ON COURSE

Passing on Wealth: Considering Multi Generations in Your Strategy

DARBY ARMONT & JANA HOVEY

WINTER 2022

Passing on Wealth: Considering Multi Generations in Your Strategy

DARBY ARMONT

Executive Vice President

JANA HOVEY

Financial Planning Coordinator

> Thinking about how to pass along wealth to future generations can feel overwhelming. Once you answer the question of [how much you can give](), you have to tackle the question of how you are going to pass the wealth along. With so many options – appreciated stocks, tax liability, gift money, personal loans, trusts – there's a lot to consider.

Identifying Goals

People often think of protecting their future and financial security through retirement but stop there. It's typically much later on that they begin to think down generational lines. While some have gifted in the past, it's usually for a singular or specific reason. A desire to pass wealth to the future generation(s) can arise unexpectedly, when people find themselves with more money than they anticipated, or realize their children stand to inherit a sizable amount. At times, this results in a disconnect between the estate plan they've created and the financial position they've found themselves in.

Frequently, our clients turn to us as they consider their goals and dreams for the money, as well as for recommendations on how to use it in a tax-efficient manner. We work with them to identify their ideal scenario for wealth to be used by the next generation – which can be a difficult thing to articulate when it has not been a focus of prior planning.

It's also common for us to form relationships with the next generation (the "kids" and grandchildren), to manage their assets and support major events like house buying and marriage. Being available as a resource has allowed us to help our clients prepare these generations to handle wealth in the future. As one client told us, the best gift was not the money that she gave the kids, but the relationship between the kids and Slaughter Associates*. Having a trusted resource familiar with the entire family situation, who is available to provide expertise through life events, can make all the difference.

Selecting Tools

When it comes time to pass along wealth, there are a variety of ways to approach it. While setting up a trust is common, some of the following less-common tools can also be advantageous in certain situations.

Family Limited Partnerships

In this arrangement, two or more family members pool their money to run a business or project, with each person buying shares or receiving them as a gift. New family members can be included over time. The purpose is to create a family-owned entity that can be passed down through the generations. Family Limited Partnerships help preserve generational wealth by transferring wealth - but not necessarily cash - to family. This approach also allows for sharing the wealth on paper without giving access to funds. It also provides an estate planning tool that is beneficial from a tax standpoint.

Here's one example of how this process can work. A client recently sold a business and transferred the proceeds into a Family Limited Partnership. They established owners as trusts for the children and systematically gave shares to the trusts over a multi-year period. This also meant the appreciation of assets was outside of the client's estate.

Family Bank

A Family Bank refers to the process of providing a loan to a family member, often for the purpose of a down payment on a home or to start a business. It's set up much like a loan from a financial institution, with a promissory note, loan term, and payments due at specific dates. A Family Bank provides family members with access to the capital they couldn't otherwise obtain - or that would be substantially more expensive through a bank.

The biggest downside to a Family Bank is that, at times, it may not be viewed by all parties as a "real" loan; which can lead to hard feelings based on enforcement of the terms. Along those lines, one thing to note about a Family Bank is that it's important to charge at least a minimum interest rate, designated as the "Applicable Federal Rate" as defined on the IRS website.

"Having a trusted resource familiar with the entire family situation, who is available to provide expertise through life events, can make all the difference."

Qualified Personal Residence Trust

Creating a Qualified Personal Residence Trust allows you to remove your personal home from your estate and continue to enjoy its use for a specified timeframe before it passes to your beneficiary. If properly carried out, it's not considered a part of your estate when you die,

**The testimonial was given by a current client. No compensation was provided for the testimonial.*

therefore reducing your estate tax burden. This approach can be a good option for those who have a high value home that has become a significant part of their net worth.

It's important to note a Qualified Personal Residence Trust is an irrevocable trust, so once it's established you cannot change its terms. A challenge with this approach can be meeting the nuanced requirements that keep the property out of your estate. But it can be a powerful tool for folks who want to gift property out of their estates while preserving liquidity with other assets.

Starting the Process

When you begin making arrangements to pass on your wealth, your Slaughter Associates financial team will work with you, as well as your family when the time is right. Our primary role is coordinating between parties and supporting you throughout the process.

We can facilitate discussions and help open the lines of communication within the family, which many find to be the most challenging step. This helps ensure goals are efficiently and accurately met. We'll also coordinate with other financial professionals, such as your CPA, estate attorney, and insurance agent, to ensure all team members are on the same page and working together to meet your goals.

Richard P. Slaughter™ Associates

Darby Armont, MBA, CFA, CFP®
Executive Vice President

Jana Hovey, MBA, CFP®
Financial Planning Coordinator

Richard P. Slaughter Associates, Inc.
13809 Research Boulevard, Suite 905
Austin, TX 78750
Tel. 512-918-0000

invest@slaughterinvest.com
slaughterinvest.com