

ADVANCING *Issues*

Winter 2006 • Published quarterly by Corporate Planning Associates • Vol. 13, No. 1

Welcome to the Family Office

By Leanne Teston, Vice President, Corporate Planning Associates

The Family Office. In the past few years, you have seen the term referred to in newspapers, magazines, and even heard of it on the radio. But what is a family office? Who would want to be part of it? What are the benefits? What services do they provide?

The Family Office is an organization created to manage the significant assets and specific financial needs of a particular family. The client is like the CEO of an organization, while the adviser is the CFO. While more prevalent in the United States with an estimated 3,000 formal family offices and 6,000 informal family offices, there are relatively few family offices in Europe and Canada. A traditional family office is established to serve the financial needs of one family alone. The costs however, can be prohibitive at between \$500,000 and \$750,000 per year for management and administration. In order to be more cost efficient, many families choose to become members of a multi family office (MFO) that manages the total financial needs of a number of unrelated families. Fees to the multi family office can be paid through investment management fees, consulting fees or a combination of the two.

Why would someone want to join a multi family office?

Normally, people join a multi family office when their assets grow to a level that requires professional money management, and the time required to manage the finances takes away from regular day to day duties.

Oftentimes it is after the sale of the family business, or receipt of a large sum of money from employment. Families may join a MFO in order to structure their wealth to their heirs in a tax effective manner. Last but certainly not least, people often find that they do not have the interest in managing their financial affairs, and would prefer to delegate the duty to someone else.

The largest benefit derived from being part of a multi family office is that it serves as a "one stop shop". The multi family office manages all aspects of the family's wealth from investment management, bill paying, structuring and implementing insurance and estate plans, and managing charitable foundations and requests. While many of the specialists are located "in house", the multi family office also works with outside professionals to structure the various aspects of the client's finances. In doing this, the family's finances are integrated, so that all areas are

working seamlessly towards effectively attaining the family's goals.

An open architecture allowing for different strategies to be implemented is an essential element within the Multi Family Office. Each client has different goals and objectives, and therefore the multi family office has solutions to meet each of those individual goals and objectives. The staff members are able to counsel the clients through complex financial situations, and are able to manage the dynamics of the family when conflict arises.

Investment management is an essential part of the multi family office's duties. The MFO is responsible for determining the asset allocation for the clients, and managing the investment managers, to ensure they are investing the money most effectively. Families must also have access to the top money managers available.

The Multi Family Office provides numerous services to its members, including investment advice and monitoring, tax planning and preparation, estate and insurance planning, wealth succession planning and trust and

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foundation management. Even services such as bill paying, cash flow management and the administration of family trusts are provided by the family office. Once a strategy is recommended, the MFO is responsible for ensuring that all of the various tactics are implemented. Regular reporting is provided, so that the families are apprised of their progress on an ongoing basis.



The high degree of service is another benefit found within the Multi Family Office. Each staff member of the MFO works with a relatively small number of families, allowing them to build strong relationships with the clients, and fully understand their goals and objectives. The staff

is able to recommend solutions while remaining product neutral so that the clients are assured that the recommendations being made are sound.

Confidentiality is also an important benefit found within the multi family office. As the staff is privy to the most intimate details of the family's financial affairs, they go to extraordinary lengths to ensure that the information remains private.



Although it hasn't been referred to as such, Corporate Planning Associates has been operating as a multi family office since its establishment in 1974. We work with our clients, their children, and their grandchildren to ensure that their wealth is preserved,

and passed effectively through the generations.

Once our client's individual financial strategy has been planned, CPA works with our in house tax department and outside professionals such as the top law firms in the country to put that plan in place. We are life insurance licensed, and implement various insurance strategies when required. Our newly launched Gold Leaf investment platform allows us to place our client's funds with some of the top investment managers in the world, while providing the discipline to maintain our clients' optimum asset allocation. Whatever our clients goals and objectives are, CPA will assure those goals are reached. Welcome to the Family Office.

Planning for Intergenerational Wealth Transfers

By John W. Davis, Senior Vice President, Corporate Planning Associates, Calgary

Congratulations, you've made it; you are now comfortably financially independent! Life is grand and all your monetary issues are gone!!!

This is often the illusion of what will occur once this fundamental goal is obtained. Unfortunately, reality is far different as now a new set of "stresses" appear, the least of which is how to effectively pass on this wealth without ruining succeeding generations. Understandably, the larger the degree of financial security the larger the issue.

It is every parent's desire that their children grow up to be happy, productive, contributing members of society. In this regard, the greatest legacy we can leave this world is our children.

Wealth can provide tremendous opportunity, but if not handled properly it can also undermine a child's ability to develop a sense of achievement and self-worth. Ultimately, the most significant risk with an intergenerational transfer of wealth is that it supports a child down a path of self-destruction.

So how do you effectively pass on financial capital, and what steps can you take to properly prepare succeeding generations for this transfer.



Starting Early – Preparing Children:

Let's assume you have done a tremendous job raising your children. You have instilled in them a sense of right and wrong, and a moral code. If you have generated your wealth after your children have grown and left home, you may feel confident that they have learned the "value" of a dollar and

the difference between “needs” and “wants”. But what if you were not so fortunate. What if your children have never seen you budget, save, clip a coupon, or to go without? What if you have “retired” young and are concerned because your children don’t see you get up and go to work every day? What if you feel that your children are developing a sense of entitlement, or may lack the drive and work ethic required to move forward in life? If any of these are concerns, consider the following:

1. **Be a role model** – Actions speak louder than words. Ensure the choices we are making as parents reinforce not detract from the lessons we are teaching our children.
2. **Be charitable but be involved** – Don’t just write a cheque. Serve soup to the homeless, volunteer at the foodbank, become aware of the issues we face as a society and a community.
3. **Go to church** – Religion is a great way to reinforce a moral code and expose children to a broader community. Consider stipulating with your child’s allowance that $\frac{1}{3}$ goes into the “bank”, $\frac{1}{3}$ can be spent, and $\frac{1}{3}$ goes into the church offering.
4. **Compete** – Through athletics children learn teamwork, discipline and hard work. They also learn to deal with adversity, to overcome obstacles and that the road to success is often paved with many failures.
5. **Travel** – Seeing the world is a great way to appreciate how fortunate we are. Depending on where you go, the difference between a “need” and a “want” can become quite clear.
6. **Lessons from ‘The Cosby Show’** – Your children may not be Theo Huxtable, but there may come a time when you need to discuss the

difference between Mom and Dad’s wealth and their own. May we all handle it with the same degree of tact and humour.

7. **The Oracle of Omaha** – Warren Buffet once said that he wanted to give his children enough money so they feel they can do anything, but not so much that they do nothing. There are positive aspects for a child knowing that they will be provided with opportunity, but that long-term they will need to provide for themselves.
8. **Tough love** – We can learn from watching nature. There comes a point where a parent may need to act like a robin and push its young out of the nest in order for them to learn how to fly. It is hard to watch a child struggle, but it also creates an opportunity for character development, independence and self-respect.
9. **Encourage education** – Education fosters a sense of achievement, intellectual depth, and it allows the pursuit of an unlimited number of career paths.
10. **Family Foundation** – Consider establishing a Family Foundation as a means to develop and implement a philanthropic strategy for the family. It can expose young family members to professional money management, and facilitate the development of their personal charitable interests.
11. **Family Heritage Agreement** – As your children reach age 18, consider having them sign a family contract which will require them to take the necessary steps to preserve any interest in family assets that will pass to them over time. This includes entering into Cohabitation and Marriage Contracts. Most people don’t realize that in such circumstances there is already a “contract” created

in law, one that is likely not appropriate for the uniqueness of their relationship or their family.

What if you feel it is time to begin transferring assets to your children:

1. **Helping with their first home** – Whether you plan to provide a sizeable down payment or to fully pay, an interest free loan registered on title is normally the best means. It provides some recourse in the event the child is in a relationship that subsequently fails, while not burdening them with interest payments.
2. **Establishing Trusts** – A Trust can be an effective means to deal with assets subject to probate or estate tax, or to administer assets for children where there are concerns as to their ability to manage.
3. **The CPA Family Office** – The best means to ensure an effective transition of wealth is to extend your CPA advisory relationships to your children. In addition to requiring an integrated approach covering all aspects of tax, legal, estate and investment management, a high level of “family” knowledge is essential.
4. **Estate planning considerations** – For a child at a young age, the loss of a parent and role model is devastating. The accelerated transfer of wealth upon death can also create a dangerous scenario if a child is ill prepared to manage. There is no perfect solution to deal with this difficult scenario, but a thoughtfully structured estate plan can help.



So once again congratulations – you’ve made it... here’s to your children and grandchildren making this world a better place!!

A Message for Snow Birds

By John R. Ross, Chairman, Corporate Planning Associates

Wow, life is great! While the falling US dollar has had a devastating effect on my foreign-based portfolio it has had a very positive effect on my winter cost of living. Each year I spend about US\$60,000 to live in the warm Floridian climate, which covers the operating expenses for our home, golf club expenses and general cost of living. Back in the winter of '02 (that's 2002, not 1902), the exchange rate was about \$1.60, meaning that I needed about \$96,000 Canadian dollars. Now, with the rate hovering near \$1.15, I only need about \$69,000. That's a savings of \$27,000 after tax and about \$50,000 pretax. If this rate holds and I live for another 10 years, I will realize a savings of approximately \$500,000 pretax Canadian dollars. That's a very significant number, but what's the flip side?

I bought a condo in Florida in December 1998. All together I invested about \$1,100,000 in the unit and the furnishings. At that time the exchange rate was \$1.55, so my investment, in Canadian dollars, was about \$1,700,000. Like most of our clients I owned the property through an Ontario numbered company so that I could avoid exposure to US estate taxes. At the time we expected that we would sell only if we could no longer winter in Florida, whether because of poor health or death.

Guess what. After the two hurricanes in 2004, my wife and I decided that we would move off the ocean and so we bought a house about two blocks inland. We love the house and were

happy to make the move but were subsequently surprised by the financial impact of our decision.

Start with the sale of the condo. We were able to sell the condo at a huge profit. We sold for US\$1,750,000 which gave us a taxable capital gain in Florida of about \$500,000. Because we owned the condo through a corporation, the capital gains tax was about \$185,000 which meant that after selling commissions, closing costs and capital gains taxes, I realized \$1,410,000. Convert this to Canadian dollars at today's rate and I netted about \$1,650,000. So I didn't make a profit in Canadian dollars even though I had a profit of \$500,000 in US dollars.

This all resulted in a US tax bill of \$185,000. But, guess what, that tax credit belongs to an Ontario numbered company classified as a "single purpose" company restricted from earning any income. The story gets better. Earlier last year CRA stated that "single purpose" companies are no longer allowed but that they were grandfathering existing companies. They also said that you would lose this status if you sold the property held by the company. Purchasing the new property in effect invalidated the company's effectiveness regarding the real estate but it also changed the restriction on that company's ability to earn income. So now all I have to do is create taxable income in the company and I may be able to benefit from the loss that this tax created. Unless the government comes along and says that they are no longer going to tax capital gains (highly unlikely), I may recover some

of the tax that I originally thought was lost forever.

One last thought on the implication of this change. Now, because a third party owns the house, albeit a corporation that I control, I have to rent the house at fair market or I will be taxed on the value of that rent as a deemed benefit. Another hurdle? Well not really. Rent would be quite high for seasonal property but if you, in effect, rent it year round the fair market is much lower. In fact, it isn't much higher than the actual cost of taxes and maintenance. If there is a profit, it will be taxable Canadian income and covered by my loss carry forward.

Since many of our clients own foreign property, either personally or through a holding company, they, or their estates, will eventually face a similar situation. I'm pleased that I was able to act as the guinea pig.

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Subscription price: \$100 per year

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