MULTIGENERATIONAL PLANNING: A Case Study

The Situation

About 10 years ago, Reinhart Boerner Van Deuren began working with a family that had operational control of a multigenerational family business in Southeastern Wisconsin. The family business traced its roots back almost 100 years and had recently made a technology leap in its business operations. The family tree had grown and divided into multiple branches with distant cousins owning smaller and smaller portions of the business. The branch that we were working with cumulatively owned roughly 35% of the company but ran the day-to-day operations. However, many small minority interests in the company were held by a wide group of owners, many of which were family members, but some of whom were outside passive investors. The fractured ownership structure was beginning to negatively affect the family's control over the business and impeded its strategic positioning.

Long before any transaction was envisioned, the senior generation transferred small minority interests in the company stock to his children. Subsequently, the senior generation and young adult children formed a limited partnership which allowed the senior generation to maintain voting control over the entire block of stock even though minority interests had been given to younger generations. Especially as the company moved toward a liquidity event, the senior generation knew that it would be important to control major blocks of the company shares while at the same time dispersing ownership more widely within the family.

Preparing the Business for Sale

As our attorneys helped guide the family through the process of marketing the business for sale, and soliciting and reviewing offers to purchase the business, the Reinhart Estate Planning Team worked with the senior generation to develop a series of wealth transfer trusts. These trusts were eventually implemented to own limited partnership units representing the majority of the family's ownership, and the gift of the minority interests in limited partner units was valued based upon all of the restrictions that were imposed on the limited partner interests. After creating a "Dynasty Trust" to hold the limited partnership interests, then the senior generation sold another sizeable block of limited partnership interests to that Dynasty Trust for an installment note. The Dynasty Trust was designed as a "grantor trust" meaning that the sale transaction did not trigger gain to the senior generation. Another beneficial aspect of the grantor trust status of the Dynasty Trust was that the eventual income generated by the Dynasty Trust would be taxable to the senior generation and reduce the senior generation's estate for estate tax purposes.

Developing a Post-Sale Asset Strategy

When the liquidity event occurred, the family's limited partnership received its share of the sale proceeds. Just as the senior generation had created Dynasty Trusts for the adult children, now the adult children created Dynasty Trusts for their own children, thus further pushing down the wealth transfer and continuing to lock in the valuation adjustments that are available with limited partnership interests.

One of the members of the adult children's generation formed an LLC, which replaced the senior generation as the general partner of the family's limited partnership. The formation of the LLC allows centralization of management and control over the family's liquid wealth, while also limiting liability to that branch of the family which controls the general partnership interest and through ownership of that general partnership interest controls the family's liquidity.

The family also created a charitable foundation and funded it with a portion of the net sale proceeds in the same year that the liquidity event occurred. This charitable contribution thus assisted in reducing the capital gains tax upon the sale of the business. The foundation also allows the family to operate a unified philanthropic organization and maintain its position in the community. At the same time, the family members are individually soliciting grant requests from charitable organizations, vetting those requests and presenting the requests to the family's board, which operates the foundation. Thus, all of the family members participate in the family's overall philanthropy.

Transitioning from Manufacturing Family to Family Office

The next step that the family took was to organize and convene a series of family retreats. The first family retreat brought together all members of the family, including the youngest members who are not even in grade school yet. The family retreat initially focused on an explanation of the overall strategy and tactics that the family has undertaken in moving from operating a manufacturing business, to operating an investment company. The values which the family has held and promoted while running its manufacturing business for over 100 years will continue to be cultivated and nurtured within the overall family even after the manufacturing company has left the family.

As part of its overall investment strategy, the family has deployed a percentage of its liquidity to private equity. The family has invested directly in start-up businesses, as well as investing through private equity funds and funds of funds. One of the family members has purchased a local business in an industry that is partially aligned with the family's prior business, and the family limited partnership has helped finance that acquisition.

The family meets on a quarterly basis with its legal, accounting and investment counselor to oversee its holdings, discuss future investments and make grants from the family's foundation.

A Comprehensive Partner

Our firm has assisted the family in various disciplines, including our corporate law group which counseled the business long before the sale transaction was contemplated. Once the sale transaction was being considered, our mergers and acquisitions team assisted the family with marketing the family's company for sale. We introduced the family to a number of investment bankers who helped market the business to potential buyers, and position the company to maximize the sale value to the eventual strategic buyer. As part of the sale transaction, our corporate finance attorneys assisted with the financing of the sale transaction. Our real estate and intellectual property attorneys facilitated the sale transaction especially in light of the "technology leap" that the company had made in its manufacturing facilities and in all of the company's real estate holdings. Before, during and after the sale transaction, the firm's trusts and estates practice was integrally and remains integrally involved in designing, implementing and maintaining the family's wealth transfer strategy and the private foundation.

By working with four generations of the family at the same time, Reinhart is able to assure an orderly and coordinated process of passing on the family's values as well as its value.

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