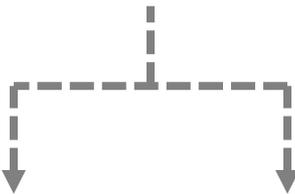


- *Plan for disability during lifetime*
- *Avoid probate and maintain privacy*
- *Choose how your assets are distributed, plan for your specific circumstances*
- *Give creditor protection to beneficiaries*
- *Give guidance to surviving family*
- *Minimize transfer taxes*

# Distribution Without Basic Estate Plan



**\$20 Million**



***Assets Distributed Equally to Children  
After Probate/Attorney Fees  
(approximately \$350,000 on  
\$20 million estate)  
and other debts of the estate  
2019 - No Estate Tax for married  
couples with estate less than  
\$22.8 million  
2026 – Increased exemption expires***

# Distribution Without Basic Estate Plan



*\$20 Million*



*\$20 Million*

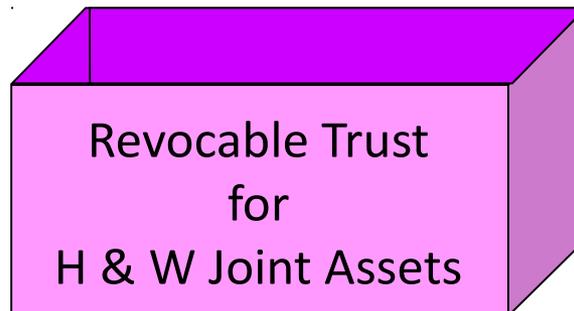
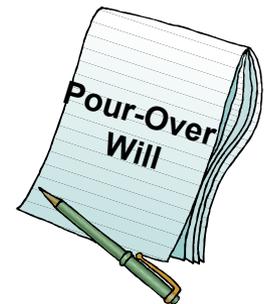


*Bad Result for Children  
and for Deceased Spouse*

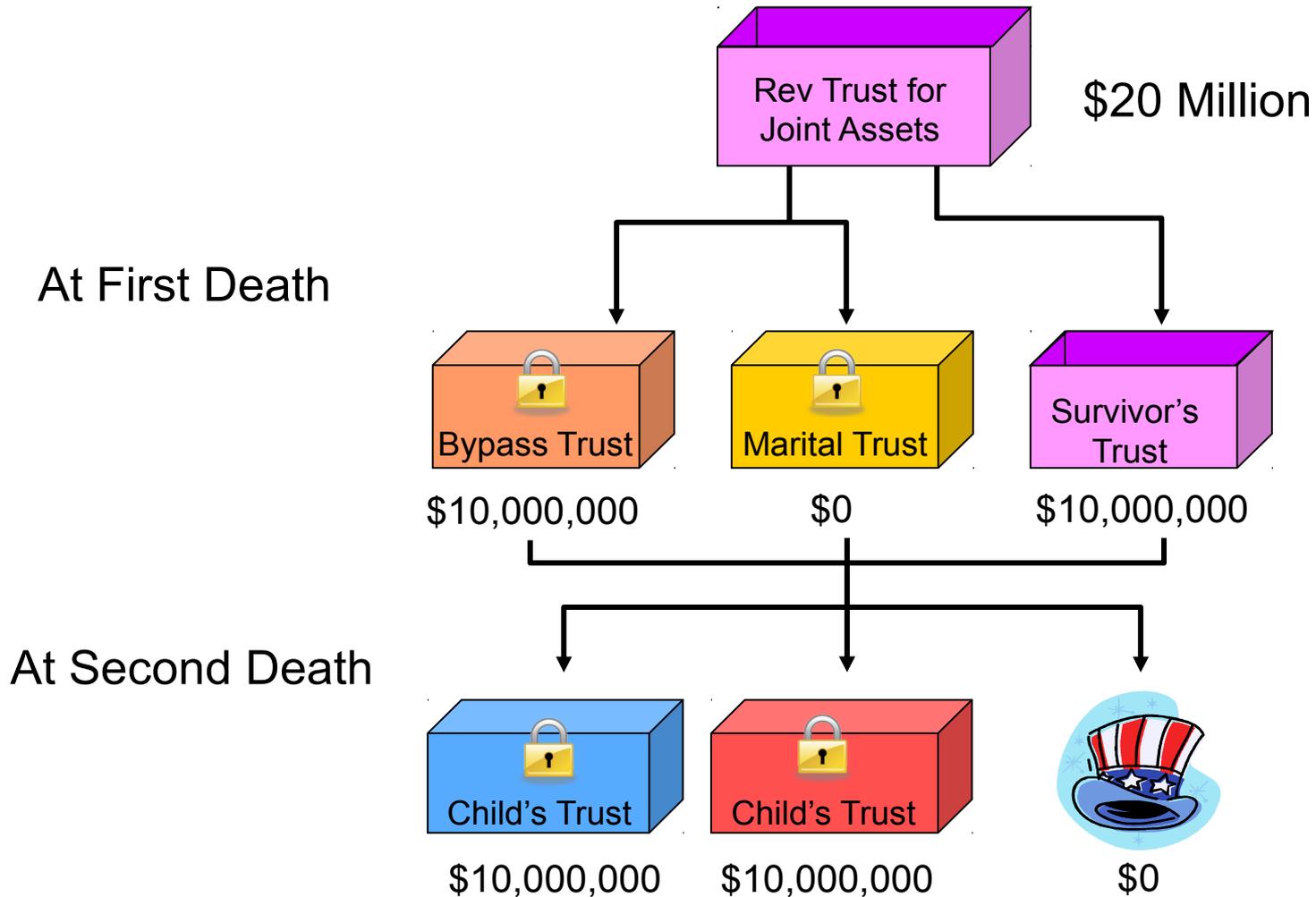
# Basic Estate Plan



*Assets*



# Distribution With Basic Estate Plan





## Outright

- *Immediate access to assets*
- *Unrestricted control over assets*
- *Guardianship if minors*

## In Trust

- *Creditor protection*
- *Avoid commingling*
- *Restricted control over assets, in the hands of a trusted advisor*
- *GST tax planning*



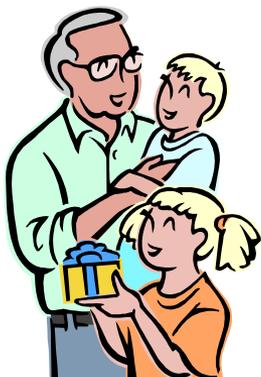
# Transfer Tax System



*Gift Tax*



*Estate Tax*



*Generation-Skipping  
Transfer Tax*

### *All non-charitable gifts are taxed except:*

- *Gifts to U.S. citizen spouse*
- *Annual gift tax exclusions of \$15,000 (per donor, per donee, per year)*
- *Direct payments of tuition and medical expenses*
- *\$11,400,000 gift tax exemption (indexed for inflation, increased exemption sunsets 12/31/2025)*



## *All transfers at death are taxed except:*

- *Bequest / devise to U.S. citizen spouse*
- *\$11,400,000 estate tax exemption less lifetime gifts (indexed for inflation, increased exemption sunsets 12/31/2025)*
- *Charity*



## Exclusion Amounts and Tax Rates

Year      Exclusion Amount      Highest Rate

2011      \$5 million      35%

2012-2016      \$5 million + adjusted for inflation

2017      \$5.49 million      40%

2018      \$11.18 million      40%

2019      \$11.4 million      40%

2020-2025      TBD

    \$10 million + adjusted for inflation

2026      TBD

    \$5 million + adjusted for inflation



*Every Family is Different*

tax

**CONTROL**

# Ready to Let Go



*Tax Options when You are Ready to Let the Company Go*

# Capital Gains Tax

## Sell – *Pay the Tax*

<u>Sale Value</u>	<u>Blended Rate*</u>	<u>Capital Gains Tax</u>
\$10 million	33.3%	\$3.33 million
\$50 million	33.3%	\$16.65 million
\$100 million	33.3%	\$33.30 million

**\*Assumes 20% Federal Tax Rate and 13.30% State (CA) Tax Rate.**

## **Sale / Transfer – *Defer the Tax***

- *Transfer to Charitable Trusts (CRT/CLT)*
- *Employee Stock Option Plans (ESOP)*

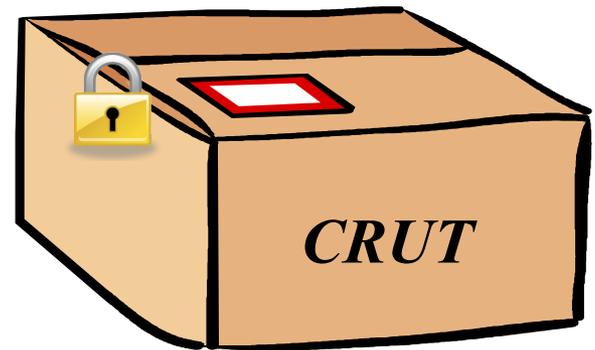
# Charitable Trust



**\$6,000,000**  
**Paper Company**



**\$9,787,361\***



- Unitrust payment of 7% resulting in approximately \$300,000 to \$420,000 annually. Approximate value in 27 years (life expectancy) and assuming 6% rate of growth.

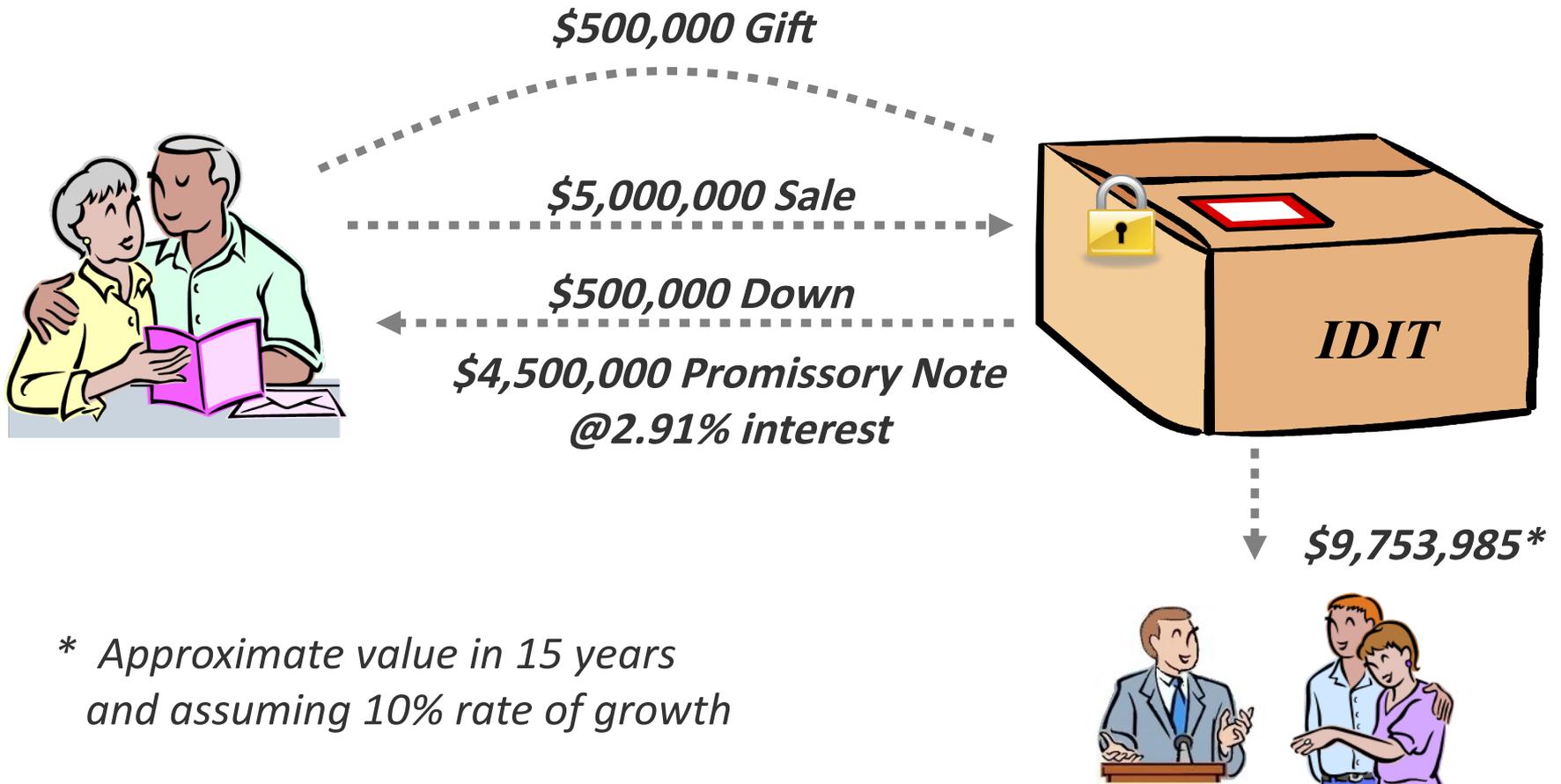
**Family Private Foundation**  
**\$4,381,589\***



## **Sale / Transfer – *Pass the Tax***

- *Sale to Defective / Grantor Trusts (IDIT/IDGT)*

# "IDIT/IDGT"



# Keeping Control



*Tax Options when You Keep Control until Death*



## Taxable Estate – *Pay the Tax*

Due 9 months from date of death

<u>Taxable Estate</u>	<u>Estimated Tax</u>
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\$10 million	\$0
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\$50 million	\$10.9 million
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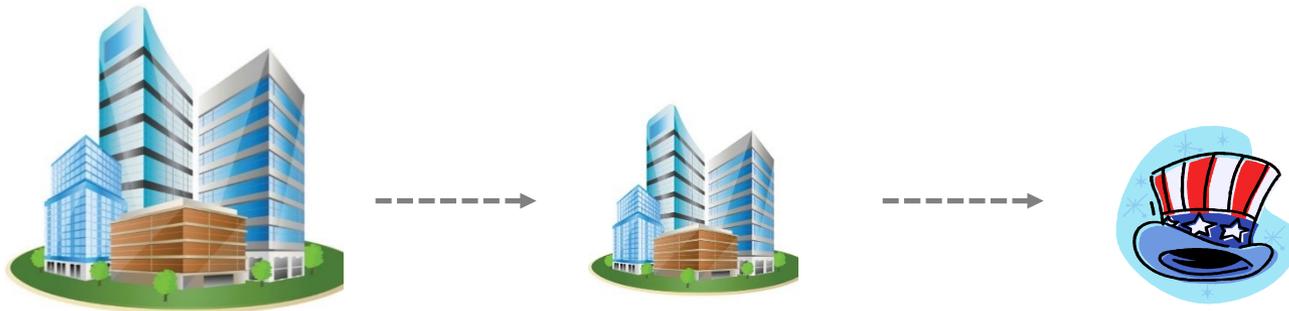
\$100 million	\$30.9 million
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**\*Assumes married couple, deaths in 2019, full Exemptions (\$11.4 mm each ) available, includes Federal and State Estate Tax.**

## Taxable Estate – *Reduce or Eliminate the Tax*

➤ *Valuation Discounts*

# Valuation Discounts



## Taxable Estate After Discount Estimated Tax

<b>\$10 million</b>	<b>\$6 million</b>	<b>\$0</b>
<b>\$50 million</b>	<b>\$30 million</b>	<b>\$2.9 million</b>
<b>\$100 million</b>	<b>\$60 million</b>	<b>\$14.9 million</b>

**\*Assumes married couple, deaths in 2019, full Exemptions (\$11.4 mm each ) available, includes Federal and State Estate Tax.**

# Valuation Discounts

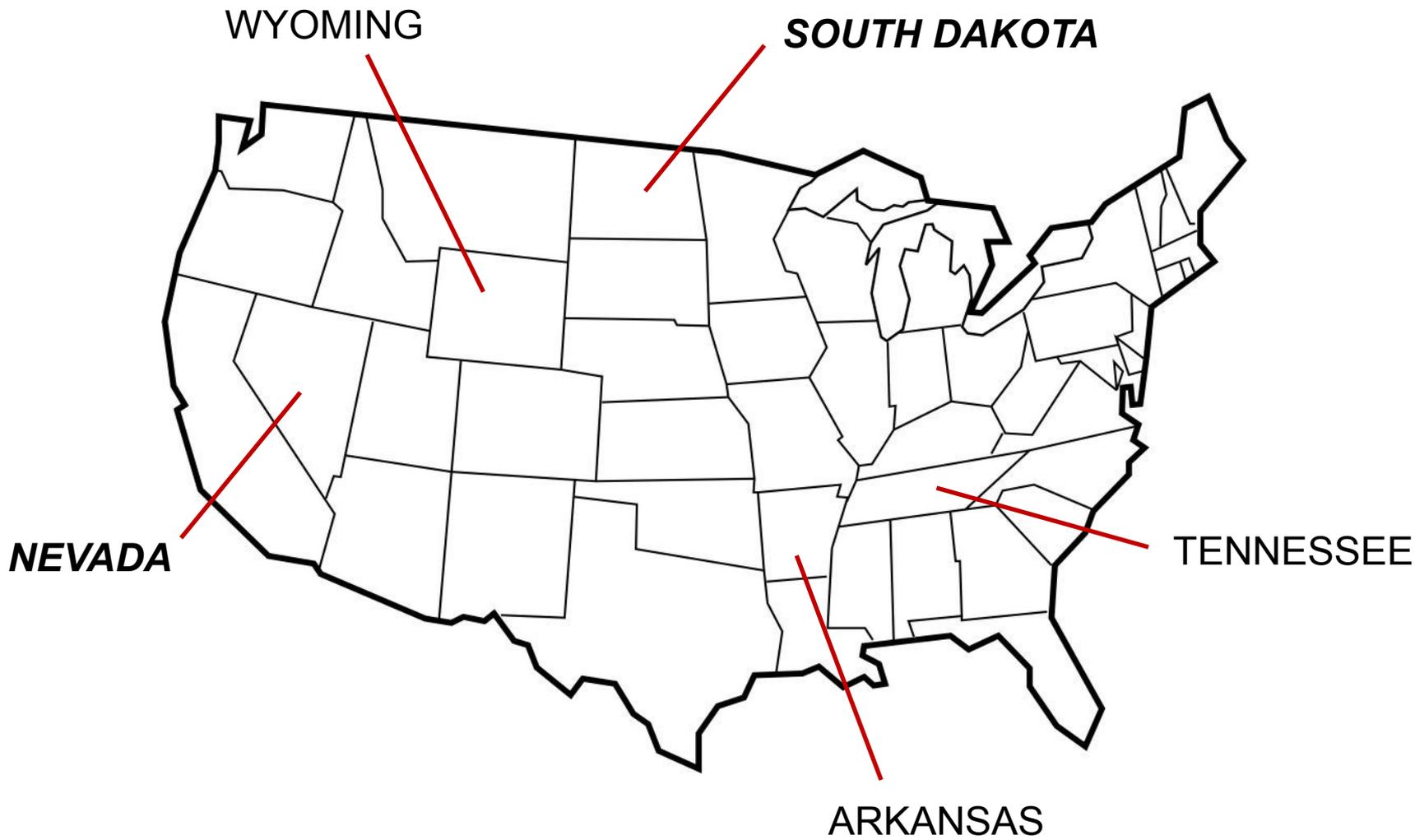


	<u>Estate Tax</u> <u>Before Discount</u>	<u>Estate Tax</u> <u>After Discount</u>	<u>Savings</u>
\$10 mm	\$0	\$0	
\$50 mm	\$10.9 million	\$2.9 million	\$8 million
\$100 mm	\$30.9 million	\$14.9 million	\$16 million

## Taxable Estate – *Reduce or Eliminate the Tax*

➤ *Dynastic Planning*

# Top States for Dynastic Planning



Other Jurisdictions to Consider:

Rhode Island, Ohio, Delaware, Illinois, Montana, New Hampshire, Florida



- ***DON'T WAIT, DO SOMETHING!***
- ***DOING NOTHING DOES NOT PREVENT DEATH.***
- ***DOING NOTHING CREATES ANXIETY AND STRESS FOR YOUR LOVED ONES DURING AN ALREADY DIFFICULT TIME.***