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PROTECTING WEALTH, SECURING THE FUTURE: ART OF FORWARD-LOOKING ESTATE AND SUCCESSION PLANNING

Imagine your hard-earned wealth disappearing overnight
Building wealth is an achievement; preserving it across generations is a responsibility. Studies show that approximately 70 percent of family wealth is lost by the second generation and up to 90 percent by the third. These reasons are manifold: insufficient planning, disputes among heirs, significant tax exposure, or inadequate structuring. High-net-worth individuals worldwide face the challenge of safeguarding their assets in a manner that is both legally compliant and sustainable.

This article highlights how professional estate and succession planning can prevent wealth erosion. Drawing on real-life examples, it illustrates how bespoke solutions from experts such as Dr Marco Felder at FS+P can help mitigate risks, preserve family harmony and achieve long-term objectives.

The Risk of Wealth Erosion: Lessons from Real Cases
Without forward-looking planning and precise execution, even substantial fortunes are exposed to considerable risks. The following examples are based on publicly available information and demonstrate the significant risks associated with inadequate succession planning.

A prominent example is the Thiele family. Following the death of entrepreneur Heinz Hermann Thiele in 2021, errors in handling the family foundation led to a record inheritance tax liability of approximately EUR 4 billion in Germany. With proper structuring, much of the EUR 15 billion estate could have been shielded from taxation. Prolonged legal disputes among the heirs further complicated the settlement process – a stark reminder of the costs of inadequate planning.

The Albrecht family, owners of Aldi Nord, faced similar challenges. After Berthold Albrecht's death in 2012, prolonged disputes arose over control of the Jakobus Foundation. The conflict stemmed from a change to the foundation's statutes shortly before his passing, which strengthened the influence of non-family managers. The heirs' attempt to contest this change proved unsuccessful. This case demonstrates that even formally established foundations cannot fully prevent internal power struggles when control and disposal rights are not clearly and indisputably defined.

The Porsche-Piëch family further illustrates the complexity of succession in large entrepreneurial dynasties. Following Ferdinand Piëch's death in 2019, his estate was managed through two Austrian private foundations. Despite a robust legal framework, internal tensions emerged, particularly due to asymmetrical governance structures. This highlights that even legally sound foundation models can foster conflict if beneficiary participation and control rights are unequally distributed.

In another case, the absence of a foundation led to the formation of a community of heirs upon the entrepreneur's death. The resulting fragmentation of company shares caused a loss of control and a 40 percent decline in value within only five years. These cases represent only the tip of the iceberg. They underscore not only the emotional toll on families but also the substantial liquidity drain caused by taxes and legal fees – a risk amplified when multiple tax events, such as inheritance tax combined with exit taxation, occur simultaneously. In contrast, families that plan early and implement robust structures are far better positioned to preserve wealth intact across generations.

COMMON MISTAKES AND THEIR CONSEQUENCES

Many wealthy individuals underestimate the complexity of estate and succession planning. Typical pitfalls include:

- **Delayed planning:** Postponing the establishment of protective structures, such as foundations, can severely restrict available options or even render structuring impossible. FS+P provides timely guidance and implementation of appropriate strategies.

- **Lack of communication:** Without clear agreements, disputes often escalate into protracted and costly legal battles. Future generations should be involved early and gradually prepared for their responsibilities.

- **Inadequate structuring:** Unstructured wealth risks fragmentation, particularly through inheritance or divorce, reducing value and control. Cultural and religious factors must also be considered – for instance, in the Middle East, Sharia-compliant structuring of foundation documents is frequently required.

- **Tax traps:** Multiple successive tax events, such as inheritance tax combined with exit taxation, can substantially erode wealth and force distress sales.

- **Restriction of mobility:** Exit taxation can significantly hinder or even prevent relocation abroad. Transferring assets to a Liechtenstein foundation may also trigger exit tax and therefore requires careful advance planning to preserve future flexibility.

"Trial Death": A strategic planning exercise

To identify vulnerabilities in existing arrangements, FS+P recommends conducting a "trial death" analysis – a thought experiment simulating the consequences of the founder's passing. This approach examines critical questions: What happens to the assets? Who will assume responsibility for managing them? Are the bereaved adequately prepared for this role? And how can tax burdens be minimised? Addressing these issues proactively allows weaknesses to be corrected before they escalate into real-life disputes or significant financial exposure. Without such foresight, families risk fragmentation of assets, prolonged conflicts and considerable financial losses – all of which can be avoided through a carefully structured succession plan.

The role of family foundation: flexibility, protection and mobility

The Liechtenstein family foundation is one of the most effective instruments for safeguarding wealth across generations. It combines flexibility and discretion with favourable tax conditions, benefiting from Liechtenstein's robust legal framework and long-standing tradition of privacy. Unlike many other jurisdictions, Liechtenstein's foundation law allows highly tailored solutions – whether designed purely for maintenance purposes or as vehicles for corporate succession. By consolidating business holdings within a single entity, foundations prevent fragmentation of assets and preserve control, while also providing significant tax advantages when structured appropriately.

A particularly valuable feature is their ability to shield families from potentially EU-incompatible exit taxation. In countries such as Germany, latent gains are often taxed upon a permanent change of residence, severely limiting mobility. By transferring assets into a family foundation, the wealth is no longer attributed to the individual and exit tax can often be neutralised – enabling greater freedom of movement and cross-border flexibility. Ultimately, the family foundation serves as a stable and adaptable vehicle for protecting wealth, regardless of future family developments or relocations.

Wealth and its broader role in society
Wealthy individuals and their enterprises are significant contributors to public finances and play a vital role in the stability and development of economies and societies. Estate and succession planning is therefore not about tax avoidance; rather, it is about protecting the family and its legacy, safeguarding privacy, and ensuring international mobility for future generations. Beyond potential tax efficiencies, such measures support the preservation of family values, mitigate unnecessary risks, and enable a harmonious transition of wealth across generations.

ACT TODAY – SECURE TOMORROW

Wealth carries responsibility, and that responsibility begins with proactive estate and succession planning. As the Thiele case illustrates, missteps in this area can cost billions, whereas a well-structured family foundation can preserve wealth and prevent fragmentation for generations. Key advantages include:

- Protection against fragmentation of assets
- Enhanced tax efficiency and minimised exposure to major tax events
- Harmonious family succession planning
- International mobility without triggering exit taxation
- Discretion and sustainable wealth preservation
- Personalised, tailor-made advisory solutions

FS+P: YOUR PARTNER FOR BESPOKE SOLUTIONS

FS+P AG, based in Liechtenstein, develops bespoke strategies for high-net-worth individuals worldwide. With extensive expertise in tax law, asset structuring and succession planning, and working closely with an international network of partners, we create legally compliant, sustainable solutions tailored to each family's objectives. Our services include the establishment and comprehensive administration of family foundations, trusts and holding structures.

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