monument
wealth management

A Case Study

A GREAT PROBLEM TO HAVE: THE PERRY'S STORY

In the 1960's, John Perry's father, Bob, bought property outside of Washington, D.C., when it was nothing but farmland. He opened a business there, and in the 90s, John bought the business from his dad. John went on to buy a few other businesses in the region as well.

Over the past few decades, the area sprouted into a major suburban hub. Developers had approached John over the years, with an interest in buying the property and turning it into something else—which would require permits, approvals, and bureaucratic hurdles in order to repurpose that land for development. John was never really compelled by any opportunities that came up and wasn't sure whether he wanted to sell. He saw it all as a disruption to the business which was doing extremely well.

Diagnosis: Analysis Paralysis

When John and his wife, Kara, came to Monument, they seemed stuck. They knew they owned substantial businesses, but were more comfortable running those businesses now than thinking about their future.

They suffered from analysis paralysis—particularly as it related to what their kids would inherit and how they'd be able to maintain control of their businesses if they put estate planning structures in place—that kept them from not only making any decisions, but also from committing to any serious pre-sale planning.

To be honest, they took longer than they should have to commit to a plan because they didn't feel a business sale was imminent.

Plot Twist

In 2017, John was approached by a prospective buyer who wanted to buy the business and the land. And he was prepared to pay in excess of $30 million for it. In cash.

This was a lightning bolt like no other. That kind of offer just doesn't happen every day. The other three businesses John owned were worth $20MM, combined.

So, John and Kara did what anyone would do when given an offer like that—they jumped at it. Quickly. Maybe a little too quickly.

John and Kara were excited, but they also had questions—and concerns.

- **"What do we do with the money?"**
- **"How do we plan for the taxes owed?"**
- **"How do we minimize estate taxes when we pass away?"**
- **"How do we keep from spoiling our kids?"**

PRESSING ISSUES

What do we do with the money? How do we plan for the taxes on this sale?

As we said, John didn't yet have any of the legal structures and planning in place to be as tax efficient as possible. And because he didn't wait to do so before accepting the offer, that meant that half of the $30 million would go straight to the government now in capital gains taxes and the remaining amount would be added to their gross estate. There was nothing we could do about that.

WHAT WE DID

- **Worked with John and Kara's CPA** to determine exactly how much they would owe for taxes. We then recommended buying treasuries equal to the amount they'd need for taxes, which would allow their money to generate income while it's parked in their account waiting to be paid.
- **Built a custom portfolio** specific to John and Kara's new investment objective, one that emphasized tax-efficiency and avoided introducing unnecessary risk.
- **Developed a custom-built bond portfolio** unique to their residence and tax bracket that took advantage of tax-free municipal bond income.
- **Added an element to their equity portfolio** that included a layer of downside protection—meaning, maintaining investment to the equity market while spreading out their risk exposure.
- **Maximized tax-loss harvesting** in their equity portfolio by implementing cutting-edge software—saving them on year-end taxes, while still delivering a gain.
- **Avoided high-cost investments** from outside money managers that usually don't deliver.

Designing *the Future*

John and Kara are humble, hard-working people — not high rollers. And they wanted to instill those same values in their children, who are just entering the workforce. They'd never lacked for anything, and yet this influx of cash was going to change things.

> **"How do we keep from spoiling the kids?"**

WHAT WE DID

- **Incorporated the work we'd done previously to create their Private Wealth Design** and mapped it to their current situation, reassessing their priorities and incorporating new concerns that arose as a result of the sale.

- **Distilled complex language and industry jargon to make things easy to understand**—and then walked the Perrys through a range of solutions for their unique situation.

- **Gathered and articulated all of this insight and information** so that it was simple, usable, and clear to the client.

- **Connected them with an estate planning attorney** who was particularly well versed in how to address the issues around children and money. Armed with all of our insights, this attorney could successfully apply the right solution to leverage their multi-generational money—without spoiling their kids.

- **Put key measures in place to ensure their children's future:** A trust to cover the maintenance and taxes for the family's vacation home, pre-nuptial planning, medical care, and the unique needs of each of their children over the course of their lives.

Designing *the Future*

Paying taxes they owe this year was one issue we tackled—the next was estate taxes, which go into effect when John and Kara pass away.

Under current tax law, if a couple has an estate greater than $22MM, they're subject to 40% federal estate taxes (and that doesn't include what they might owe for state). But that law isn't necessarily permanent, and could change under a new Congress—it could drop to previous levels, wherein a couple with more than $11MM would owe that same amount. Remember, John's other three businesses are worth around $20MM. So here's what we did to address that...

"How do we minimize estate taxes?"

- **Helped John put a portion of his businesses that he hadn't sold yet into an irrevocable trust** to limit possible future estate taxes.

While a *revocable* trust is flexible and forgiving, like a ziploc bag you can go into and out of to get what you want, when you want, we recommended an *irrevocable* trust—which is more akin to a wooden box that's hammered shut.

What this means is that John would transfer non-voting shares of his business into this trust, overseen by a friendly trustee. So while John will maintain control over his businesses, he will not be able to access those funds—and therefore will not owe estate taxes on them, either. Plus, what's in that wooden box continues to grow.

- **We took advantage of discounting rules in order to transfer more value to the trust and maximize John and Kara's lifetime estate tax exemption.** By naming a friendly trustee, Kara would still be able to take distributions from the trust. After John and Kara pass away, the funds will not be subject to estate tax; they will flow to trusts set up for their children and their heirs.

Takeaway: Pre-Planning is Critical

There isn't a person on the planet who wouldn't love to worry about what to do with $30MM.

But despite the obvious win here, John and Kara learned a powerful lesson about the risk of not putting plans in place before selling a business. They couldn't possibly have predicted this kind of money would come their way—no one can.

When and if it happens, however, it's not just a matter of where to put it, but how to manage it so that you can keep your life, your family, and your values intact. John and Kara were hit with some steep taxes, but what this has done is prompted them to make some critical decisions and put structures in place for what comes next.

John, Kara and their family are in great stead and feeling positive. Their children's futures are secure in ways that won't ruin their work ethic. And they're feeling more than ready for the next big sale or retirement, whichever comes first.

About Monument Wealth Management

On paper, we're a wealth management firm. In reality, we're equal parts creative lab, brain trust, and outspoken critics of the financial industry. But, what we really are is a team of razor-sharp, innovative, collaborative, and creative thinkers with seasoned financial expertise, a renegade spirit, and zero commitment issues.

What we do is provide opportunities for people to use what they have to get where they most want to go—and tap not just their potential for wealth, but their potential for living. For our clients, we do it in the form of thoughtful, considered, bespoke Private Wealth Design. For our team, we do it by providing opportunities for education, growth, and collaboration, so that they can become not just skilled advisors, but keener thinkers, creative problem solvers, and better humans.

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