

# WHAT GOOD IS IT IF WE DON'T GET ALONG?

OR

## Planning for Family Harmony (Part 3)

It's Your Money

Verlyn De Wit, CLU, ChFC

You love your kids the same, but they are in different situations. Some are involved in the dairy business with you and some are not. What should your inheritance plan for them look like?

### Remember the "don'ts" we discussed last month:

- Don't give children grossly unequal shares of the estate
- Don't punish financially successful children by decreasing their inheritance
- Don't force children to own property together after your death
- Don't force children to enter debtor/creditor relationships after your death
- Don't fail to communicate your plan to the children
- Don't wait to plan

### Should you do what Jack and Mary did?

Though not their real names, the situation I'm about to describe is very real. Jack and Mary run a family dairy in central California. Their wills presently give all property to their four children in equal shares. Even though they are only in their mid-fifties, Jack and Mary realize its time to look at a business transition plan. They believe that the dairy business is important, but family harmony and fairness come first.

Their oldest son, Brian is very involved in the dairy. It's great that Brian can take care of the place so Jack and Mary can travel more these days. The dairy benefits from Jack's wisdom and stability, but Brian's enthusiasm and creativity will define the dairy's future.

Jack and Mary's other three children are off doing their own thing. They are certainly interested in the success of the dairy, but don't visualize it in their business future.

So here is the classic dilemma: If Brian continues his hard work, is he simply building up something he'll have to buy back later from his brothers and sisters? The dairy already has some debt, but a cash flow analysis shows that upon Jack and Mary's death, taxes and payments to his siblings would increase Brian's debt load to more than 70% of his asset base. Should Brian shoulder all the business risk so his brothers and sisters can simply cash a bigger inheritance check?

Here is what Jack and Mary did to avoid a dismal business future for Brian, and be fair to the other children at the same time.

- Jack and Brian formed a partnership. Ten percent of the dairy partnership was gifted to Brian, and Jack and Mary have sold an

**Jack and Mary want to avoid a dismal business future for Brian, and be fair to the other children at the same time.**

additional 30% share to Brian through a long term installment sale. The projected cash flow from the business should be sufficient to keep Brian's payments on schedule.

- Jack and Mary changed their wills so that any dairy assets they have not sold or given to Brian during their lifetimes go to him at their deaths. Their wills also release Brian from any debts owed his parents at that time. Brian will, however, be responsible for any debt the dairy owes, and the estate tax the dairy assets generate. Brian has purchased a survivorship life insurance policy on his parents to help clear up these obligations. Brian's salary from the partnership enables him to pay the premiums.
- Jack and Mary are using a portion of the payments from Brian to purchase a survivorship life insurance policy. This policy will be held in a special type of trust for the benefit of Brian's brother and sisters. The policy is relatively inexpensive, and if properly structured, the trust will distribute the insurance money free of income tax and death taxes. **These tax savings are so significant; the non-dairy heirs' after-tax inheritance under this plan is actually a little more than the original "share-and-share-alike" wills gave them.**

Brian may end up with more value than his brother and sisters, but he is saddled with the estate tax and all of the business risk. Brian's siblings' inheritance is insured and protected, while Brian's financial future depends on the success of the dairy. Brian's siblings have at least one bird in the hand; Brian may have two in the bush. The dairy business is like that.

This plan will keep Brian financially independent from his brother and sisters. No need to enter into partnerships with them, or ask them for a loan. Best of all, Jack and Mary have decided to explain the plan to their children at a family meeting so they can answer questions now.

Obviously there are other approaches that could have been taken in this case. Jack and Mary's family was fortunate since 1) there was family harmony begin with, 2) they were willing to start planning early, and 3) they were willing to allocate some money to an essential life insurance program.

Since family harmony is sometimes in short supply, next issue we'll discuss how to handle problem children.

Verlyn De Wit helps successful dairy producers make smart decisions about their money. He can be reached toll-free at 1-888-468-1728 by email at [vdewit@sammonsrep.com](mailto:vdewit@sammonsrep.com) or "snail-mail" at 1270 Eastside Dr., Sioux Center, IA 51250. Securities offered through Sammons Securities Co., LLC. 4261 Park Road, Ann Arbor, MI 48103. Member NASD and SIPC.

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