



# THE MULTI-GENERATIONAL ESTATE PLAN:

## HOW TALKING ABOUT MONEY CAN ACTUALLY SAVE YOU DURING TAX TIME

The traditional wisdom is that estate planning should be a secretive affair that happens behind the closed doors of an attorney's office and is not revealed until the death of a loved one. Unfortunately, this outdated and misguided notion often results in poorly coordinated estate plans at best and thousands of dollars in excessive taxes at worst. The wisest families, however, get past this and coordinate their estate plans so that maximum benefits are achieved across multiple generations.

### [Estate Tax 101: A Primer on the Unknown](#)

At this point, writing about the estate tax law is like writing about how not to annoy your wife during childbirth. I have had three kids and still haven't figured that one out. Here's a hint: talking about golf certainly doesn't

help! At this point, we have a law in 2009 that allows individuals to give \$3.5 million to the next generation without incurring a tax. In 2010, there is no estate tax but rather a modified system that would tax potential future capital gains. In 2011, we go back to the old law with only a \$1 million exemption. The Vegas oddsmakers (no – people don't really bet on these things) say that we will likely have the \$3.5 million exemption extended with some of the current valuation discounts reduced and other loopholes closed. So what should you do?

For those with large taxable estates, it is generally prudent to still plan. No one knows what future techniques will have their value reduced by newer legislation. Therefore, you should be speaking with an attorney to gauge

what options are available to you now regardless of what we think is coming down the pipeline later.

### [Navigating the Generation Skipping Tax: Why Talking with Your Kids is Smart Planning](#)

Under present law, you can give \$3.5 million to the next generation. But what if you want to give it to their next generation? At present, the government has set the same \$3.5 million limit on the amount of assets that can skip your children and go to their kids. This amount comes into play when your own children have their own estate tax issue. If they don't need the money, it doesn't make much sense to pass it on to them and then have it taxed as part of their estate. A better method would be to skip the kids and pass up to \$3.5 million exemptions on to the

grandkids. Of course, if the thought of giving \$1 million+ to an eighteen-year-old gives you pause, remember that you can structure your trust to dole out the money over time and under the oversight of a trustee. With proper drafting safeguards to make sure it does not get included back into your kid's estate, the trustee could even be their parents.

An example is a family with grandparents whose estate is \$7 million. Under the current law, they would pay no tax if their estate plan was in order. If their children have an estate of \$10 million though, they would project to pay tax on the \$3 million over their exemption amount. If they inherited \$7 million from their parents, they would be more than doubling their taxable estate. Under this scenario, it may make sense to pass on the grandparents' assets to their grandkids through a generation skipping trust. At worst, it would defer the taxes until the grandkids pass away (Of course, no one knows what the tax structure might be then and if it were much worse, then the plan could cause taxes to increase not decrease) at best it could save thousands in taxes.

#### Donor Funds and Private Foundations: The Gift that Gives and Gets Everyone Together

One aspect of the financial crisis is that many charitable organizations have taken a big hit in the size of incoming donations. For many, however, giving is a central part of their estate plan. A giving strategy can be carried out in any number of ways including the use of Charitable Remainder Trusts, outright gifts or naming a charity as the beneficiary on your IRA. One of my favorite strategies encompasses Donor Advised funds and Private Foundations. They both provide a pooled method to give to charities during life and after death. The latter is better suited for those whose charitable giving is in excess of \$3 million in total. The former



provides some better charitable discounts and the ability to have a private foundation feel at amounts of \$25,000 and up.

The primary benefit of both beyond simply the giving is that when you get your kids or grandkids involved they can function like the proverbial family kitchen table uniting multiple generations around central themes of giving back to the charities that mean the most to them. I look at this as the icing on the cake. You save in estate taxes, give to charities that mean a lot to you and get your kids and grandkids involved in getting to know you, and more importantly, themselves as they confront the world of charitable giving and the many stories that drive the need for it. On a practical note, access to the charitable funds is also useful in helping them develop connections and learning how to manage a foundation or sizeable donor fund.

#### Bringing it Together: Having the Big Conversation

The key to all of this, of course, is communication. I generally recommend that families get together every couple of years to discuss the estate plans. Parameters can be established for privacy sake, but in general, the family attorney is probably best to take everyone

through the general plans and how the assets will flow. This is particularly important with large IRA accounts or other qualified accounts where large taxable mistakes can be made if things are not handled properly. The key here is to have an experienced facilitator who can help guide the discussion and raise the important points that need to be discussed in any family meeting.

#### Conclusion

Multi-generational estate planning is a great concept. Unfortunately, it often only deals with one generation who is involved in the planning. In order to take advantage of these opportunities, true multi-generational estate planning involves engaging parents, kids and grandkids in the family wealth discussion.



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