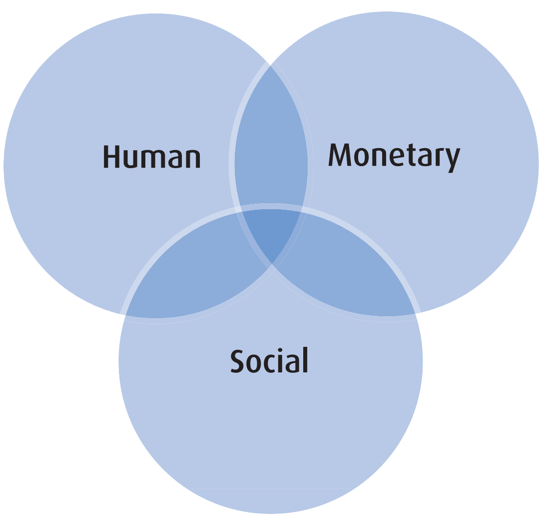
Intergenerational Wealth Transfer

The successful transfer of wealth to the next generation requires the careful construction of a plan that considers the wealth requirements of each generation and the communication of a family constitution across the generations. Only about 10% of wealthy families adequately prepared the heirs for their future. Intergenerational wealth transfer does not happen by accident; families must work together to document their constitution and build family governance that will manage the wealth over the generations.

Wealth is composed of three parts; human capital, monetary capital and social capital.



- Monetary capital is made up of active businesses, holding companies, real estate holdings, heirloom assets, art, collectables or investment portfolios.
- Human capital is made up of the education, social involvement, relationships within the family and external, community involvement as well other family beliefs.
- Social capital is made up of private foundations, the family's charitable gift plans, accrued income taxes and current income tax liabilities.

A family constitution is a type of manifesto, first drafted by the wealth creator and subsequently updated by successive generations. The document sets out the family's money motto which touches on the family's feeling about money, how the family uses and interacts with money, how money influences family members, etc. While all family members will have different and unique money mottos it is important that the family have a core motto.

The family constitution sets out the family's values, the family's standards and the expectations of family members. Guidelines would be drafted that set out what is expected of family members in return for enjoying the resources and support of the family. Distinguishing and valuing each family member's unique contributions is an important step in looking beyond the pure financial aspect of family wealth.

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Legal Documents

The family will want to ensure that all of their legal documents are current and harmonized in order to complete their inter-generational wealth transfer. Conflict can arise if the family plan calls for assets to pass to certain heirs but the shareholders' agreement obligates a different transaction, or the will gifts the assets to other heirs.

Shareholders' agreements are important in family situations because they set out the rights and obligations of the shareholders. Shareholders' agreements would also deal with dividend policies and/or redemption policies so that the entire family clearly understand the overall financial situation. Families may want to consider additional documents that deal with family hiring policies, performance reviews, salaries and raises.

Wills are important to ensure that individually held assets are passed to the appropriate beneficiaries given the family's inter-generational wealth plan. Well-crafted wills are required in order for each family member to ensure his/her obligations are planned and the overall family's intergenerational wealth plan is completed as intended.

Long Term Structures

The family's financial assets could pass from one generation to the next through individual wills, trusts or inter vivos gifting. No one system is better than another. The sustainability of any plan will depend on the family constitution and following the guidelines as set out.

Trusts are one option to consider, as long as planning incorporates the income tax laws that trigger a deemed disposition every 21 years. Holding companies are another option as long as the shares can be designed with certain attributions for each generation which can be converted as family members change status.

Options for Inter-generation Wealth Transfer

Wealth will eventually be transferred from one generation to the next. There are many options for inter-generational wealth transfer plans; the wealth could be divided equally amongst the children, who would in turn divide their portion of the wealth among their children. Alternatively, the wealth could be kept together and all of the beneficiaries could have a divisible interest in assets, a trust or a corporation. These two options are at the extreme end of the spectrum, it will be up to each family to decide where on the spectrum is appropriate for their family. It is important to note that a family could use different plans for different assets; for example the family retreat or investment portfolio might be centrally owned where the operating business(es) are owned by those managing the operations.

Intergenerational wealth transfer does not happen by accident; families must be proactive if they want their wealth to benefit future generations. Planning involves looking into the foreseeable future and setting goals can be accomplished with minimal issues.

BMO Wealth Management

We're here to help.™

January 2017

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