



## Preparedness: Death of a Principal

### Preserving a legacy

While death and taxes are inevitable, their consequences don't need to be a surprise. Family offices are in a unique position to prepare their organization and the families they serve to plan for the inevitable: the death of the Principal.

In the United States, we find that much of the planning related to the death of a Principal is focused on navigating the complicated issues associated with transfer taxes. US estate tax provisions subject the Principal's estate in excess of the annually determined lifetime exclusion amount to a 40-percent tax on assets owned or controlled at death. Without implementing proper techniques, some tax compliance issues may not come to light until years or sometimes decades after the Principal's death.

In addition to vitally important tax planning, the family office and its advisers should also look beyond the tax burden to address additional contemplated consequences of the Principal's death. Otherwise, effective tax planning results can come at the expense of other equally important outcomes – and that is when surprises happen.

#### **How can family offices and family advisers prepare for the inevitable?**

Preparedness exercises put the family office, the family advisers and, most importantly, the family, in a significantly better position to address the implications of the death of a Principal. These exercises identify the:

- Gaps in knowledge, documentation, staffing, and other areas that are better addressed while the Principal is alive.
- Key steps to be addressed following the death of the Principal.

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*"In this world nothing can be said to be certain, except death and taxes."*  
Benjamin Franklin, 1789

No two families are identical, so the exercises are most effective when tailored to the family's specific circumstances. They should touch upon the relevant items relating to the Principal's estate that the family office and the family advisers will need to address, including:

- **A 90-day drill.** A process that identifies necessary financial, accounting, legal, regulatory, and administrative action items to address in the period immediately following the death of the Principal.
- **Financial implications of the Principal's death.** A process to quantify the projected expenses, liabilities, and potential taxes and then identify sources of liquidity to pay those expenses.
- **Asset disposition.** An analysis of issues related to the disposition of specific assets, such as large concentrated equity positions, unique real estate holdings, and other hard to value and illiquid assets.
- **Family office transition and transformation.** Development of a transition plan for the family office that addresses the inevitable changes resulting from the death of the Principal. The plan is often accompanied by a Family Office Executive Transition Lab that can be especially impactful to help newly appointed executives, including those with prior family office executive experience, make an effective transition into their new roles. In addition, a Family Office Transformation Lab can help executives identify opportunities for process improvement and innovation while preparing the organization to navigate future change.

Family offices and family advisers who have the foresight to conduct these exercises can create significant value for the family by reducing confusion and providing stability during a difficult time. It is otherwise a missed opportunity to prepare for and systematically attend to important details following the Principal's death.

### Why Deloitte?

#### It's business, and it's personal.

Deloitte has discreetly served high net worth individuals, families, and their enterprises for more than 100 years. As a trusted adviser to many of the world's most affluent families, family offices, and private trust companies, we offer significant experience and integrated service capabilities. You gain access to our global network of professionals and a world-class level of knowledge and experience tailored to the unique and personal circumstances of your family office and the family it serves.

#### One step at a time.

While talking about death can be an uncomfortable and sensitive topic, having these conversations is imperative. Our deep experience in family dynamics, risk, and regulation in a wide range of environments equips us to discern the nuances of your situation and recommend actions that align with your family office mission, goals, and culture.

#### Resources at the ready.

Deloitte can field a world-class team to guide you through these critical conversations, arriving at a clear path forward. We have a global team of 1,800 professionals across the Deloitte Touche Tohmatsu Limited network of member firms who focus solely on the specialized needs of the ultra-affluent, including families with multigenerational wealth, entrepreneurs, family offices, and fiduciaries. Our professionals provide advice and extensive experience across a wide range of specialties – from tax technical to cyber risk management – and have access to a network around the globe, including in emerging markets.

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