

# The Bridge

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## Family Councils—A Simple Way for Families to Stay in Touch

The greatest asset a family business can have to keep family relationships and the business healthy is regular communication. Researchers say that, for families in business, establishing a family council is a critical step that contributes to maintaining family harmony and sustaining a successful family business from one generation to the next.

### *What is a Family Council?*

A family council is a regular, formal meeting of all family members to discuss feelings and opinions on what is happening in the business and decisions that need to be made or issues that may impact the family as it relates to the business.

The responsibilities of a family council are varied and can include:

- overseeing the growth, development and welfare of family members;
- considering personal, family, financial and investment issues; and,
- providing a forum for dispute resolution.

The council is also responsible for communicating family concerns and issues that impact the business and providing input to the Board of Directors, when and as requested.

### *Where Do We Begin?*

Getting a family council started can be challenging; many families don't know where to begin. You may wish to start with defining your family's core values and setting a vision for your family. Other topics that could be discussed at initial or subsequent meetings include creating a family constitution, educating inactive or younger members of the family about the business and its history, or preparing a Family Participation Plan that governs family involvement in the business. Keep in mind, however, that it is just as important to include fun activities on the agenda as it is to educate and share information.

Regardless of the topics discussed at family meetings, getting together to promote regular communication is a step in the right direction.

#### OUR MISSION

We facilitate comprehensive family, business and ownership planning for entrepreneurs and families in business to help them maintain family harmony, achieve business continuity and preserve a legacy.

# Wealth and the Next Generation—Five Tips for Preparing Heirs

The perfect amount to leave children, said Warren Buffet, is “enough money so that they would feel they could do anything, but not so much that they could do nothing”.

Many parents often struggle with the questions of how much to give their children and when to give it to them. They try to balance their desire to provide for their children while trying not to deny them the experience of creating their own success.

No matter when you give children their inheritance or how much you give them, the key to their future success and happiness is to properly prepare them to handle their wealth responsibly.

The following five tips will help lay a solid foundation for responsible inheritors:

## 1. Discuss intentions as a family

Open communication is key to a healthy family. Families should openly discuss matters relating to the family wealth including how and when the wealth will be distributed to members of the next generation. This will help build a sense of trust and openness in the family.

## 2. Prepare family vision and values statements

An excellent topic for discussion at family meetings is the family’s vision statement – what does the family hope to achieve with its wealth? A vision statement builds on the family’s core values and can help give a sense of shared purpose across generations.

## 3. Provide education and experience

There are many different approaches to teaching children about wealth and the responsibilities that go along with it. Inheritors should have a basic understanding of investing and some experience in handling their own money prior to receiving a large sum. Allowing inheritors to make some mistakes can also be an invaluable lesson in accountability.

## 4. Determine appropriate timing of distribution

This is often the most difficult decision for parents. Some families base their decision on “heir readiness” instead of “heir age”. For example, families can determine heir readiness based on pre-determined objective, measurable criteria such as completing post-secondary education or being employed for at least 4-5 years.

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# U.S. Estate Tax and Charitable Donations

by **Beth Webel**, Partner

Canadian residents may be subject to U.S. estate tax at death if they own U.S. property such as U.S. vacation property or U.S. securities. There is an opportunity to significantly reduce, or even eliminate, U.S. estate tax if the U.S. property is donated to charity.

## Will Planning

Under the Canada-U.S. Treaty, a Canadian resident estate is allowed a U.S. estate tax charitable deduction for charitable bequests to either U.S. domestic or Canadian registered charities.

A recent U.S. tax case highlights the need for planning when dealing with charitable donations of U.S. property by will. To be entitled to the maximum U.S. charitable deduction, the bequest must be satisfied with property that is located in the U.S. and subject to U.S. estate tax. If the bequest is satisfied with property located outside of the U.S., the estate is only entitled to a portion of the U.S. charitable deduction.

**To illustrate the potential tax savings, consider the following example (all dollar amounts are in U.S. currency):** Mr. Brown, a Canadian resident, has worldwide assets worth \$2.5 million, including U.S. publicly-traded securities valued at \$200,000. Mr. Brown intends to make a charitable bequest of \$50,000. The following chart illustrates the effect on the U.S. charitable deduction (based on 2004 tax rates and exemption amounts):

	Bequest satisfied with Canadian assets	Bequest satisfied with U.S. securities
FMV of U.S. assets	\$200,000	\$200,000
(Less charitable deduction)	(4,000)	(50,000)
Taxable estate	<u>196,000</u>	<u>150,000</u>
U.S. estate tax payable	<u>\$9,056</u>	<u>\$ nil</u>

Therefore, for individuals contemplating charitable donations of U.S. real property or, more likely, U.S. publicly-traded securities, the terms of the will should be drafted to ensure that the donation is satisfied from the U.S. property.

Please call **Beth Webel** at 905 972 4117 if you require assistance or if you would like a copy of our Bulletin titled *U.S. Estate Tax Exposure for Canadians*.

PricewaterhouseCoopers  
Centre for Entrepreneurs and  
Family Business

Luanna McGowan  
905 972 4107

Josephine Margolis Nadel  
604 806 7046

Debra Reiskind  
905 777 7018

Aida Van Wees  
519 985 8934

Toll Free:  
866 767 7009

E-mail:  
family.business@ca.pwc.com

Web site:  
www.pwc.com/ca/cefb

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Centre for Entrepreneurs and  
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Web site:  
[www.pwc.com/ca/cefb](http://www.pwc.com/ca/cefb)

# Preparing Heirs

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Careful consideration needs to be given to this decision as well as an analysis of each option and the possible effect it may have on the inheritor. Timing and criteria should be discussed as a family.

## 5. Ensure that inheritors have the skills to function without their money

Many psychologists say that inheritors need to know that they can function without their money in order to have a sense of self-worth. Some experts recommend not giving any significant amount of wealth to children during their career building years (20s and 30s). This will allow inheritors to gain valuable life experience and a sense of autonomy.

## CEFB—Meet our Team



We would like to take this opportunity to introduce you to all the members of our team (from left to right).

**Luanna McGowan** is the Partner responsible for the Centre for Entrepreneurs and Family Business. She is a skilled facilitator, with her Masters of Law in Alternative Dispute Resolution.

**Debra Reiskind** is a facilitator in the Greater Toronto Area. She is a lawyer, has her MBA and grew up in a business family.

**Aïda Van Wees** is a facilitator in the Southwestern Ontario and Greater Toronto Area. She has her Masters of Law in Alternative Dispute Resolution, has her MBA and also grew up in a family business.

**Jennifer Pooni** is the Coordinator of the Centre. She is responsible for our Learning and Resource Centre.

**Josephine Margolis Nadel** is a facilitator in our Vancouver office. She is a lawyer and has several years of experience working with families in business in her law practice prior to joining PwC.

Our team is continuing to grow to serve the needs of entrepreneurs and families in business across Canada.