

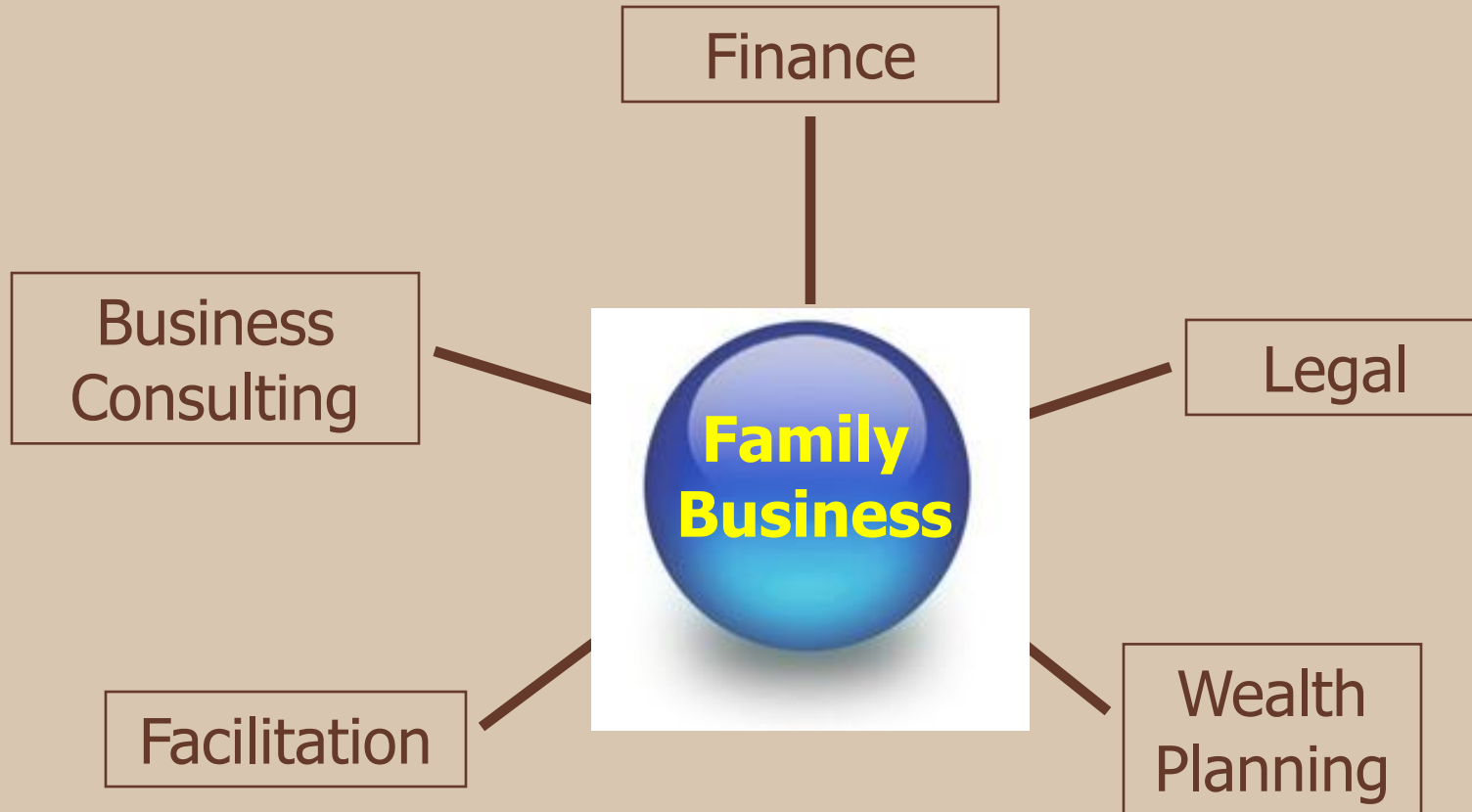
# The Family Trust: A Misnomer?

Ron Prehogan & Ken Andrews

Café National Workshop, Halifax

May 21, 2008

# Traditional Professional Services



# Equitas: 360-degree Integrated Advice



*PA – Current Professional Advisor*

# Integrated Succession Planning



Technical  
Tools



- Legal transfer of ownership
- Tax minimization
- Finance successor
- Efficient wills
- Estate freeze  
etc.  
etc.

# Integrated Succession Planning



=

Technical  
Tools



+

Transitional  
Plans



# Integrated Succession Planning



=

Technical  
Tools



+

Transitional  
Plans



- Communications (all stakeholders)
- Prepare business for succession
- Prepare leader/successor
- Planned, managed transition
- New leadership, new strategy
- Advisory Board
- Exit strategy

# Integrated Succession Planning



=

Technical  
Tools



+

Transitional  
Plans



**Family Trust**

# Succession

Succession = Transition & Change

for

Owner

Owner's Spouse

Successor

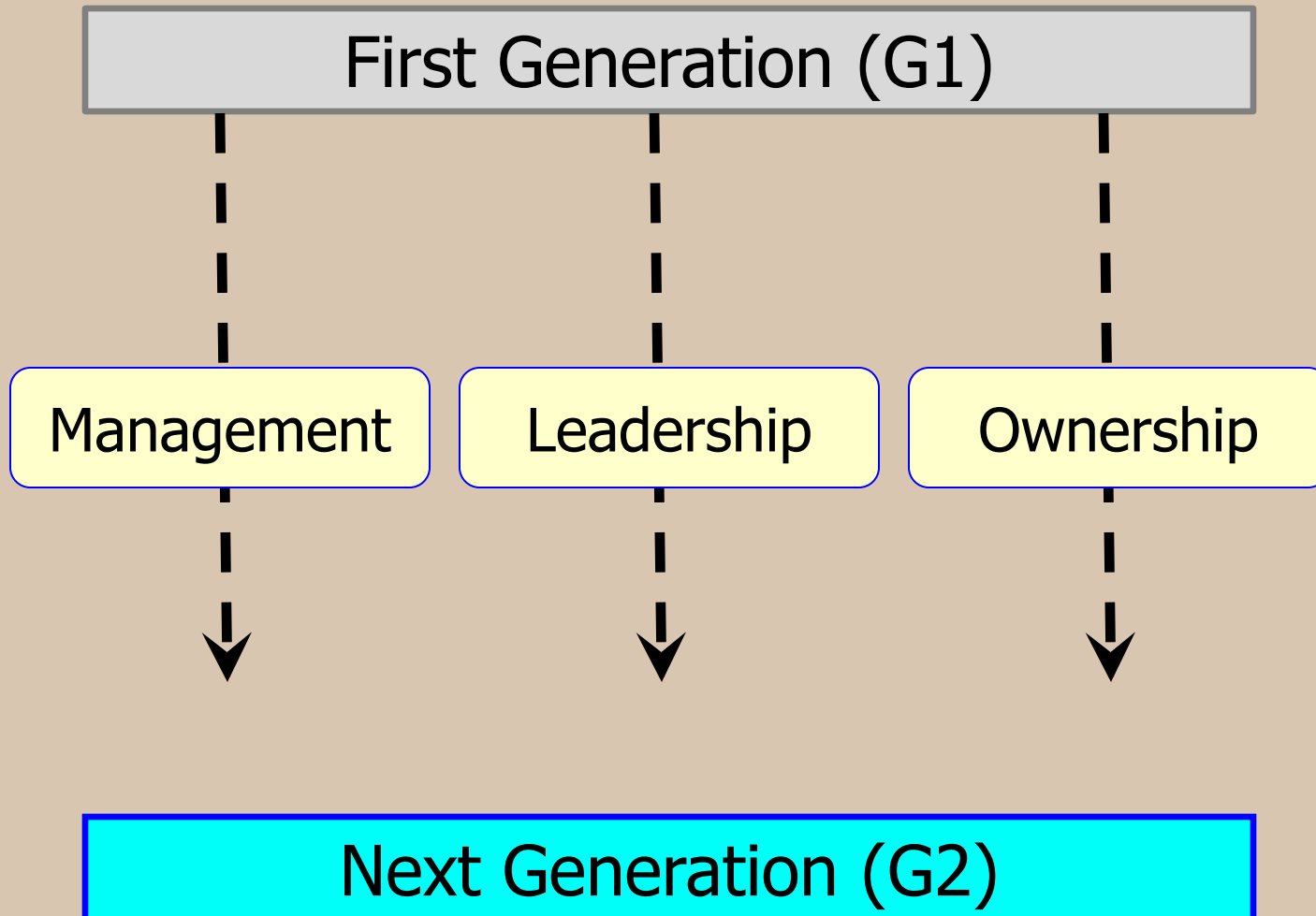
Successor's Spouse

Extended Business Family

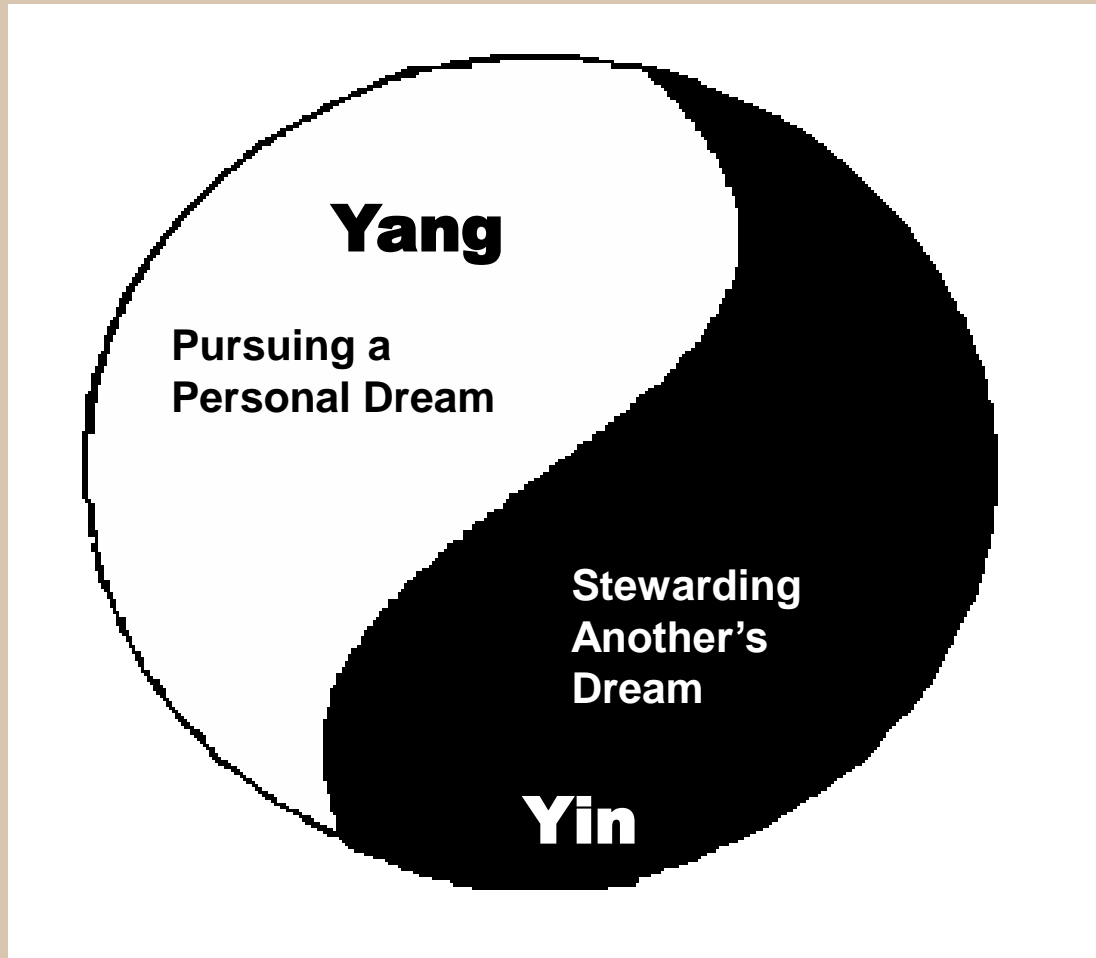
Business Management & Staff

.....

# Transitions: Three Critical Dimensions



# The Conundrum of the 2<sup>nd</sup> Generation



Family: The Compact Among Generations, James E Hughes Jr.;  
Bloomberg Press 2007

# The Family Trust: Technical Perspective

- Owns common shares of family business
- Controlled by G1
- Discretionary trust for G2, G3 – income and capital
- G2, G3 are in a legal protective cocoon - less rights than a minority shareholder
  - *e.g. right to attend annual meeting, review annual financial statements*
- Great benefits
  - *e.g. saves income taxes, creditor protection, flexibility for next-gen owners*



# Case Study #1: Traditional Approach

- Real estate construction business
- 3 sons – all in the business
- 1980s – Dad/Mom see lawyer to do estate freeze including trust for 3 sons
- 21 years later – trust transfers shares to sons
- Sons now in their 40s – involuntary partnership – where to begin?



# Case Study #1: Two Perspectives

## G1: Owner

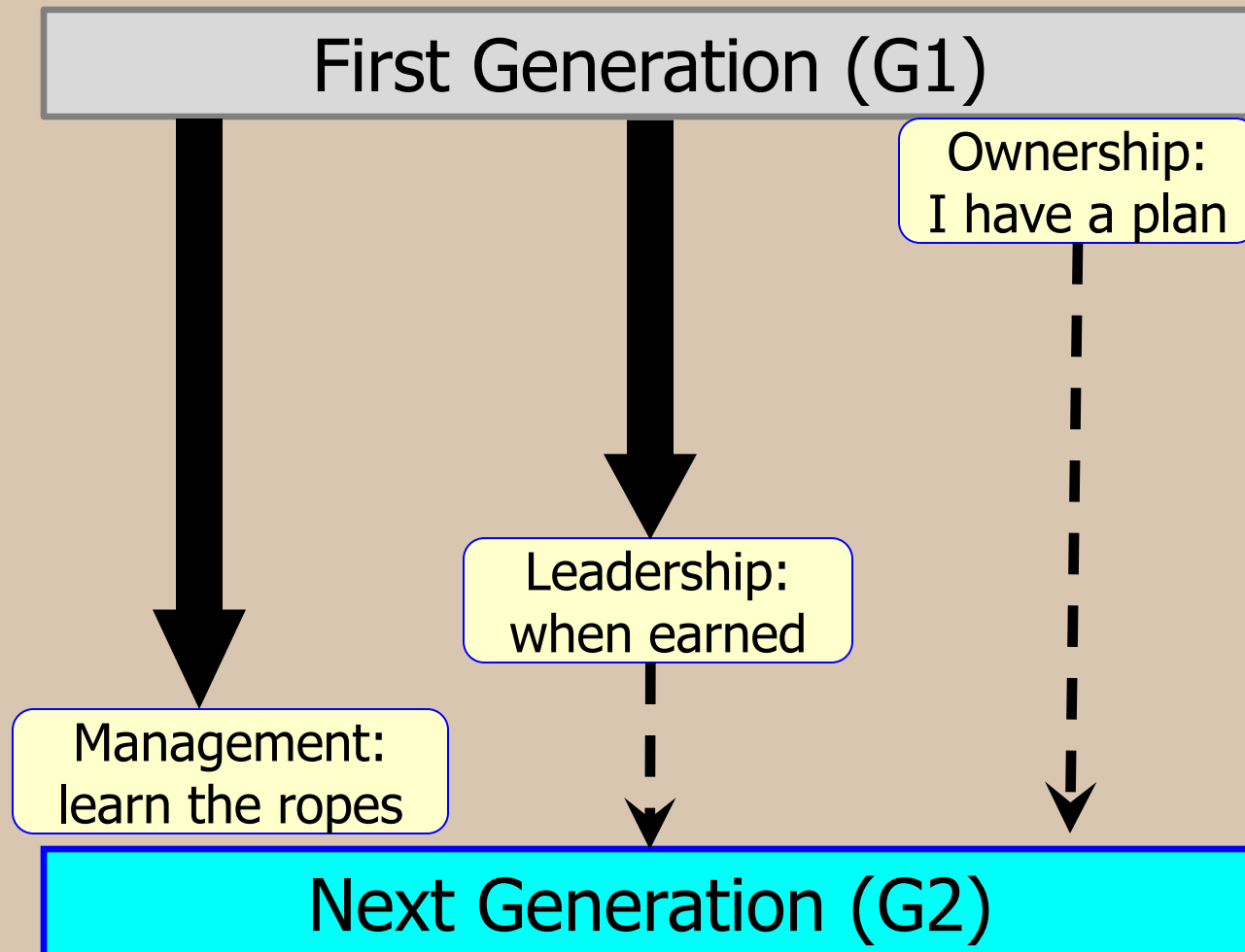
- Saving tax
- Smooth transition
- Protecting family
- Doing the right thing

## G2: Successor

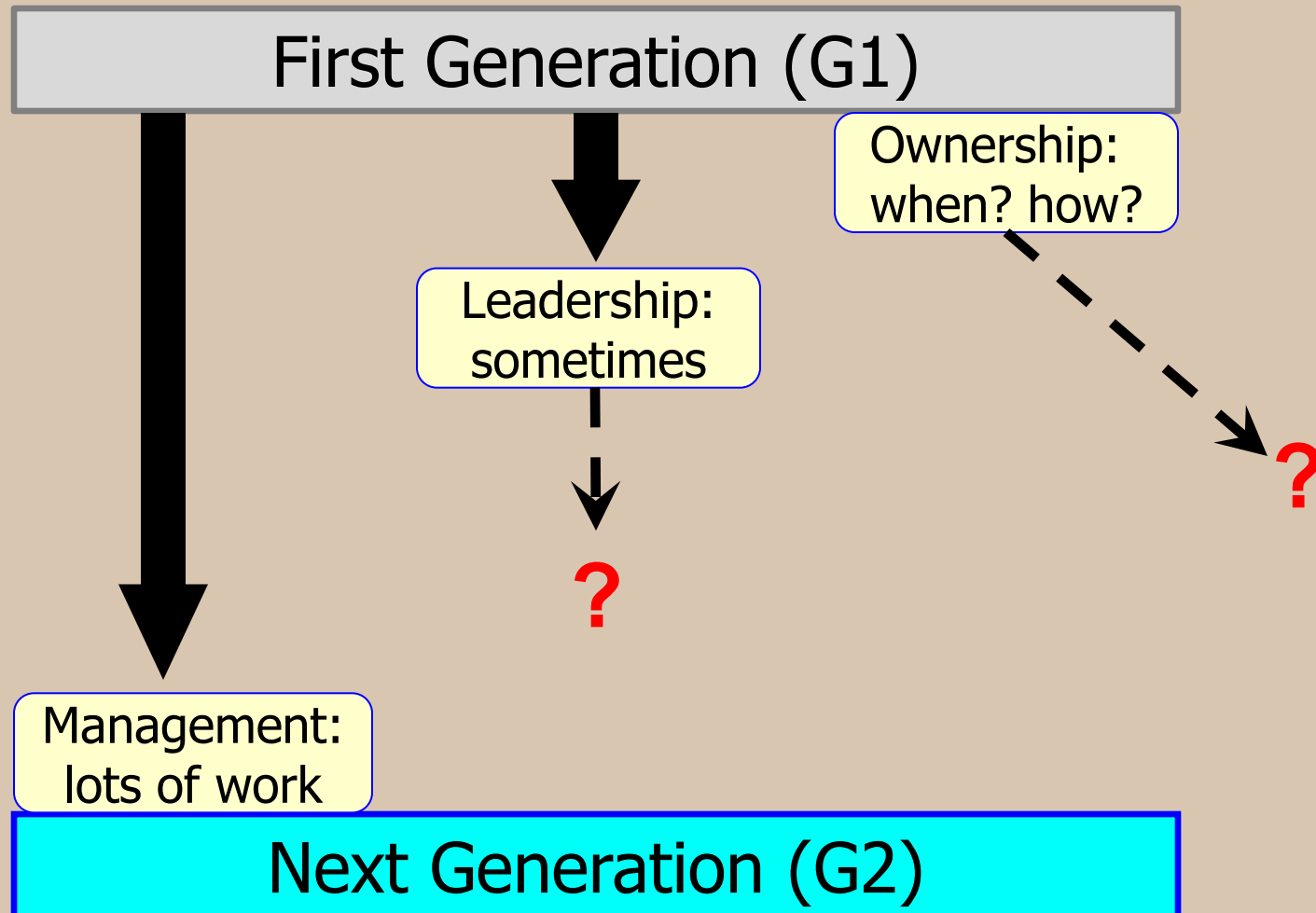
- I'm not in charge
- He doesn't trust me
- Why didn't we talk?
- This is all wrong

**Family Dis-Trust**

# Transitions: A G1 Owner's Perception



# Transitions: A G2 Successor's Perception



# Case Study #2: Integrated Approach

- Manufacturing business
- 1 daughter in the business, 1 son in university
- Dad/Mom want kids to do what they want to do
  - keep or sell the business?
- Hired family business consultant to facilitate family meetings
- Lawyers, accountants brought in to do wills, etc. once process complete



# Case Study #2: Two Perspectives

## G1: Owner

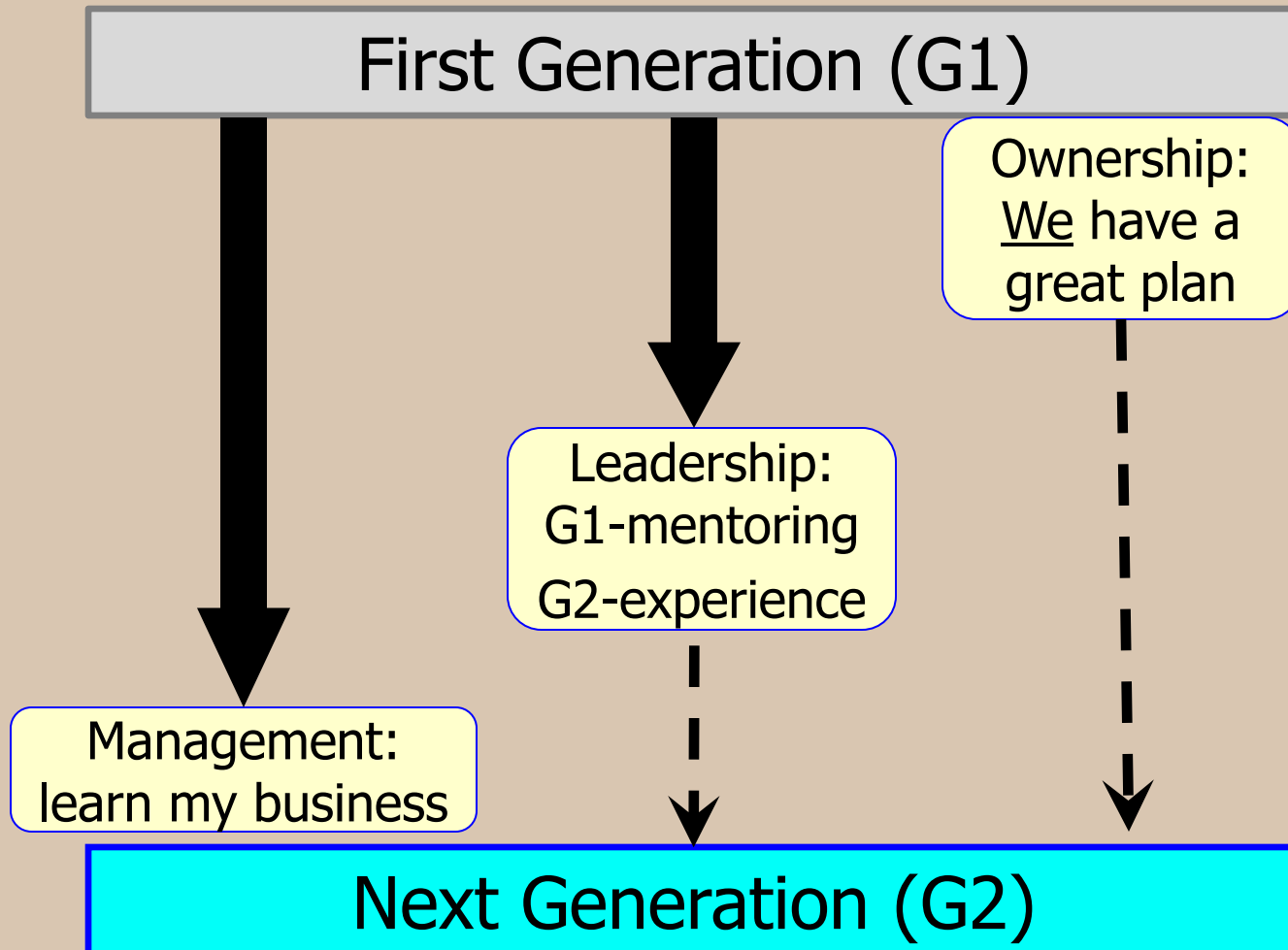
- Saving tax
- Smooth transition
- Protecting family
- Doing the right thing
- I'm glad we talked

## G2: Successor

- Good for business & me
- I understand the transition
- The family is happy
- I have time to get it right
- I'm glad we talked

**Family Trust**

# Transitions: G1 & G2 Joint Plan



# Comparison

## Case #1

- Dad always in charge
- Kids are employees
- V. technical plan
- Directive communications
- Lack of trust

## Case #2

- Dad letting go
- Kids are owners
- Integrated plan
- Collaborative communications
- Lots of trust

# Summary: What G1 Owners Should Do

Communicate: Early

Professional Advisor Team

Best Financial Tools

Transition Plan

Communicate: Everyone

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Thank-you for your attention.  
We would welcome your comments.

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