Building a Financial Legacy to Last

(L to R) Badl Shah, Satish Shah, and Aakash Shah, Aakash Chemicals & Die Stuffs Inc.

Leaving a legacy to heirs takes planning.

Take, for example, Satish Shah, founder and owner of Aakash Chemicals & Dye-Stuffs Inc., a manufacturer and distributor of color dyes. The Glendale Heights-based company has 30 employees and last year had worldwide sales of $50 million.

Mr. Shah, 67, hopes to double the size of the business even though he may soon retire. So he created a succession plan with the help of estate attorney Steven H. Peck, who is based in Riverwoods. The plan includes Mr. Shah's sons Aakash and Badl, who work at the company as CEO and president respectively. Their roles are clearly defined in the plan, which also set up education funds for Mr. Shah's grandchildren.

Mr. Shah has begun transferring company stock to his sons. "My boys will get the benefit of owning the business," he says, noting that it's a good time to give away assets because of the favorable estate tax environment. "The responsibilities are theirs."

Whether an executive plans to pass on a business or money, the first step is to outline the goal of the legacy and communicate that clearly to the next generation. A company owner may decide to sell the business and donate all the money to charity, while some executives start a family foundation that does charitable work for generations or place the money in a trust to be used only for heirs' education.

"Wealth is an opportunity to build for the future," says James Weiner, a psychologist and co-founder of Inheriting Wisdom LLC, a Chicago-based firm that counsels families on decision-making around wealth issues. He recommends bringing family members into the planning process at an early stage. One executive was concerned about how to pass on his idea of philanthropy with a focus on the arts and social justice. Activities were created to involve family members including great-grandchildren as young as 5. "The idea is to get the family working together," Mr. Weiner says.

Many executives use legal trusts instead of wills to carry out their wishes. A trust can help protect assets being passed down, while providing instructions on how the assets are to be managed.

Minimizing taxes is an important consideration when transferring assets. The exemption for federal estate taxes was recently raised to $5.25 million per individual. That means a married couple can hand down $10.5 million to heirs without estate taxes. The federal budget proposed in April, which has not been passed yet, would reduce the exemption to $3.5 million per person.

"It's a good time to take advantage of these estate tax exemptions," says Lynne Pantalena, managing director at US Trust, Bank of America, Chicago. She runs a cash flow analysis on the impact of a sizable gift to make sure it doesn't crimp the giver's lifestyle. Ms. Pantalena also cautions that the gifts are irrevocable. "You have to be comfortable with that," she says.

Bill Maniscalco, Mesirow Financial, Chicago

Annual gifting is another way to transfer assets. The IRS allows a parent to give away as much as $14,000 a year to each child and his or her spouse without being taxed. As long as the gift is under $14,000, it does not affect the $5.25 million estate or gift tax exemption. For example, a couple with four married children can move $112,000 out of the estate tax free every year.

"Gifting on a regular basis is the simplest way to pass assets on to heirs," says Bill Maniscalco, senior managing director of the investment advisory group at Mesirow Financial, Chicago. Assets can also be transferred to family limited partnerships where the parent is general partner and the children are limited partners.

Some wealthy families establish a foundation that becomes its legacy. Foundations may require a staff or professional counselors, including attorneys and investment advisers. Another option is a donor-advised fund, such as the Chicago Community Trust, which co-mingles donations from families and other sources for philanthropic use. "It's a simple way to establish a legacy," says Steven B. Weinstein, president and chief investment officer at Altair Advisers LLC, Chicago.

–Jane Adler