



**BOOMER BUSINESS OWNERS IN TRANSITION: 50+ QUESTIONS TO INFORM A PHILANTHROPIC CONVERSATION**

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# AN HISTORIC CHARITABLE PLANNING OPPORTUNITY

Boomer business owners are aging, and many of them will soon find themselves poised to make transformative philanthropic gifts.

The leading edge of the boomers is now 72 years old. The real money in this cohort is among successful closely-held business owners, often on Main Street, often in blue jeans. Their wealth is frequently locked up in farms, ranches, light manufacturing companies, real estate, land associated with business, crops, timber, car dealerships, construction firms, strip malls, parking lots, and other unglamorous but illiquid assets.

These businesses are about to transfer, creating enormous opportunities for exit planning and legacy planning. And, of course, these “liquidity events” create new assets under management.

Informed by strong family values and community ties, these business owners are often among the most generous givers when shown what is possible with proper planning. A 2018 Fidelity Charitable study found that more than 75% of entrepreneurs say that charitable giving is a critical part of who they are. And their median charitable giving is 50% more than non-entrepreneurs.

Technical strategies are important, but they don't set you apart. Better questions will. Let's look at several question banks you can use to establish yourself as the business owner's most trusted advisor.

**THE OLDEST OF THE  
BABY BOOMERS ARE NOW AGE**



70+

And many of them are  
philanthropically inclined.

## FOUNDATIONAL QUESTIONS

Factual questions establish a strong foundation of factual knowledge.

- What is the business worth?
- How can it best be groomed for sale?
- Who will buy it on what terms?
- Will the proceeds cover future retirement costs?

*You will want to position yourself with the business owner before their business sells, if you expect to manage the money after the sale.*

## HUMAN QUESTIONS

The factual questions are important, of course, but so are the human questions. These are often in the client's mind, but may go unstated.

- How will the business be without me?
- How will I be without the business?
- Will my name remain on signage, buildings, vehicles, or other assets?
- What will I do with my time?
- Am I stepping down?
- Am I stepping aside?
- What is next?
- Am I ... old?





## LIFE QUESTIONS TO EXPLORE

Business exit plans often are created by advisors and go unsigned by clients. Think of business exit as a ladder. The client has to reach up with one hand and let go with the other. **The client will not let go of the business, until he or she has a good grip on a better life to come.** You can play an enormously helpful role by getting the client to visualize a great life after exit. Here are some questions you can adapt.

- “Barry, what is next for you?”
- “Melinda, are there things in life you always wanted to do but never did? How can you still get back to that while you have time?”
- “Howie, imagine it is five years from now. You have exited the business in style. You are living your best life. What are you doing? Sitting on boards? Volunteering? Leading a new venture? Or, just taking it easy? What will give you joy?”
- “Mel, beyond yourself and family, where in the world would you like to make a positive difference while you are alive, or after you are gone?”
- “Louis, you have done wonderful things for the community, in building the business, meeting payroll, contributing time and money to good causes. Your talents are precious to this town. Have you thought about how you can get plugged into something new?”

## QUESTIONS ABOUT WEALTH IN FAMILIES

The business owner may have succeeded far beyond his or her expectations. **A business sale is “sudden money,” which brings up questions about the role of wealth in the family.** These questions revolve around money but are just math problems to be solved. The questions evoke dilemmas. And a dilemma does not have a solution, but it requires a decision. Until clarity is reached, planning may stall. Advisors provide a context in which the client can come to a decision.

- Will children inside and outside the business benefit equally from family wealth?
- Who will get what at death?
- What is fair and what is equal?
- How much should go outright and how much in trust?
- Will heirs feel a trust means they were not trusted?
- How much is enough and how much may be too much for a particular heir?
- How to pass on values and good sense as well as money?
- How to prepare heirs for their future roles and future wealth?



- How much to tell the heirs, when?
- Will charity get anything during life, or at death?
- If so, should charitable tools be positioned during the business sale to maximize tax benefits?
- Could those tools also be used to help prepare heirs for their inheritance by teaching them character and financial skills?
- Could part of the heirs' inheritance be the right to distribute funds from a charitable tool?
- Could a child not active in the business take a leadership role in family philanthropy?



## **JACK: WHAT A DIFFERENCE A DAY MAKES**

Jack arrived with his attorney at a wealth transfer firm the day after he sold his business, a C corporation with zero basis, for \$100 million. His capital gain was \$100 million. Tax due was \$20 million. He said, “Can you please help me reduce my \$20 million tax bill?” Unfortunately, Jack had come one day too late. While he gave away a lot of money, and did cut his tax bill, he could have done so much more had he taken certain steps before selling. Raise the right questions early. And be there for your business-owning boomer clients before they sell.

## THE TRUE PURPOSES OF CHARITABLE TOOLS

This brings us to charitable tools, but with new eyes. They can be used to save taxes, yes. They can be particularly handy for use in the sale of the business, or to offset gain upon sale. And they can be used to create income to the donor. But even more important, they serve a family function. **They can demonstrate the family's values, and imbue heirs with a spirit of commitment of generosity and public purpose.** And perhaps even more important than that, they ultimately do good in the community. Doing good may be what gives meaning and hope to an aging client, and it may be what makes the client's legacy emphatically positive.

## TECHNICAL SIDE OF TOOLS IN BRIEF

### Charitable Remainder Trust

With the right set of facts, the client may be able to put, all or part, of the business into a Charitable Remainder Trust (CRT), get a partial income tax deduction, an income stream for life, and avoid capital gain on sale of the asset inside the trust. C corporations are the ideal prospect for a CRT. Real estate can also work. S corporations do not. Be wary of assets with debt, since debt can produce unexpected income to a donor and taxable income to the trust itself.

### Grantor Charitable Lead Trust

Say the client sells the business outright, and realizes a significant spike in income. With a Grantor Charitable Lead Trust, a donor makes a gift into the trust, which then makes payments to charity for, say, 10 years. At the end of that time, the corpus can return to the donor. Going in, the donor gets an income tax deduction equal to the present value of the payments that will go out from the trust to charity. The downside is that each year, as assets inside the trust are sold to make the charitable payout, the donor will realize taxable income. But with good investment planning inside the trust, the taxes paid over time may be significantly less than the tax saved up front.

## TECHNICAL SIDE OF TOOLS IN BRIEF CONTINUED

### **Donor-Advised Fund**

In some cases, it may be possible to gift the business, or part of it, prior to sale to a Donor Advised-Fund (DAF), and then sell inside the DAF without paying tax. A donor might sell some of the business outside the DAF, and some inside. The tax savings on the gift to the DAF can offset the tax due on the portion sold outside the DAF.

### **Foundation**

Generally private foundations with closely-held stock do not work. For one thing, donors only get a deduction for basis (or fair market value, if less). But a foundation does work to offset the gain once a taxable event, like a business sale, has already occurred.





## QUESTIONS CONNECTING VALUES TO MISSION AND IMPACT

Many clients have already been steady givers, but not big givers. They have given in small amounts when asked, but with little or no thought about the potential of larger, transformative gifts. As they exit a business, become liquid, use charitable tools, or plan charity into their estate, these business-owning clients are in a position to make the largest gift of a lifetime. **It gives a person pause to add a zero or two or three zeros to their giving.** You can be a great service to these emerging philanthropists by teaching them questions to ask as they consider transitioning into a more strategic approach to philanthropy.

- What would you like to preserve or change in the world?
- What traditions or values have guided your giving to date?
- Have any of your gifts given you joy?
- Are any gifts giving you a sense of pride and personal achievement?
- Who is your giving tribe?



- What is your vision of a better world?
- What is needed to make change happen?
- How will you experiment to see what works best?
- What metrics or measures will indicate you are on track?

# QUESTIONS FOR YOUR CLIENT TO ASK A PARTICULAR CHARITY

At some point, before any real, good is done in the world, the precious dollars devoted to giving have to reach a particular nonprofit, and go to work accomplishing its mission of service to the community. Or clients may be faithful small givers who are conditioned to give when asked. The idea that they might direct the conversation and ask for what they want is new to them. They will appreciate your providing them these questions, at the appropriate moment. **All of these are questions your client could use when having talks with individuals or organizations who might receive a significant gift.**

- My gift is big to me. Is it big to you?
- What will you do with my money and how will it make a difference?
- Do you see me as a mission partner or as an ATM?
- At what level of giving can I endow a permanent program?
- At what level of giving can I specify a particular purpose?
- At what level can I name a program or project?
- Who will be carrying out my intentions?
- May I meet with that program champion?
- What might be a reasonable expectation about results?
- What reporting will I or my heirs receive?
- What will I get in writing (gift agreement) that lays out what I can expect?
- Am I being realistic? What am I missing? Do you have other approaches I should consider?
- Can we start with a little test? What will you do if I give \$X?
- Do you accept gifts other than cash and public securities? (Business interests? Land? Timber? Crops? Patents? Bitcoins?)

## MULTI-DIMENSIONAL PLANNING

Notice how the charitable questions actually influence the choice of tools. If the client wants to give a business interest to charity and the charity is not able to accept it, perhaps the gift can be routed through a Donor Advised Fund. Often national funds, and local community foundations, will accept a business interest, convert it to cash inside the DAF, and enable the donor to then grant money to whatever charities he or she wishes.

Consider how a Charitable Remainder Trust works depending on when the donor wants the charitable program to start. A CRT gets income to the donor now, but provides the remainder to charity at a later date, often death, or the expiration of a term of years not to exceed 20. Is that when the donor wants the charitable work to start? If the donor wants present impact, he or she might consider a straight-up gift, or a series of gifts linked in a pledge, or grants from a foundation or donor advised fund. A Living Charitable Lead Trust also provides income to charity starting at inception. And seeing the good that is done over the donor's lifetime may motivate the donor, and gratify the donor family.

## AN ASSET TO YOUR COMMUNITY

As mentioned above, the oldest of the boomers are in their 70s. This generation is known for talking about their grandchildren and often about their philanthropy, too. As you prove to be an asset to such well-intentioned wealth holders, you become a magnet for others like them. You become a sought-after resource. Your most generous clients will see you as a mission partner because you understand money, but also because you understand their higher purposes for family and community.

# WHERE TO LEARN MORE

## Recommended resources:

This white paper is indebted to many sources, particularly for the questions it contains. You may benefit by turning now to the sources themselves.

*The Legacy Spectrum* by Mark Weber. A resource for clients, including worksheets they can use to prepare themselves to meet with advisors.

“Your Philanthropy Road Map,” a free, action-oriented guide from Rockefeller Philanthropy Advisors at rocpa.org.

*Complete Family Wealth*, by Hughes, Massenzio, and Whitaker. A summary of lessons learned in passing more than money in multi-generational families of wealth. The lessons can be adapted to families of modest means.

*Hats Off To You: Balancing Roles and Creating Success in Family Business*, by Earnest Dowd, Jr and Dr. Lee Hausner. On both the technical and the human side of family owned business planning.

*Wealth in Families*, by Charles Collier. A great short book for clients posing the most important questions only they can answer about their wealth and its desired impact on heirs and community.

*Exit Planning: The Definitive Guide*, by John Brown. A handy resource for the technical issues and process required to groom a business for sale and exit in style.

*Inspired Philanthropy: Your Step by Step Guide to Creating a Giving Plan*, by Tracy Gary. Built around proven worksheets for donors to complete to guide their choice of mission, charity, and preferred path to social impact.

*The Giving Way to Happiness*, by Jenni Santi. Provides excellent questions informed by her work with donors around the world.

*The World We Want: New Dimensions of Philanthropy*, by H. Peter Karoff. Peter was a master of the art of asking questions, and the book demonstrates how to build on the client’s answers to advance a better life in a better world.

*Charitable Gifts of Noncash Assets*, by Bryan Clontz. The authoritative guide to the gift of noncash assets including business interests.

“Entrepreneurs as Philanthropists,” via Fidelity Charitable, 2018.

## AMONG THE TOP CONFERENCES

- Advisors in Philanthropy
- Purposeful Planning Institute
- National Association of Charitable Gift Planners
- Family Firm Institute



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