Profile: Creating liquidity to meet estate tax liabilities without selling a business

Our client is a businessman who owns auto dealerships in two states. Over the years, he has used proceeds from selling some dealerships to acquire substantial agricultural and commercial real estate interests. As he entered his 80s, the client became concerned about how his estate could meet estate tax liabilities after his death without a forced sale of some of his business interests.

APPROACH

A key factor for this client was that estate taxes on commercial real estate investments are due much sooner than estate taxes on active businesses. Based upon the value of his commercial real estate investments, his CPA estimated that he could owe $50 million in estate taxes, due nine months after death. Our client had $17 million in liquid assets at the time and was looking for ways to reduce estate taxes and/or create liquidity. He did not want his family to be forced to sell assets to meet estate taxes.

- The client's U.S. Trust® wealth strategist reviewed the existing estate plan and trust documents.
- His advisor and wealth strategist worked with a U.S. Trust® credit specialist to analyze the commercial real estate properties and put together a real estate loan proposal.
- The advisor also introduced the client to Bank of America's Commercial Banking Agriculture Group to see if they could improve the terms and/or increase the credit facility size on an existing Farm Credit loan he had on his agricultural property.
- In addition, the advisor introduced the client to a portfolio manager, who analyzed the existing $17 million municipal portfolio managed by another private bank.

SOLUTIONS

- The wealth strategist suggested creating a grantor trust to which the client would gift interests in some of the commercial real estate to his children. Because this was a private transaction, the property was eligible for discounting techniques, which would reduce the value of the assets in the client's estate.
- The Commercial Banking Agriculture Group proposed refinancing the existing $25 million Farm Credit loan with a new $40 million Bank of America loan, the structure of which also included a $20 million interest rate swap. This proposal was more compelling than the prospective real estate loan.
- The portfolio manager highlighted some concentration and credit risks in the municipal bond holdings and also noted that the existing duration of the portfolio was inappropriately long given the stated purpose of using funds to pay estate taxes. The portfolio manager recommended restructuring the municipal holdings to better diversify and reduce the overall duration.

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RESULTS

- The client worked with his estate attorney to create the recommended grantor trust, and opened six individual sub-trust investment accounts at U.S. Trust to hold the gifts he has made to his children. The CPA estimates that the client's estate taxes will drop by around $10 million.
- Based on his team's recommendations, the client asked the Commercial Banking Agricultural Group to refinance the existing loan.
- The client also moved his existing municipal portfolio to U.S. Trust. When the agriculture loan refinance closed, he added the $15 million from increased loan proceeds to the municipal portfolio. He subsequently added incremental funds from operating cash flow, eventually bringing the portfolio to $40 million—now sufficient to cover the estate tax liability.

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