Passing on wealth across generations

Private Wealth Pathway

1 A story: the gift she can watch

- Teodora: 8.0m of wealth, needs 4.5m for herself
- A gift is seen, and its growth leaves her estate
- But a gift cannot be taken back
- Her own security comes first

IN THE LESSON

- Teodora owns eight million in all and needs about four and a half million to live on, in today's money.
- Her daughter Petra is starting a business.
- Her son Anselm runs the family workshop.
- Teodora wonders: should she help now, or leave everything in her will?
- A gift made during life has a quiet appeal.
- She sees the benefit with her own eyes.
- The growth on the gift happens in the child's hands, not in her estate.
- And the tax may be lower.
- But once the money is given, it is gone, and her own security must come first.
- Jonas Keller has to weigh both sides.

2 The case for and against giving now

Giving now: what pushes each way

Pushes towards giving	Why
Growth leaves the estate	Best for fast-growing assets
Gift tax on the gift alone	Estate tax also taxes its own tax
Allowances and lower rates	Tax-free amounts, cheaper income
Against: control and needs	Also carry-over cost basis

IN THE LESSON

- Here is the weighing Jonas Keller does.
- Three groups of things favour giving early.
- Growth on the gifted asset arises outside the estate, so a fast growing asset is the best one to give.
- Gift tax is usually charged only on the amount given, while an estate tax also taxes the money used to pay it.
- Recurring allowances, often yearly, let a giver pass amounts tax free, and a recipient who pays tax at a lower rate keeps more of the income.
- Against all this, the giver loses control and must keep enough to live on.
- Also, in some systems a gift keeps the giver's original cost, while assets passing at death get a fresh cost.

3 Give now or leave it later

Give now

1.3m set aside: 30% tax = 0.3m → Petra invests 1.0m → 2.40m after 15 yrs at 6%

Leave later

Keep 1.3m for 15 years → Grows to 3.12m → 2.18m after 30% estate tax

IN THE LESSON

- Here are the two routes for a one million gift, drawn as two rows.
- The top row is giving now.
- In this example gift tax is thirty per cent of the gift, so Teodora sets aside one point three million, pays three hundred thousand in tax, and Petra receives and invests one million.
- After fifteen years at six per cent after tax, Petra has about two point four million.
- The bottom row is leaving it.
- Teodora keeps the same one point three million, it grows to about three point one two million, and then estate tax of thirty per cent is taken from all of it.
- Petra receives about two point one eight million.
- Same starting cash, same tax rate, same growth.
- The gift wins.

4 Gift against bequest, after tax

Gift: $G(1+g)^n$ Bequest: $G(1+tg)(1+g)^n(1-te)$

Gift received	Amount the child receives
Gift tax rate	Gift tax, on the gift only
Estate tax rate	Estate tax, on the whole estate
Growth after tax	Yearly growth after tax
Years	Years until death

IN THE LESSON

- Two short formulas capture the comparison.
- For the gift, the child receives the amount G, and it grows for n years at the after tax growth rate.
- For the bequest, the same cash outlay is the gift plus its gift tax, so G times one plus the gift tax rate.
- That grows for the same years, and then the estate tax rate takes its slice from the whole.
- The first formula never pays a tax on the tax.
- The second does, because the estate tax falls on money that was only there to pay for it.
- Always compare after tax values, over the same horizon, from the same starting cash.

5 Example 1: one million, given or left

Gift tax 30% on the gift; estate tax 30%; 6% for 15 years

Cash set aside for the gift	1.0m + 0.3m tax (30%)	**1,300,000**
Gift after 15 years	1.0m × 1.06^15	**2,396,558**
Bequest before estate tax	1.3m × 1.06^15	**3,115,526**
Bequest after estate tax	× 0.70	**2,180,868**
Advantage of giving	2,396,558 ÷ 2,180,868	**9.9%**

IN THE LESSON

- Now the numbers.
- Giving one million with thirty per cent gift tax costs Teodora one point three million, the tax being three hundred thousand.
- One million grown for fifteen years at six per cent comes to two million, three hundred and ninety seven thousand for Petra.
- The bequest route starts with one point three million, which grows to three million, one hundred and sixteen thousand.
- After estate tax of thirty per cent, Petra receives two million, one hundred and eighty one thousand.
- Dividing, the gift leaves Petra about nine point nine per cent more.
- That is the benefit of paying tax on the gift alone.

6 The gap widens with time

Chart: Value to Petra (millions) vs Years until the money passes (15)

- Gift: 1.0m to 2.40m, at 6%
- Bequest, after 30% tax: 2.18m

IN THE LESSON

- Here is the same comparison as a picture.
- Years run along the bottom, from now to fifteen, and the value to Petra, in millions, is up the side.
- Both lines start at the left, and both rise at six per cent a year.
- The upper green line is the gift.
- It starts at one million and reaches about two point four million.
- The lower red line is the bequest, valued after estate tax as though death came in that year.
- It starts lower, because thirty per cent of the money is taken, and ends near two point one eight million.
- The gap is small at first and grows every year, because growth works on a bigger base for the gift.

7 Example 2: a lower-taxed recipient

7% before tax; Teodora taxed at 35%, Petra at 15%; 15 years

Teodora keeps	7% × (1 − 0.35)	**4.55%**
Petra keeps	7% × (1 − 0.15)	**5.95%**
1.0m in Teodora's hands	1.0m × 1.0455^15	**1,949,219**
1.0m in Petra's hands	1.0m × 1.0595^15	**2,379,657**
Gain from shifting income	Petra's less Teodora's	**430,439**

IN THE LESSON

- There is a second gain.
- Suppose the one million would earn seven per cent before tax.
- Teodora pays tax at thirty five per cent on investment returns, so she keeps four point five five per cent.
- Petra pays fifteen per cent, so she keeps five point nine five.
- After fifteen years, in Teodora's hands the one million becomes about one million, nine hundred and forty nine thousand.
- In Petra's hands it becomes about two million, three hundred and eighty thousand.
- Shifting the money to the lower taxed recipient has added four hundred and thirty one thousand, even before any transfer tax.
- The caution is that the giver cannot then use or recall that money.

8 Example 3: which asset to give

Stake grows 10% for 15 yrs; shares cost 100k, worth 500k; gain tax 20%

Stake kept, heir gets	200k × 1.10^15 × 0.70	**584,815**
Stake given, heir gets	200k × 1.10^15, no tax	**835,450**
Gain from giving the stake	835,450 − 584,815	**250,635**
Shares: estate tax saved	30% × 500k	**150,000**
Shares: net of gain tax carried	150k − 80k (20% × 400k)	**70,000**

IN THE LESSON

- Jonas Keller now asks which asset to give.
- Teodora holds a young technology stake worth two hundred thousand, expected to grow ten per cent a year.
- In fifteen years it is worth about eight hundred and thirty five thousand.
- If she keeps it, estate tax of thirty per cent leaves her heir five hundred and eighty five thousand.
- Given now, within her allowance, the heir keeps all eight hundred and thirty five thousand, a gain of two hundred and fifty one thousand.
- Her old listed shares are worth five hundred thousand with a cost of one hundred thousand.
- Giving them saves one hundred and fifty thousand of estate tax, but carries over a gain tax of eighty thousand, so the net gain is only seventy thousand.

9 Example 4: can she afford it?

Wealth 8.0m; need 4.5m; reserve = need + 10%

Wealth after both gifts	8.0m − 1.3m − 0.2m	**6.50m**
Margin over her need	6.5m − 4.5m	**2.00m**
Reserve she keeps	4.5m × 1.10	**4.95m**
Room left to give	6.5m − 4.95m	**1.55m**
Review	each year, before more gifts	**yearly**

IN THE LESSON

- Now the question that decides everything.
- Teodora has eight million.
- The gift to Petra costs one point three million, including the gift tax.
- The technology stake is two hundred thousand.
- That leaves six point five million, against the four and a half million she needs, a margin of two million.
- Jonas Keller likes a cushion, so he sets a reserve of ten per cent above her need, which is four point nine five million.
- That leaves one point five five million of room to give further, and no more.
- His proposal: make these two gifts now, keep the room in hand, and review it every year.
- Gifting beyond that point would be the trap, because a gift cannot be taken back.

10 A story: the will that did not decide

- Teodora's will: everything to Anselm
- But what does the will actually control?
- Some assets pass by title or by a form
- Some laws reserve a share for the children

IN THE LESSON

- Teodora signed her will years ago.
- It leaves everything to Anselm, because he cares for her and runs the workshop, and Petra has received her gift.
- She believes that is the end of it.
- Jonas Keller asks a harder question: what does the will actually control?
- Assets pass in four ways.
- By the will, by the law's default rules if there is no valid will, which is called intestacy, by ownership that passes automatically to the surviving co owner, and by a named beneficiary on a form or a trust.
- Only the first is controlled by the will.
- In many countries, the law also reserves a share for close family.
- The list will surprise her.

11 Four routes to an heir

How wealth passes at death

Route	Controlled by the will?
Will, through probate	Yes, if the law allows
Intestacy	No: the law's default order
Joint ownership, survivorship	No: passes to co-owner
Designation or trust	No: form or terms decide

IN THE LESSON

- Let us set the routes side by side.
- A will names who receives what, and its assets usually go through probate, the court supervised process of collecting assets, paying debts and handing out the rest.
- Probate can be slow, costly and public.
- If there is no valid will, intestacy rules decide, and they follow a fixed family order that may not match the person's wishes.
- Joint ownership with a right of survivorship passes the asset straight to the other owner, outside the will.
- A beneficiary designation, on a pension or a life policy, does the same, and a trust passes assets under its own terms, often privately and quickly.

12 Inside the will and outside it

Through the will

Death → Probate: debts, taxes, court → Heirs named in the will

Outside the will

Death → Form or title decides → Paid straight to the named person

IN THE LESSON

- This picture shows the two paths.
- The top row is the path through the will.
- At death, the assets in the person's sole name go to probate.
- There they are collected, debts and taxes are paid, and the court supervises the handing out to the heirs named in the will.
- That is slower and more public.
- The bottom row is the path outside the will.
- At death, the form or the title decides.
- A named beneficiary on a pension, or the surviving co owner of a joint account, is paid directly, without waiting for probate.
- This is one reason advisers use designations and trusts: they are quicker and more private.
- But it also means the will can be overridden by paperwork nobody has looked at for years.

13 Freedom, forced shares and who pays the tax

What differs between legal systems

Feature	How it differs
Testamentary freedom	Leave it to anyone
Forced heirship	Shares reserved for family
Community property	Spouse already owns half
Estate or inheritance tax	On the estate, or each recipient

IN THE LESSON

- Legal systems differ.
- Some allow broad testamentary freedom: the person may leave the estate to whoever they like.
- Others impose forced heirship, which reserves fixed shares of the estate for children or a spouse, whatever the will says.
- Community property systems treat what a married couple earned as jointly owned, so the survivor already owns part of it before the will applies.
- Transfer taxes also differ.
- An estate tax is charged on the estate as a whole, while an inheritance tax is charged on what each recipient receives, often at rates that depend on the relationship.
- And when assets sit in several countries, the laws and taxes of each may conflict.
- Which rule applies depends on the jurisdiction.

14 Reserved share and free portion

Reserved each = E × f ÷ k Free = E × (1 − f)

Probate estate	Estate passing under the will
Reserved fraction	Fraction the law reserves
Children	Number of children
Free portion	What the will controls

IN THE LESSON

- When forced heirship applies, two short calculations show what the will really controls.
- First, the reserved part of the estate is the probate estate times the reserved fraction.
- Each child's reserved share is that amount divided by the number of children.
- Second, the free portion is what is left: the probate estate times one minus the reserved fraction.
- Only the free portion can be given to the person the will names.
- Notice that both formulas apply to the probate estate only.
- Assets passing outside the will, by survivorship or a designation, do not enter the sum in this example.
- Always check how the local law defines the estate before you calculate.

15 Example 5: where Teodora's money really goes

Estate 6.5m; will: all to Anselm; half of probate reserved

Probate estate	1.5m + 2.5m + 0.7m	**4.70m**
Joint account to Anselm	survivorship, outside the will	**0.80m**
Pension to Petra	named on the form	**1.00m**
Reserved, each child	4.7m × 50% ÷ 2	**1.175m**
Anselm / Petra in total	routes added up	**4.325m / 2.175m**

IN THE LESSON

- Here is Teodora's estate at today's values, six point five million.
- She owns the home, one point five million, and her workshop shares, two point five million, in her sole name, plus a portfolio of seven hundred thousand.
- Together, the probate estate is four point seven million.
- The joint account, point eight million, is held with Anselm and passes to him by survivorship.
- Her pension of one million names Petra on the form.
- Suppose the law reserves half of the probate estate for the two children, equally.
- That is one point one seven five million each.
- The free portion is two point three five million, to Anselm.
- Anselm gets four point three two five million in all, and Petra gets two point one seven five million, not zero.

16 What the will really controls

Wealth passing (millions)

Joint account	**0.80**
Pension form	**1.00**
Reserved shares	**2.35**
Free portion	**2.35**

Will controls 2.35m of 6.5m (36%)

IN THE LESSON

- This picture divides the same six point five million by how it passes.
- The vertical axis is millions.
- The first bar is the joint account, point eight million, which goes to Anselm outside the will.
- The second bar is the pension, one million, which goes to Petra by the form, also outside the will.
- The third bar is the reserved shares, two point three five million, which the law gives to the children whatever the will says.
- The last bar, also two point three five million, is the free portion, the only part Teodora's will truly controls.
- So her will controls about thirty six per cent of her wealth.
- The rest is decided by title, paperwork and law.
- Good planning finds this out while the client can still act.

17 Example 6: the tax bill and the cash

Estate tax 30% on 6.5m; cash in the estate is the portfolio

Estate tax at 30%	30% × 6.5m	**1.95m**
Cash in the estate	portfolio only	**0.70m**
Shortfall	1.95m − 0.70m	**1.25m**
Workshop shares to sell	1.25m ÷ 2.5m	**50%**
Cover to arrange	pays the shortfall	**1.25m**

IN THE LESSON

- Now the tax.
- Say the estate pays tax of thirty per cent on the whole six point five million.
- That is one point nine five million.
- But the only cash in the estate is the seven hundred thousand portfolio, because the home and the workshop shares are not cash.
- The shortfall is one point two five million.
- Without a plan, half of the workshop would have to be sold, to pay the tax.
- That is exactly what Teodora does not want.
- Jonas Keller proposes life insurance of about one point two five million, owned in a way that keeps it outside her estate, such as in a trust, so the cash arrives when the bill does.
- In real life, who pays, and from which assets, depends on the jurisdiction.

18 Proposal and cross-border care

- Make forms, titles and will say the same thing
- Plan within reserved shares; take legal advice
- Use trusts or designations for speed and privacy
- Insure for the tax; check foreign law and tax

IN THE LESSON

- Pulling the pieces together, here is Jonas Keller's plan for Teodora.
- First, a review of every form and title: the joint account, the pension designation and the will must say the same thing.
- Second, plan within the reserved shares, not against them, and take legal advice, because Jonas is an adviser, not a lawyer.
- Third, use a trust or a designation where speed and privacy matter.
- Fourth, arrange insurance for the tax bill.
- Fifth, if she owns property abroad, find out which country's law and tax apply, and whether a treaty gives relief.
- None of this is advice for a real person; the rules depend on the jurisdiction.

19 Mistakes to avoid so far

- Over-gifting and leaving the giver short
- Forgetting that estate tax also taxes the tax
- Ignoring cost basis on gifted assets
- Assuming the will controls everything
- No cash to pay the tax: forced sale

IN THE LESSON

- Let us collect the common mistakes from the first two topics.
- One: over gifting.
- A gift that leaves the giver short of what she needs is a failure, however efficient it looked.
- Two: comparing a gift with a bequest without remembering that estate tax is charged on the tax money too.
- Three: ignoring cost basis.
- A gifted asset may carry its old cost, while an inherited one may get a fresh cost.
- Four: assuming the will controls everything, when survivorship, designations, trusts and forced heirship override it.
- Five: forgetting liquidity, so heirs must sell the family business to pay the tax bill.

20 A story: three generations

- The saying: wealth rarely survives three generations
- The danger is purpose and preparation, not just tax
- Philanthropy gives every generation a role
- The vehicle must fit the family

IN THE LESSON

- There is an old saying that a family fortune rarely survives three generations.
- Teodora's father built the workshop, she kept it alive, and she worries about her grandchildren.
- Jonas Keller tells her that the biggest danger is not tax.
- It is a family that has no shared purpose and heirs who have never been prepared.
- So wealth lasting across generations depends as much on governance, shared values and education as on legal structures.
- Philanthropy can help.
- It puts the family's values into action, it gives younger members a real role, and in many places it attracts tax relief.
- But the vehicle must fit the family.

21 Four giving vehicles

Giving vehicles in brief

Vehicle	In brief
Outright gift	Simple; no ongoing control
Donor-advised fund	Cheap and simple; less control
Private foundation	Control and family name; costs more
Charitable trust	Pays family and charity in turn

IN THE LESSON

- There are four main vehicles.
- An outright gift to a charity is the simplest: the money goes, and the family keeps no control.
- A donor advised fund is an account held at a sponsor.
- The donor gets the tax relief at once and then recommends grants over time.
- It is simple and cheap, but control is limited.
- A private foundation is the family's own charity.
- It offers real control, a place for the family name, and a seat for each generation, but it costs more to set up and run, and it faces rules.
- A charitable trust splits the benefit between the family and a charity over time.
- The choice depends on goals, desired control and cost.

22 From simple to controlling

- Outright gift
- Donor-advised fund
- Charitable trust
- Private foundation

IN THE LESSON

- Place the vehicles on a line.
- On the far left is the simple and cheap end, and on the far right the end with the most control and the most lasting family name.
- An outright gift sits at the left.
- It is easy, but the family has no say afterwards.
- Next comes the donor advised fund, which keeps costs low and allows some say over which causes are supported.
- In the middle-right sits the charitable trust, which needs a lawyer and has fixed terms.
- At the far right is the private foundation: the family decides everything, and a board can include children and grandchildren.
- The further right, the more it costs and the more rules apply.

23 Who is paid first

Remainder trust

Assets given in → Income to the family → Remainder to charity

Lead trust

Assets given in → Income to charity → Remainder to the family

IN THE LESSON

- There are two kinds of charitable trust, and the order of payment is what differs.
- In the top row, the remainder trust.
- The donor puts assets in.
- The trust pays income to the family first, for a fixed term or a lifetime, and what remains goes to charity at the end.
- That suits a donor who still needs income, perhaps from shares she would otherwise sell, and who wants charity to benefit in the end.
- In the bottom row, the lead trust does the reverse.
- Charity receives the income first, and the capital returns to the family afterward.
- That suits a family that can spare the income for some years and wants the capital to pass to the next generation.
- Either way, the length of the term matters greatly.

24 Example 7: Teodora's remainder trust

1.0m in; pays 6% for 15 years; value at 5%; relief 35%

Her yearly income	6% × 1.0m	**60,000**
Present value of her income	60,000 × 10.380 at 5%	**622,779**
Present value of the gift	1,000,000 − 622,779	**377,221**
Tax relief at 35%	35% × 377,221	**132,027**
Left for charity in year 15	trust earns 5% after her pay	**784,214**

IN THE LESSON

- Teodora wants income now and charity later.
- She puts one million of her appreciated shares into a remainder trust.
- It pays her sixty thousand a year for fifteen years, six per cent of the one million.
- The present value of that income, at five per cent, is sixty thousand times an annuity factor of about ten point three eight, which is six hundred and twenty three thousand.
- So the present value of the charity's share is one million less that, three hundred and seventy seven thousand.
- If the jurisdiction gives relief at thirty five per cent on that present value, the relief is one hundred and thirty two thousand.
- And the trust, earning five per cent, is expected to leave about seven hundred and eighty four thousand for the charity in year fifteen.
- Real relief depends on the jurisdiction.

25 Cost falls as the foundation grows

Chart: Running cost, % of assets vs Size of the gift (1m to 10m)

- Foundation: 40k a year
- 4.0% on 1m
- Fund: 0.6% flat
- Cross at about 6.7m

IN THE LESSON

- Now the cost of control.
- Along the bottom is the size of the gift, from one million to ten million.
- Up the side is the yearly running cost as a percentage of the money.
- Take the green line first, the donor advised fund.
- In this example it charges point six per cent of assets, so it is flat.
- Now the red line, the private foundation.
- It has a fixed running cost of forty thousand a year, so on a small gift it is expensive, four per cent on one million.
- As the gift grows, that fixed cost is spread thinner and the line falls.
- The two lines cross at about six point seven million.
- Before that point, the fund is cheaper.
- After it, the foundation is.
- The figures are illustrations.

26 Example 8: fund or foundation?

Foundation 40,000 a year fixed; fund 0.6% of assets

Foundation cost on 1.0m	40,000 ÷ 1.0m	**4.0%**
Fund cost	0.6% of assets	**0.6%**
Break-even gift size	40,000 ÷ 0.6%	**6.67m**
Foundation cost on 10m	40,000 ÷ 10m	**0.4%**
Teodora's choice at 1.0m	cheaper and simpler	**the fund**

IN THE LESSON

- Let us work out the chart.
- A private foundation costs forty thousand a year to run in this example, and a donor advised fund charges point six per cent of assets.
- On a one million gift, the foundation's cost is four per cent a year, against point six for the fund.
- Dividing forty thousand by point six per cent gives the break even size, six point six seven million.
- On a ten million gift the foundation costs only point four per cent, less than the fund.
- For Teodora's one million, Jonas Keller proposes the fund.
- If the family later wants children and grandchildren to run a foundation board, and the money has grown, the foundation can follow.
- The trap is letting tax relief choose the vehicle.

27 What keeps a family together

Five supports for the Brandt family

Shared values written down	Why the wealth exists
Heir education	Money and stewardship, early
Family charter	How decisions and disputes are settled
Philanthropic role	Younger members serve and learn
Long-lived trusts	Hold wealth across generations

IN THE LESSON

- Vehicles alone do not hold a family together.
- Jonas Keller proposes five supports for the Brandt family.
- A written statement of shared values and goals, so every generation knows why the wealth exists.
- Education of the heirs, early and honest, about money and stewardship.
- A family charter that sets out how decisions are made, including how a disagreement is settled.
- A philanthropic role, such as a seat on the foundation board, where younger members learn to decide together.
- And long lived trusts, which can hold wealth for several generations under clear rules.
- Above all, the family must truly support the cause.
- Giving that tax relief drives, but nobody believes in, does not teach anyone anything.

28 Recap: the lesson in five lines

- Gifts: growth out, tax on gift alone, keep enough
- At death: will, survivorship, forms, trusts, law
- Plan the cash for tax; check cross-border rules
- Generations need values, education and governance
- Match vehicle to goals, control and cost

IN THE LESSON

- Let us pull the lesson together.
- First, lifetime gifts help when growth leaves the estate, when gift tax is charged on the gift alone, and when the recipient is taxed less.
- Always compare after tax values, and make sure the giver keeps enough.
- Second, at death wealth passes by will, by intestacy, by survivorship, by designation and by trust, and forced heirship can override a will.
- Third, plan the cash for transfer taxes, often with life insurance, and watch cross border conflicts.
- Fourth, keeping wealth across generations needs governance and shared values.
- Fifth, match the giving vehicle to the family's goals, control and cost, and never let tax relief lead.

29 Try three quick questions

1. Gift of 100k, 25% gift tax on top. Cost? If left at death, 25% estate tax: heir gets?
   Answer: Cost 125,000; left at death the heir gets 93,750.
2. Probate estate 1.0m, 60% reserved for 2 children, will names a friend. Each child gets?
   Answer: 1.0m × 60% ÷ 2 = 300,000 each; friend 400,000.
3. Which vehicle gives most control and family name, at higher cost?
   Answer: The private foundation (not the donor-advised fund).

IN THE LESSON

- Now try three quick questions yourself.
- Pause after each one.
- Question one.
- A donor wants to give one hundred thousand and pays gift tax of twenty five per cent on top.
- What does it cost?
- And if the cash had been left at death with a twenty five per cent estate tax, what would the heir receive?
- The cost is one hundred and twenty five thousand.
- Left at death, the heir receives that times point seven five, ninety three thousand, seven hundred and fifty, less than the hundred thousand.
- Question two.
- The probate estate is one million, the law reserves sixty per cent for two children equally, and the will names a friend.
- How much does each child get?
- Three hundred thousand each.
- Question three.
- Which vehicle gives most control and family name, at higher cost?
- The private foundation, not the donor advised fund.
- Remember these in the exam.