



Estate Planning Opportunities in the Current Environment

Opportunities Abound as a Result of Low Valuations and Low Interest Rates



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Today's Speakers



MERCER CAPITAL
Travis W. Harms, CFA, CPA/ABV
 Senior Vice President

Travis W. Harms leads Mercer Capital's Family Business Advisory Services Group. Travis's practice focuses on providing financial education, valuation, and other strategic financial consulting to multi-generation family businesses. The Family Business Advisory Services Group helps family shareholder, boards, and management teams align their perspectives on the financial realities, needs, and opportunities of the business. Additionally, Travis is a regular contributor to Mercer Capital's blog, *Family Business Director*.

He is a frequent speaker on valuation and related topics to audiences of business owners, financial executives, auditors, and valuations specialists at professional conferences and other events across the U.S. In addition, Travis performs valuations used for tax compliance, ESOP compliance, and other purposes for clients in a wide range of industries.



DIVERSIFIED TRUST
Brook H. Lester, CPA
 Chief Wealth Strategist

As Chief Wealth Strategist, **Brook H. Lester** designs and directs Diversified Trust's wealth strategies offering which includes trust, estate, tax and business planning. Prior to joining Diversified Trust, Brook was a Director with Deloitte Tax LLP and served as the Southeast region leader of estate, gift, trust and charitable planning services for high net-worth families and closely held businesses. Prior to Deloitte, he practiced estate and tax law with a regional firm and worked with another international public accounting firm.

Brook graduated from the University of Mississippi with a Bachelor of Accountancy and a Juris Doctor. He is a member of the Tennessee Bar Association as well as the Mississippi Bar Association. He is also a member of the Tennessee Society of Certified Public Accountants, the American Institute of Certified Public Accountants and the Memphis Estate Planning Council.

Topics for Today's Session

- 1 – The valuation opportunity
- 2 – The benefit of low interest rates
- 3 – Evaluating whether estate planning transactions are right for your family

The Valuation Opportunity

Section 1

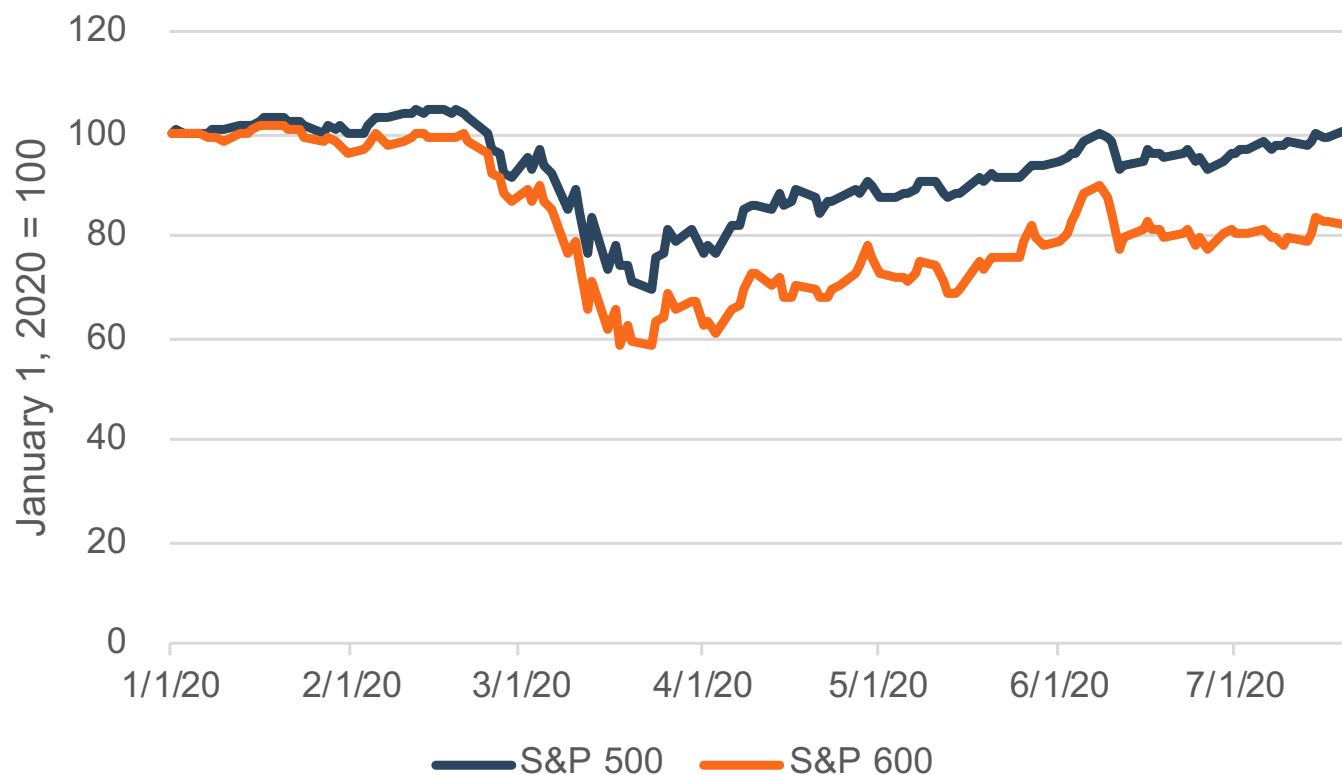
Large Cap Shares Have Rallied...

S&P 500 is up 42% from its late March trough and 6% below YTD highs



...But Have Left Small Caps Behind

S&P 600 remains 20% below February peak



So you haven't
missed your chance.

At least not yet.

Value Drivers

The value of your family business depends on three basic factors

Cash Flow

Stock prices are based on the future, not the past. Historical earnings and cash flows can provide important perspective, but investors are much more focused on what's visible through the windshield than what is in the rearview mirror.

Risk

When fog or other conditions reduce visibility, smart drivers slow down. Investors do the same thing. The pandemic has increased uncertainty regarding future performance for many family businesses. When risk goes up, stock prices come down.

Growth

Theories abound – and change daily – as to whether the economic recovery will look like a “V” or a “U” or a “W” (or some other letter). To the extent investors expect the negative effect of the pandemic to weigh on stock prices for a prolonged period, business values are lower.

What Is Fair Market Value?

The standard of value for estate planning transactions

“The price, expressed in terms of cash equivalents, at which property would change hands between a hypothetical willing and able buyer and a hypothetical willing and able seller, acting at arm’s length in an open and unrestricted market, when neither is under compulsion to buy or sell and when both have reasonable knowledge of the relevant facts.”

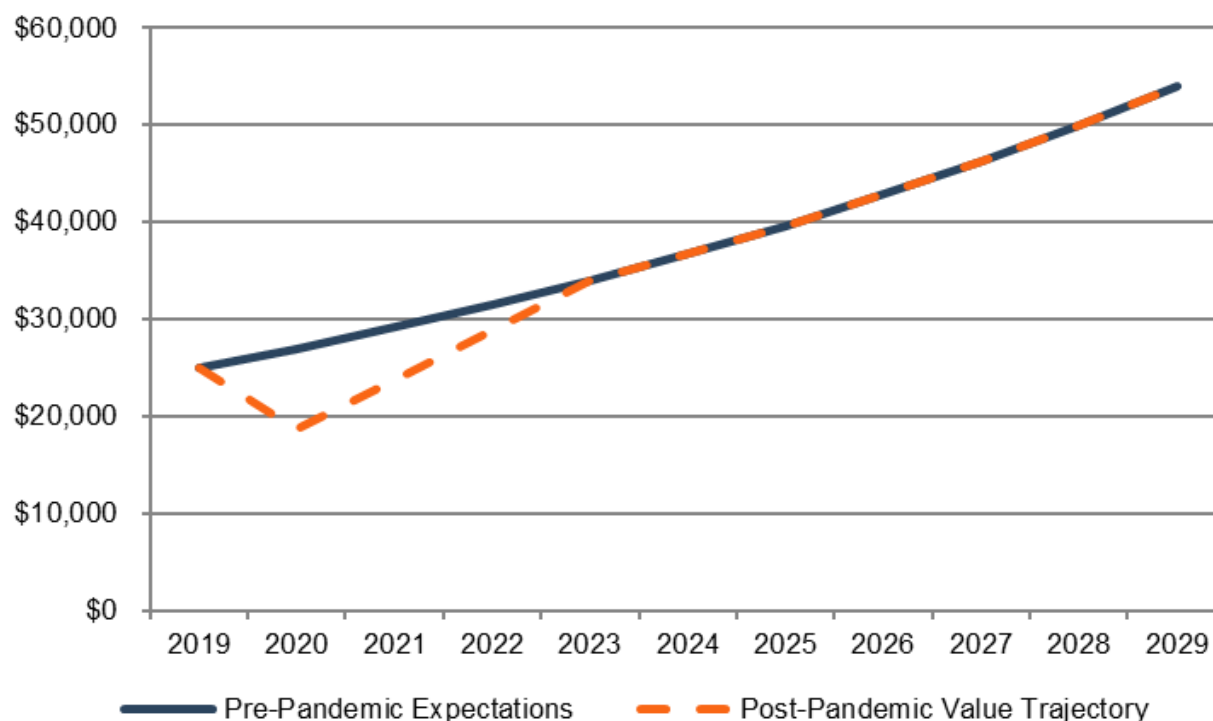
“The fair market value of specific shares of stock will vary as general economic conditions change from ‘normal’ to ‘boom’ to ‘depression,’ that is, according to the degree of optimism or pessimism with which the investing public regards the future at the required date of appraisal. Uncertainty as to the stability or continuity of the future income from a property decreases its value by increasing the risk of loss of earnings and value in the future.”

The Value of Decisive Planning

Case Study :: Gifting now vs. later

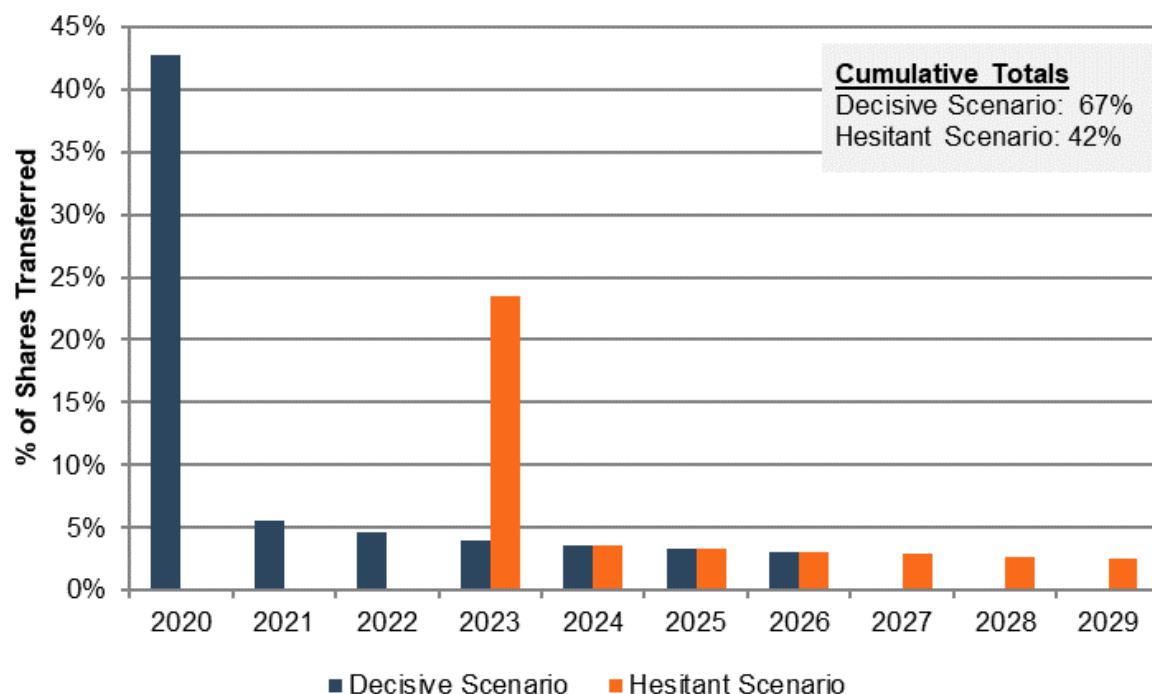
Basic Case Study Facts

- Pre-pandemic value (as-if-freely-traded) of \$25 million
- Long-term prospects unchanged, but coronavirus has triggered a temporary reduction in FMV
- Founder continues to own 100% of shares



The Value of Decisive Planning

\$6 million initial gift, followed by annual gifts of \$1 million



Since the annual gifts are for fixed dollar amounts, lower per-share values result in more shares being transferred, which reduces the amount of shares in the taxable estate, all else equal.

Because the gifts under the Decisive scenario were made while share prices were depressed because of the pandemic, a larger portion of the shares were transferred than in the Hesitant scenario.

The Value of Decisive Planning

Impact on eventual estate tax bill is significant

Under the Decisive scenario, the founder ends up with 33% of the shares, compared to 58% under the Hesitant scenario.

As a result, the effect of the taxable estate is compounded because, under the Hesitant scenario, the 58% retained interest represents a controlling position in the shares, and the value is not reduced for the marketability discount.

In our example, failing to take advantage of the estate planning opportunity presented by the depressed asset prices added \$7.2 million to the eventual estate tax bill. Procrastination can be costly.

Fair Market Value of Estate - 2029

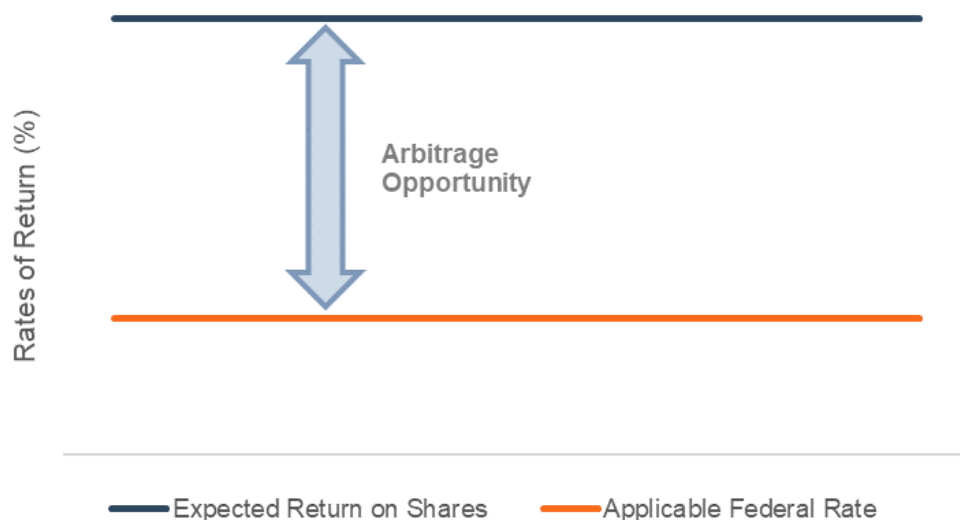
	Decisive	Hesitant
As-if-Freely-Traded Value	\$53,973	\$53,973
times: Retained Ownership	33.1%	58.4%
As-if-Freely-Traded Value	\$17,869	\$31,497
less: Marketability Discount	25.0%	0.0%
Fair Market Value of Interest	\$13,402	\$31,497
Difference in Fair Market Value		\$18,095
times: Estate Tax Rate		40.0%
Difference in Estate Tax Burden		\$7,238

The Benefit of Low Interest Rates

Section 2

Why Do Interest Rates Matter?

Planning strategies for low rate environments



Some estate planning techniques rely on more sophisticated techniques than simply making gifts of shares.

Whether through trusts or other mechanisms, estate planners devise strategies that use financial leverage, which can increase the effectiveness of planning when the returns on estate assets exceed borrowing costs, which are set by the IRS (the so-called Applicable Federal Rate, or AFR).

Current AFRs are very low, increasing the arbitrage opportunities available for such planning strategies.

Is the Time Right for Your Family?

Section 3

Keeping Priorities Straight

Is your family ready to plan?

1. Don't let the desire to minimize taxes overrule broader business concerns
2. Don't wait until it is too late (*Moore v Commissioner*)
3. Do scrutinize your shareholder list
4. Do think about the desired relationships between family membership and family ownership (hats and circles)
5. Be deliberate - measure twice and cut once

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