[Frequently Asked Questions]

Succession Planning-2

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Frequently Asked Questions

Q1. What is Estate Planning?

A1. Estate planning aims to deal with the income taxation based consequences of such decisions. Owners are bound to hold properties amassed during their lifetime which they intend to pass on to their family members, post their death. These properties are bound to taxes, which are desired to be limited to their minimal. Estate planning may appear as a complex task, but if it is treated as a well planned exercise then it can really benefit the successive generations.

Q2. What are the key concerns for Estate Planning?

A2. The key concerns regarding an estate plan are as follows:

- Expert Assistance

  Estate plans must be developed with due assistance of attorneys or tax advisors. They can assist the concerned in developing the fundamental documents and processes. Generally the documents include a declared will, power of attorney or a health care proxy and other tax related processes. They can assist with making decisions by considering the implications of each of the considered options. Their expertise can assist the concerned in correctly articulating their wishes, minimizing taxes and incorporating changes with changing circumstances.

- Maximizing the gains

  The core idea of estate planning is to maximize what the owner leaves for the family members, the spouse or the heir apparent. Thereby it is very important to get legal and tax guidance regarding how each asset will pass to the beneficiaries. The choices are bound to vary by the asset type, asset size, the age of the owner, and such other factors. The idea is to design it in a fashion that little is lost to taxations, court fees and other related expenditures.

- Estate, inheritance, and gift taxes

  Tax minimization is the core objective in estate planning. Taxes on gifts and estates can be among the highest assessed on any financial transaction. This can be further charged with state based levies on estate or inheritances. These taxes usually have exemption limits, which is used by many people to transfer assets while they are still living to ensure maximized inheritance for their beneficiaries. Such Estate and inheritance taxes usually are based on the valuation of the estate and are paid before the assets are distributed to the beneficiaries.

Q3. What are the concerns by doing appropriate planning?

A3. Estate Planning covers these concerns by doing appropriate planning during the lifetime of the owner, and includes taking any of these measures:

- financial planning;
- estate freeze;
- life insurance;
- asset transfer
- shareholders’ agreement, if any;
- powers of attorney in the event of incapacity;

- planned charitable giving, and
- will planning.

Q4. What is Estate Freeze / Refreeze?

A4. An estate freeze is an approach towards limiting death taxes. It entails transferring he growth potential of assets such as real estate or shares of corporations to the younger generation. The asset value to the transferor is frozen at its value as on the date of transfer. It also leads to freezing the amount of potential capital gain.This allows in estimating the potential tax liability on death and hence equip the firm with plans for the payment of income taxes.

Q5. What is meaning of Asset Transfer?

A5. In the event of possession of excessive assets and if the owner wishes considering reducing estate probate and executor fees, and also possibly income taxes upon death, then the owner can transfer assets during their lifetime. However the owner needs to carefully assess which assets to transfer, to whom, and how to avoid attracting a tax liability.

Q6. What is Planned Giving?

A6. Planned giving may assume many forms. It can involve gifts of life insurance or setting up of private foundations or trusts. Such a measure requires sound advices from tax advisors to design a planned-giving strategy that is most appropriate to the owner's individual situation. There needs to be an appropriate look into estate planning, financial planning and tax planning to arrive at a sound planned-giving plan.

Q7. Explain will Planning

A7. One of the most critical elements of an estate-planning strategy is the Will Planning. This should be treated with an inevitable disposition since a dying intestate (without a will) can nullify all the painstakingly pursued estate-planning provisions. If a owner dies without a will, then the assets stand distributed in accordance with the laws of the province where the owner resided. This may not necessarily be in accordance with what the owner would have wanted.

Q8. What are the points to be considered while estate planning during life events?

A8. The Estate plan must be subjected to revisions during life events like the following:

- The birth or adoption of a new member; when a child in the family grows into an adult; when provisions are required for educational funding.
- In event of death of any member;
- Marriage or divorce; illness or any major disabilities caused;
- Change in your life or long-term care insurance coverage
- Procuring huge borrowings or purchase of major assets;
- Changes in laws pertaining to taxes and investments

Q9. How do the Successors cope with the stress?

A9. A healthy successors accepts and acknowledges the inherent issues of being a successor, thereby resorts to proactive steps to handle the stress. Few such efforts are discussed:

Building a perspective with reflection: Several successors recommend journal writing to be a valuable way to record valuable learning and to build confidence.. Many of them resort to self-help books to get a perspective.

Seeking allies from outside the business: Many successors join clubs, organizations or even informal groups of presidents or top representatives of family businesses. Some join university based entrepreneurs groups and bodies that help them look at other entrepreneurs sharing stories and encounters that they can relate to. It is in such situations that companies bank on the directors from outside the family to play the role of a mentor to the successor.

Act: Many times successors believe in just doing it out, rather than worrying about the consequences. Many successors have attempted courageous moves, taking genuine feedback to their strides and thereby making a mark for themselves in the eyes of the family and top management.

Q10. Discuss the criterias to be considered while approaching a successor.

A10. Following criteria must be considered while approaching a successor:

- Is the successor/s committed to the firm's mission?
- Does the successor/s has/have the ability to take the firm forward?
- Can they arrive at sound decisions?

Do they have the leadership capabilities to lead and motivate others?