



# Succession and transition planning

Actionable strategies for preserving wealth and enhancing value

# Agenda

- ▲ **1** Overview of valuation concepts
- ▲ **2** Approaches to determining value
- ▲ **3** Sunset of Tax Cuts and Jobs Act
- ▲ **4** Succession and exit planning
- ▲ **5** Planning and strategy
- ▲ **6** Qualitative considerations



# Learning objectives



**By the end of this session, you will be able to preserve value and maximize wealth by:**

- ▲ Understanding valuation concepts within the context of wealth transfers through gifting, estate administration, and settlement.
- ▲ Identifying tax strategies that can be used to preserve and grow wealth for a multitude of generations.
- ▲ Determining the qualitative factors to consider within succession and transition planning.



# Valuation concepts

An overview

- ▲ What is valuation in a private company context?
  - When is valuation useful?
  - Management planning activities
  - Information discovery
- ▲ Range of values
- ▲ Relationship of value and risk
- ▲ Price, value, worth
- ▲ When is valuation necessary?

# Approaches to valuation

## The basics

### ▲ Fair market value

- “The price at which the property would change hands between a willing buyer and a willing seller when the former is not under any compulsion to buy and the latter is not under any compulsion to sell, both parties having reasonable knowledge of the relevant facts.”
- Revenue Ruling 59-60, 1959-1 CB 237; Estate Tax Regulations §20.2031-1(b); Gift Tax Regulations §25.2512-1.

### ▲ Three approaches to value



**Income Approach**



**Market Approach**



**Asset Approach**

# Applicable valuation discounts

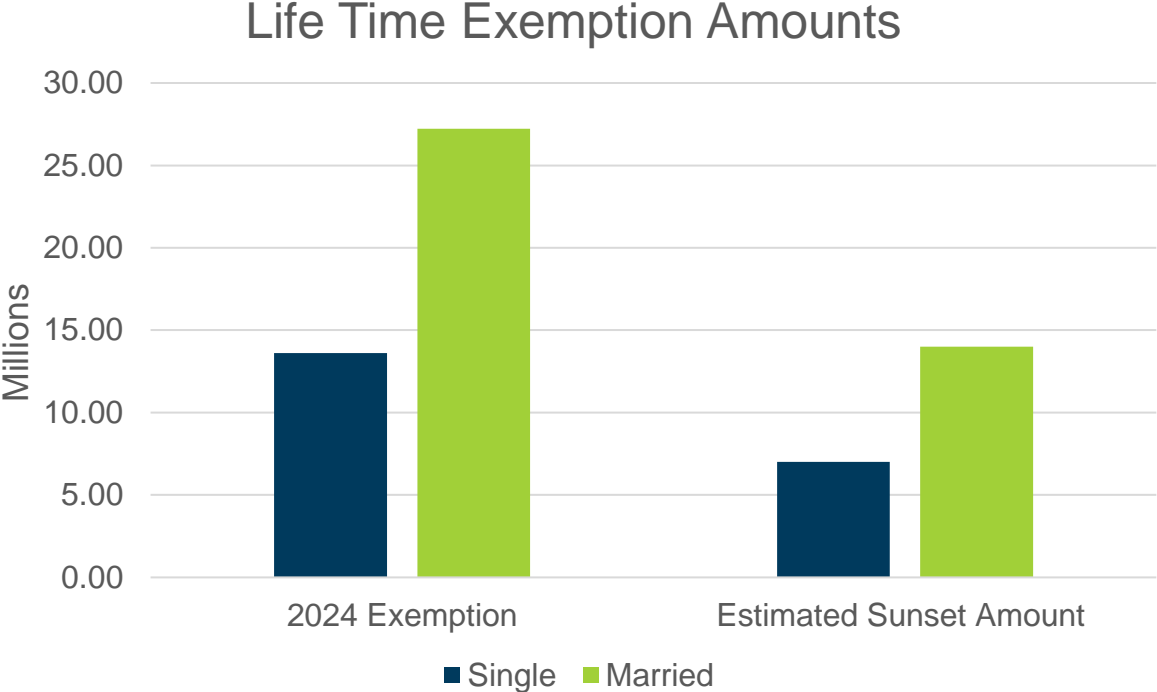
The basics

## Valuation discounts



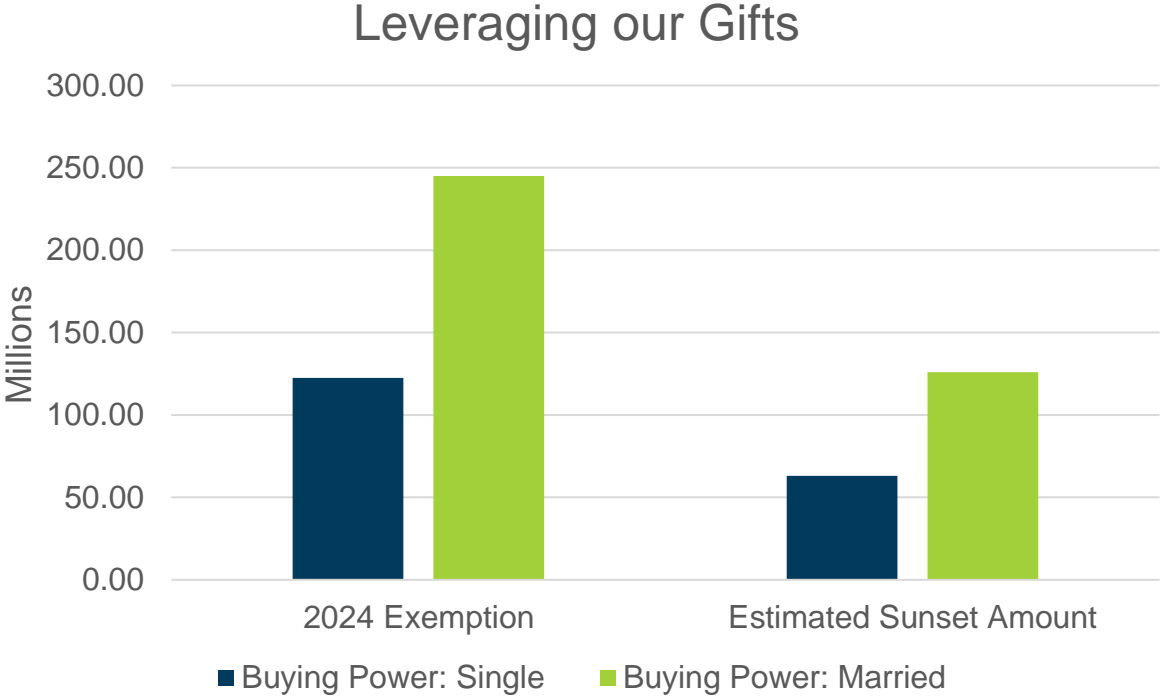
# Implications of valuation analysis in strategy

- ▲ Sunset of Tax Cuts and Jobs Act
- ▲ Impact on lifetime exemption level
- ▲ Implications of control provisions
- ▲ Efficient transfer of wealth while preserving lifetime exemption



# Leveraging our ability to gift

- ▲ Changes to leveraging ability with exemption decline
- ▲ Loss of current and future appreciation
- ▲ Planning ahead of sunset







## Succession planning and exit planning

- ▲ Baseline valuation
- ▲ The starting point
- ▲ Value enhancement
- ▲ Liquidity extraction
- ▲ Exit planning as a business strategy

# Planning and strategy

## The status quo

- ▲ Status quo (or current state / path) is a valid choice
  - Homework first
- ▲ Overcoming inertia and “heavy” topics
- ▲ Sustaining momentum
- ▲ Other factors argue to do something
  - Capital cycles
  - Capital gains tax
  - Discounts consideration
- ▲ Communicating plans now, with intent and strategy



# Next generation: to gift or to sell

1

Examining the status quo: life insurance

2

What type of questions should you ask?

3

To gift or to sell into an irrevocable life insurance trust (ILIT)?

4

Gifting and the perils of Sec. 2035(a)



# Next generation: to gift or to sell

Continued

6

Sec. 2035(a) is a clawback section

7

Three-year lookback window

8

What are the ramifications of selling a policy to the ILIT?

9

Continue the examination: grantor vs. non-grantor trust

10

Non-grantor: the danger of Sec. 101(a)(2)





# Grantor trusts and grantor triggers

- ▲ Sale of a policy to a grantor trust
- ▲ “All revocable trusts are grantor trusts, but not all grantor trusts are revocable”
- ▲ Grantor triggers transforms the trust
- ▲ Balancing the two regimes: estate tax and income tax
- ▲ Why actively push income to the grantor?

# Intentionally defective grantor trusts (IDGT)

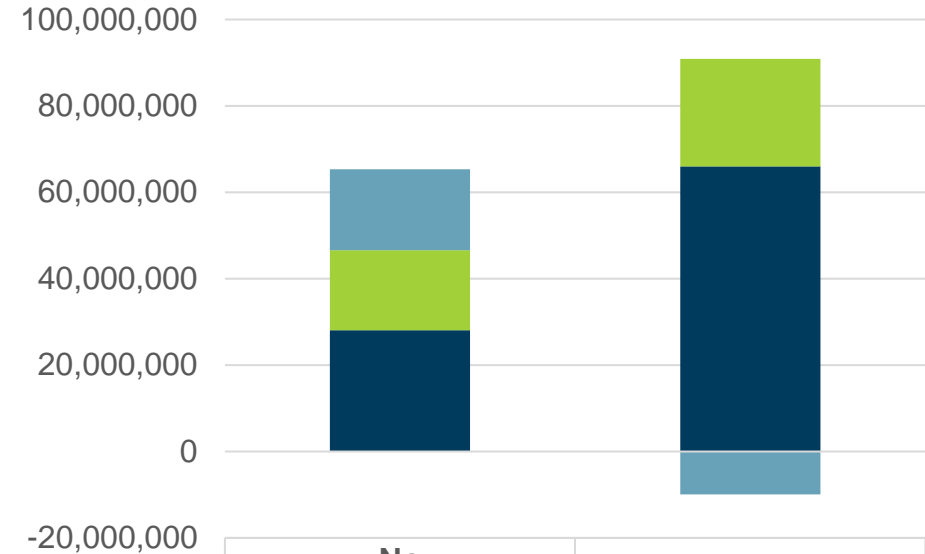
- ▲ The gift moves the asset outside of your estate but treats the grantor as the owner for income tax purposes.
- ▲ The main benefits are:
  - The trust grows income tax free
  - The grantor continuously reduces their estate
  - Increased appreciation outside of the grantor's estate



# No trust vs. IDGT

- Assumptions: \$20M investment, 15% ROI, 10 Years
- \$37.9M more passed to the beneficiary using an IDGT
- \$22.3M taxes saved using an IDGT
- What are the disadvantages of an IDGT?

No trust vs. IDGT



	No Trust	IDGT
■ Estate Taxes Paid	18,731,438	(9,940,700)
■ Income Taxes Paid	18,489,977	24,851,751
■ Value Passed to Beneficiaries	28,097,156	66,000,104



# Using the grantor trigger

- ▶ Power of substitution, also commonly referred to as a “swap power,” allows the grantor to transfer personally owned assets into a trust in exchange for trust assets of equivalent value.
- ▶ How can we leverage this power?

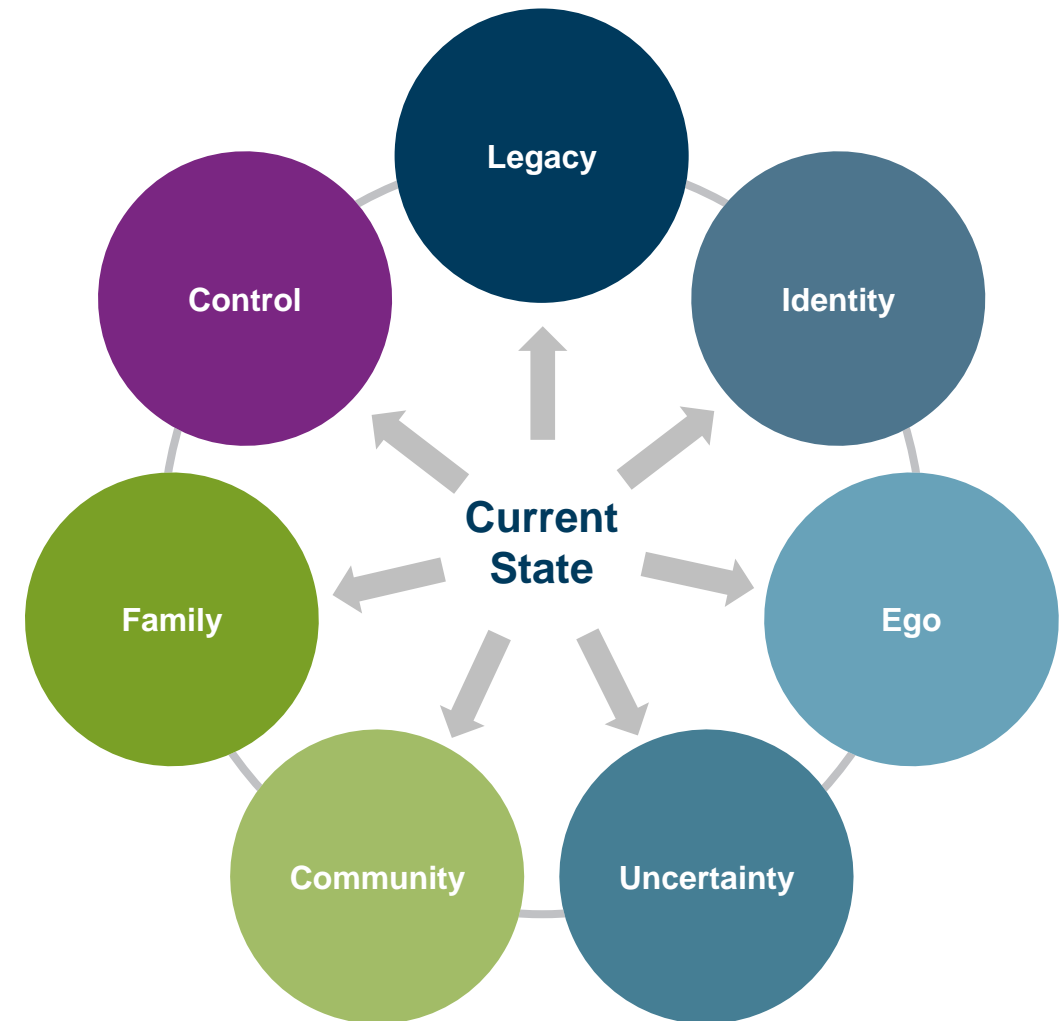




# Qualitative items to consider

Beyond the numbers

- ▶ What are the factors impacting the current state of your strategy?
- ▶ Which direction are they pulling?
- ▶ What force does each factor exhibit?
- ▶ Goal of defining strategy and success is found in aligning factors to pull in same direction



# Fair versus equitable

## Risk adjusted amounts

- ▲ With privately-held business at the center
  - Varying degrees of involvement across extended family tree and generations
- ▲ Value to remaining members
- ▲ Risks to remaining members—the assumption of risk
  - Governance, oversight, day-to-day, reliance on continued performance
- ▲ Value to external members
- ▲ Risk-adjusted equivalence of wealth transfers



# Long-term strategy

## Areas of consideration

### Stewardship

- Consistent messaging across generations
- Create, grow, and protect value

### Perpetual and permanent equity

- Perpetuation of effective control while acknowledging expansion and diversification

### Family governance

- Core values, family constitution, ground rules

### Setting up the next generation for success

- Using exit strategy as a business strategy



# Questions?

## **Nathan Pamer**

Manager | EA  
[npalmer@berrydunn.com](mailto:npalmer@berrydunn.com)  
(207) 842-8090

Tax and estate needs  
Federal and state trust planning  
and compliance

## **Cameron Scott**

Principal | CFA, ASA, CEPA  
[cscott@berrydunn.com](mailto:cscott@berrydunn.com)  
(207) 842-8179

Trust and estate planning  
Value acceleration  
Mergers and acquisitions

# Upcoming Events

## FOX ROUNDTABLE: THE INDIA OPPORTUNITY: GENERATING ALPHA IN INDIAN LISTED EQUITIES

Mar. 26, 2024 | Virtual Event

## FOX Rising Gen Leadership Program

April 12-13, 2024  
Denver, CO

## FOX Premier Partner Technology and Risk Management Day

April 17, 2024  
Virtual

## FOX Family Advisor Training Program

**In-person**  
May 15-16, 2024, Chicago, IL  
**Virtual modules**  
April 24, May 8, and June 26

## FOX Blockchain Roundtable

May 7, 2024  
Miami, FL

## FOX Global Investment Forum

May 7-8, 2024  
Miami, FL  
and Virtual