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KEEPING THE FAMILY BUSINESS IN THE FAMILY

Tom Durant was a young man when he began a manufacturing business in Nashville, Tennessee. Almost from the start he experienced one major expansion after another that would ultimately multiply his company's size a hundred times over. His trust in God to taking some calculated risks and his skillful management had paid off "in spades" for his wife, Sandy, and him. They had become multi-millionaires.

A Complex Problem

As Durant Manufacturing, Inc. ballooned into a multimillion dollar business, Tom faced several new problems and challenges. First, the huge success of his business had catapulted him into the maximum estate tax bracket. Second, of his four sons, only one was actively involved in the business. Tom and Sandy wanted this one son, Jim, to inherit the business. Since the company was the vast majority of their estate, they wanted to pass the company on to him, while still providing an equal inheritance to their other three sons.

Tom and Sandy realized that if they sold the business outright to Jim, they would lose 15 percent of the value of the business to capital gains taxes. If they waited to pass the business on to Jim at their deaths, their estate would be facing up to a 49 percent shrinkage due to estate taxes, undoubtedly leading to the forced liquidation of the company to pay the taxes. Tom and Sandy had no idea how to solve these problems and because of that, like so many people, they had done nothing at all about it.

A Creative Solution

Through a very sophisticated wealth transfer planning technique, we helped Tom and Sandy solve their capital gains and estate tax problems and achieve all their business, personal and charitable goals. The first step was for Tom to gift outright one percent of his C-corp. stock to Jim. Tom now owned 99 percent of the stock and his son Jim owned 1% of the stock.

Then, Tom began an annual gifting program of 1/15th of his stock to a Charitable Remainder Unitrust for the next fifteen years until all his stock had been gifted to the C.R.T. Each year as he made the partial transfer, Tom and Sandy received a substantial current income tax deduction. The corporation, using the increased cash flow now available due to Tom's semi-retirement, offered to buy the stock from the C.R.T. each year as it was gifted. Once purchased, the corporation simply retired the redeemed stock as treasury stock. As these annual transfers to the C.R.T. and .buy-backs. occurred, Jim's small initial percentage of ownership in the company continued to increase each year as less and less stock was outstanding. Ultimately, after the fifteenth year, Jim owned all outstanding shares of Durant Manufacturing stock, making him 100% owner of the company. In this process, we effectively transferred the entire company to Jim capital gains or estate tax free. This process solved the transfer tax problem; however, the Durants still didn't know what to do about providing an equal inheritance to all four children.

First, we calculated the total amount the other three children would have to inherit in order to equal the value of the business that Jim would receive. That total amount became the figure we used for the amount of the survivorship life contract that Tom and Sandy would place inside their Children's Wealth Replacement Trust (W.R.T. - IRS named an Irrevocable Life Insurance Trust). Now the other three sons would receive their equal inheritance from the W.R.T. and the other estate assets that would pass, tax-free, to them through the Durants' lifetime exclusions ($2 million). The Durants, using a portion of their C.R.T. income, as well as the tax savings from making the transfers to the C.R.T., made tax-free gifts to fund their children's Wealth Replacement Trust using their $12,000 annual exclusion. With this plan, Jim got the business, the other three sons got an equal amount of cash and other estate assets. Everyone was happy.

A Kingdom Benefit

This, however, was not the end of the story. This plan produced a massive sum of money that was now on its way to support Kingdom causes. When we first talked with Tom and Sandy about what they might like to do with these newly created millions of charitable funds, they were really rather at a loss to know where to give it all. We encouraged them to begin praying that the Holy Spirit would give them guidance on how to be the best possible stewards of this substantial fortune. After a few months of work, we had helped them develop a Master Stewardship Plan that included an overall strategy to underwrite some very exciting projects with seven different ministries. We created a public family foundation and made plans to provide these ministries with hundreds of thousands of dollars of annual support from their foundation endowment funds.

Not only did the Durants accomplish all their personal and family goals and objectives with their Master Stewardship Plan, but in the process of taking care of themselves and their family, they were also able to create a major endowment to continue to support the seven Christian ministries into perpetuity. You can almost hear God saying to the Durants, "Well done, Thou good and faithful steward…"

ABOUT THE AUTHOR — E. G. "JAY" LINK

Jay Link, Director of Stewardship Planning at Taylor University, spent 35 years counseling Christian families to build customized Master Stewardship Plans. He is an author, a mentor to hundreds of financial advisors and attorneys, and started his career as a pastor. His passion is helping Christian families use all the Lord has entrusted to them for Kingdom-building purposes.