FIRM INSIGHTS

Modern Debt Dynamics and the Effect on High-Net-Worth Wealth Plans

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Executive Summary

- Without fiscal austerity, rapidly increasing national debt due to rising budget deficits may result in less favorable interest rate and tax policies.
- Conceivably, these secular trends can usher in a new paradigm for structuring wealth plans and strategies for ultra-high net worth individuals.
- Business-owning families can leverage tax-efficient strategies optimal for this high-rate environment before favorable tax legislation is set to expire at the end of 2025.
- Entrepreneurs preparing for their initial business exit and wealth transfer should contact their advisors to discuss the various time-sensitive planning opportunities.

Modern Debt Dynamics and The Impact on Taxes and Interest Rates

Debt

It's no secret the national debt has grown rapidly. In fact, total public debt is $28.91 trillion as of January 2025, an increase of nearly 68% from January 2020—and is forecasted to swell to $52 trillion as of 2035, an increase of nearly 80% from current levels. Importantly, debt as a percentage of GDP is 100% as of January 2025, and forecasted to increase to 118% into 2035—which can lead to lower growth and higher interest costs and taxes.

Budget deficits

Indeed, rising expected debt levels are proliferating from federal budget deficits—which are set to grow by 6.1% of GDP by 2035. Notably, an economic recession has not been forecasted—which could presumably expand the deficit further if one were to occur.

Taxes

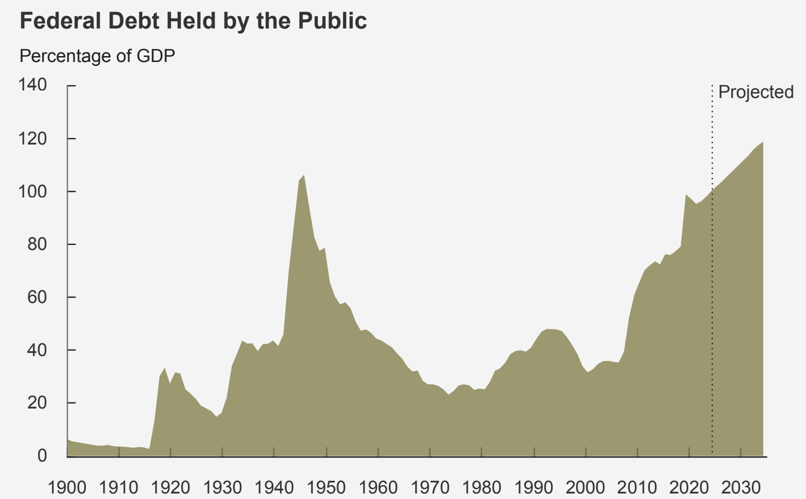
Federal outlays are set to outpace revenues into 2035, mainly due to rising net interest costs; however, revenues are projected to rise as well—in part, due to the scheduled expiration of provisions of the 2017 Tax Cuts and Jobs Act (TCJA). Notably, individual income tax revenues are set to rise precipitously into 2035.

Interest rates

The U.S. 10-year treasury bond yield has risen sharply from .70% to 4.50% between January 2020 – January 2025. As continued deficit spending raises growth and inflation expectations, interest rates are projected to remain higher for longer into 2035.

Exhibit 1: Forecast of Federal Debt

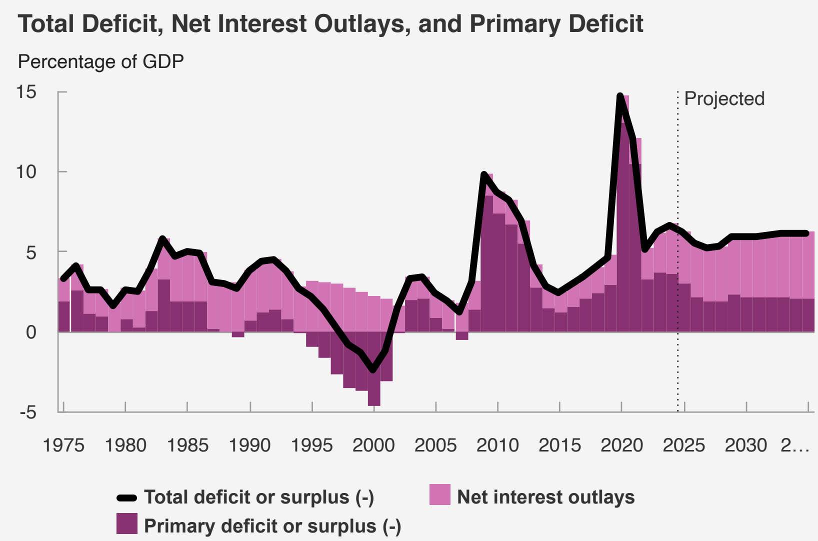
Key Takeaway: By 2035 the debt held by the public swells to 118% of GDP—an amount greater than at any point in the nation's history.



Source: CBO
https://www.cbo.gov/publication/60870

Exhibit 2: Forecast of Budget Deficit

Key Takeaway: Without fiscal austerity, there may be secular changes to taxes and interest rates.



Source: CBO
https://www.cbo.gov/publication/60870

https://fiscaldata.treasury.gov/datasets/debt-to-the-penny/debt-to-the-penny

Paradigm Shift for New and Existing Wealth Plans and Strategies

New planning paradigm

Due to modern debt dynamics, secular changes in tax policy and interest rates can lead to a paradigm shift in wealth planning—which may require a top-down macroeconomic approach to structuring new and existing wealth plans for high-net-worth families.

Tax policy

Presumably, it is not lost on policymakers that permitting the 2017 TCJA tax cuts to expire will help fund future budget deficits—and if tax law sunsets at the end of 2025 it may be an unfavorable outcome for high-income taxpayers.

Higher rates

Plausibly, funding budget deficits during periods of full employment can be inflationary and supportive of a higher interest rate regime—which can have reverberations on rate metrics and valuation strategies used in transfer planning for wealthy individuals subject to gift or estate tax.

Strategy optimization

To capitalize on time-sensitive opportunities relevant in the current high-rate environment, business-owning families can form flexible trust structures to transfer and protect wealth, maximize the benefit of gift planning by leveraging business appraisal strategies, and take advantage of tax minimization techniques to reduce capital gain exposure upon the sale of a closely-held business.

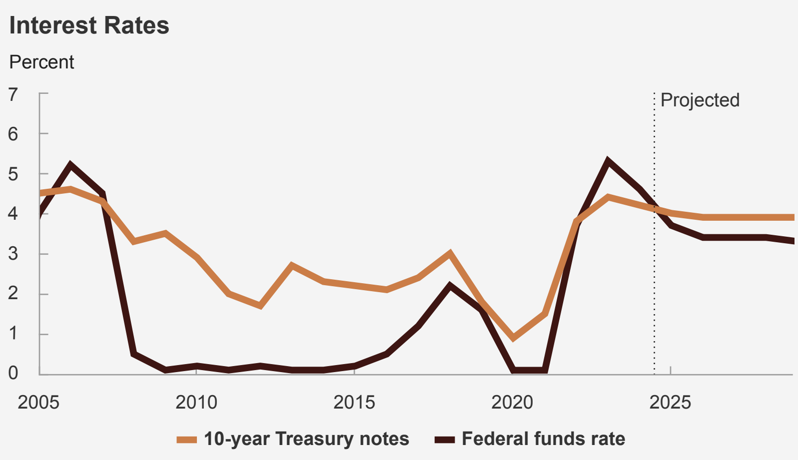
Exhibit 3: Forecast of Tax Receipts

Key Takeaway: Tax revenues set to rise after the expiration of 2017 TCJA tax at the end of 2025.

Source: CBO
https://www.cbo.gov/publication/61172

Exhibit 4: Forecast of Interest Rates

Key Takeaway: Interest rates are forecasted to stay "higher for longer".



Source: CBO
https://www.cbo.gov/publication/60870

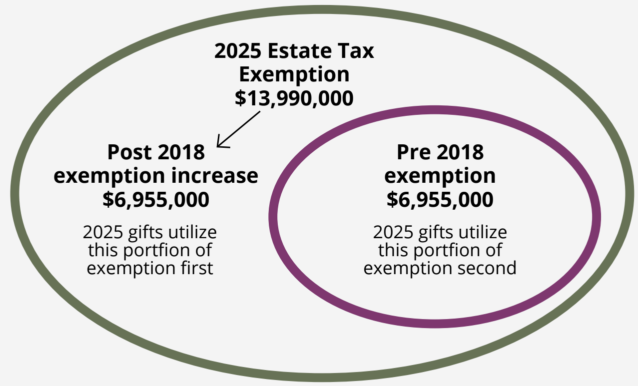
Spousal Lifetime Access Trusts: Protection and Flexibility

In Brief

- The current federal estate, gift, and generation-skipping transfer (GST) tax exemptions are $13,990,000 per person and scheduled to revert back to $6,995,000 per person, inflation adjusted, on January 1, 2026 under the 2017 TCJA.
- The Republican sweep in November's elections may suggest the higher exclusion amount will be extended beyond 2026; however, any reprieve could be brief due to legislative procedural issues and concerns about the budget deficit.
- For a young entrepreneur, the concept of making an irrevocable gift, such as an interest in their closely held business—for an estate tax benefit not to be enjoyed during their lifetime—can be intellectually challenging.
- If flexibility is more appealing, business-owning families may consider Spousal Lifetime Access Trusts (or SLATs)—which are irrevocable trusts created by one spouse (the donor-spouse) for the benefit of the other spouse (the donee-spouse)

Exhibit 5: Lifetime Exemption Reduction Calculation Chart

Key Takeaway: The 2025 federal lifetime exemption may be reduced by half if not fully utilized by the sunset of 2017 TCJA tax cuts at the end of 2025.



Source: VentureMFO

Exhibit 6. Failing to Take Advantage of the Higher Exclusion Amount

Key Takeaway: If the 2017 TCJA sunsets in the beginning of 2026, the federal lifetime exemption could be reduced by approximately 50%—and the opportunity cost of not utilizing an estate exemption in 2025 can be substantial. As shown in the analysis below, when comparing Scenario 1 to Scenario 2, additional estate taxes were incurred of approximately $1.60 million ($36.00 million - $34.40 million) and $2.80 million ($37.20 million - $34.40 million). Moreover, bypassing estate tax free appreciation on an incremental gift amount can be an additional opportunity cost.

	Scenario 1:	**Scenario 2:**	**Scenario 3:**
Total current estate value	$100.00 million	$100.00 million	$100.00 million
Total gift in 2025	($13.99) million	($10.00) million	($0)
Net assets at death in 2026 (a)	$86.01 million	$90.00 million	$100.00 million
Maximum estate exemption in 2026 before 2017 TCJA sunset	$13.99 million	$13.99 million	$13.99 million
Taxpayer prior gifts	($13.99) million	($10.00) million	($0)
Taxpayer estate exemption amount in 2026 before 2017 TCJA sunset	($0)	$3.99 million	$13.99 million
Reduction of estate exemption amount in 2026 if 2017 TCJA sunsets	($0)	($3.99 million)	($6.99) million
Taxpayer estate exemption amount in 2026 after 2017 TCJA sunset (b)	($0)	($0)	$6.99 million
Net estate exceeding available estate exemption amount (a) – (b)	$86.01 million	$90.00 million	$93.00 million
Federal estate tax rate	40%	40%	40%
Federal estate tax	**$34.40 million**	**$36.00 million**	**$37.20 million**

Endnotes:

The analysis assumes the 2017 TCJA sunsets in the beginning of 2026, and the federal lifetime exemption is reduced to $6.96 million from $13.99 million, not considering annual inflation adjustments for simplicity. Scenario 1 assumes the taxpayer makes a gift in 2025 equivalent to the maximum lifetime exemption amount in 2025 of $13.99 million, and then dies in 2026 with no available estate exemption. Scenario 2 assumes the taxpayer makes a gift in 2025 of $10 million, which is less than the maximum lifetime exemption amount in 2025 of $13.99 million–and then passes in 2026 with no available estate exemption, which was reduced by the estate exemption reduction amount of $3.99 million after the TCJA sunset. Scenario 3 assumes the taxpayer makes no gift in 2025, which is less than the maximum exclusion amount in 2025 of $13.99 million–and then passes in 2026 with an available estate exclusion of $6.99 million which was reduced by the maximum estate exemption reduction amount of $6.99 million after the TCJA sunset. If testamentary gifts were made before 2026, and the donor passes after the 2017 TCJA sunsets in 2026, the gift may be subject to the "claw back" rule under the proposed regulations (REG-118913.21).

Source: VentureMFO

Exhibit 7: Identifying SLAT Advantages & Disadvantages

Key Takeaway: Before implementing a multigenerational wealth transfer strategy, assessing the risk and reward is prudent.

Advantages	Disadvantages
Lifetime gift tax exemption. Permits donor-spouse to utilize enhanced exemption, locking in the current high exclusion amount now—prior to the potential 2026 Sunset.	**Irrevocable gift.** Certainly, the SLAT and gift transfer to the trust are irrevocable—meaning the donor-spouse will not be able to change the terms of the SLAT or transfer the assets back.
Indirect access. The donee-spouse has access to trust assets as beneficiary, and the donor-spouse has indirect access to the donee-spouse—as long as they remain living and married.	**Reciprocal trust doctrine.** A principle under which the IRS may deem each spouse to have created a trust for their own benefit, resulting in the loss of major advantages of the SLAT—such as estate tax minimization and creditor protection.
Estate tax avoidance on appreciation. Assets held within the SLAT appreciate outside of the donor and donee-spouse's taxable estate, further minimizing estate taxes—and potentially generation-skipping taxes for future heirs.	**Turning off grantor trust status.** It can be difficult, and the donor-spouse may remain responsible for the income taxes attributable to the SLAT taxable income—creating cash flow problems.
Income taxes. A SLAT is a grantor trust, and specific trust provisions require income taxes attributable to the trust to be paid by the donor-spouse—thereby further minimizing the taxable estate.	**Not eligible for "step-up"** in cost basis on capital gain assets within the SLATs upon death of donor or donee-spouse, since these assets have already been removed from their taxable estate.
Creditor protection. Assets held within the SLAT are generally protected from creditors.	**Marital risks.** If spouses divorce, the donor-spouse may have no right to the assets.

Source: VentureMFO

Advanced Planning: SLAT Strategies

- **Substitution powers**

  A SLAT is a grantor trust, and specific trust provisions permit the donor-spouse to acquire trust assets through substitution powers. The ability to swap assets for equivalent value can help improve income and estate tax efficiencies over time.

- **Tax reimbursement**

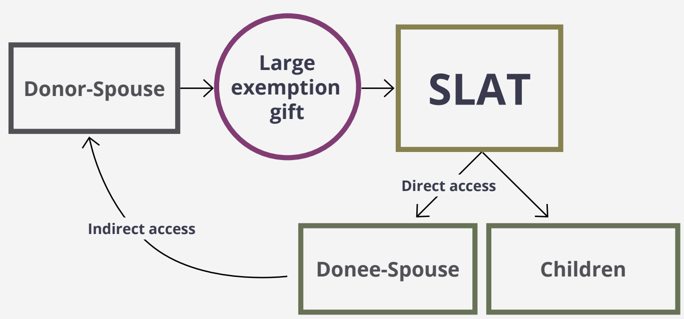
  A grantor trust can cause cash flow problems for the donor-spouse paying income taxes on behalf of beneficiaries; accordingly, a tax reimbursement clause can be included to ameliorate potential issues, if required.

- **"Floating" spouse**

  Defining the donee-spouse as "whomever the settlor is married to" can help minimize the risk of death, divorce, and remarriage, specifically by eliminating the ex-spouse's access in event of divorce—and permitting the donor-spouse to remarry and retain indirect access. There may be state law complications.

Exhibit 8. SLAT Structure Chart

Key Takeaway: SLATs provide flexibility to transfer substantial wealth by utilizing large gift exemptions while retaining indirect access to the donee-spouse's assets.



Source: VentureMFO

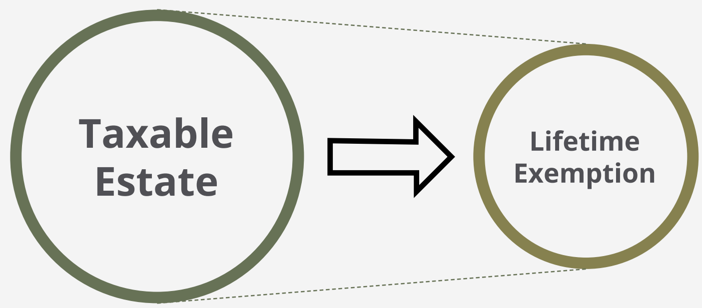
Valuation Strategies: Leveraging Discounts and High Rates

In Brief

- For business-owning families utilizing their gift exemptions prior to the potential sunset at the end of 2025, leveraging valuation discount strategies in a high-rate environment may help maximize the value of the transfer planning.
- Interest rates play an integral role when determining the value of an interest in a closely held business. Generally, higher discount rates, stemming from higher interest rates, can lower the present value of future cash flows—which can reduce the overall value of the business as well as any minority interests in the business.
- When gifting a minority interest in a closely held business, a certified appraiser is required to determine the fair market value of the business interest—which generally includes consideration of discounts for lack of control (DLOC), lack of marketability (DLOM) and lack of voting (DLOV) that can further reduce the transfer value.

Exhibit 9: Comparing a Large Taxable Estate to a Lifetime Exemption

Key Takeaway: Valuation strategies may help minimize taxable estate values through minority interest transactions, thereby maximizing the utilization of lifetime exemptions.



Source: VentureMFO

Exhibit 10: Valuation Concepts for Gift & Estate Tax Purposes

Key Takeaway: For privately held business owners, obtaining business appraisals at reduced valuations may appear unorthodox. An overview of key valuation concepts for gift and estate tax purposes can help clarify objectives.

Overview. To determine the gift and estate tax liability for the transfer of a closely held business interest, it is essential to determine the fair market value of the business interest—which generally requires a qualified appraisal to provide adequate disclosure.

Appraisal. The process of determining the fair market value of a business, asset, or investment based on methodologies and factors.

Valuation approaches. The market approach, income approach and the cost approach are the three generally accepted valuation approaches. Generally, the market or income approaches are most appropriate when valuing an operating company whereas the cost approach is the most appropriate when valuing a holding company.

Valuation methodologies. Under each method, there are various methodologies. The most common methodologies include the guideline transaction and guideline public company methods under the market approach, the discounted cash flow and capitalization of cash flow methods under the income approach and the net asset value method under the cost approach.

Discount rate & discounted cash flows. Rate of return used to discount future cash flows to present value. As interest rates rise, the discount rate also generally increases, which results in a lower present value of future cash flows—and vice versa.

DLOC. A reduction from the value of a controlling interest to reflect the degree of control the minority interest holder has over the entity.

DLOM. A reduction from the value of a controlling interest to reflect the lack of marketability and liquidity of a minority interest compared to publicly traded investments.

DLOV. A reduction from the value of a voting interest holder for the absence of voting rights inherent in a non-voting minority interest.

Source: VentureMFO

Advanced Planning: Valuation Strategies

- **Leveraging high interest rate environment**

  A proxy for interest rates, the U.S. 20-year treasury bond yield has risen from 2.00% to 4.70% between January 2022 – January 2025. While forecasted to remain higher over the next decade, it is plausible that long-term rates have temporarily peaked for this economic cycle—and if they do move lower, locking in gifts of business interests now at potentially compressed valuations can be desirable.

- **Maximizing valuation discounts**

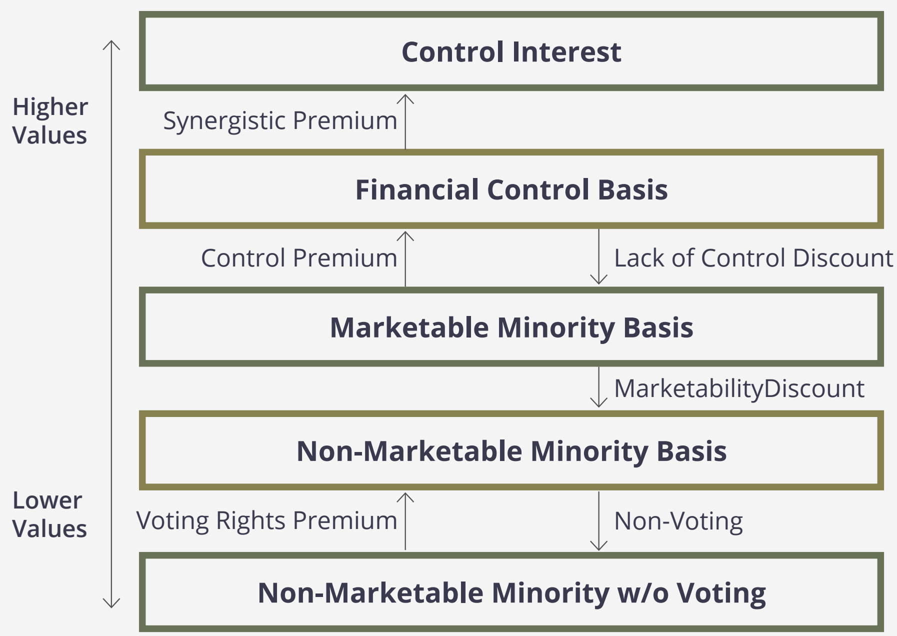
  The DLOC, DLOM and DLOV represent further reductions from a controlling ownership interest in a closely held business. Accordingly, it is important to engage a certified appraiser to identify and capitalize on these strategies to fully maximize the utilization of lifetime gift exemptions.

- **Recapitalization of businesses stock**

  or membership interests, into voting and non-voting classes may be beneficial for estate planning purposes. For one, the strategy helps ensure founders retain control while transferring non-voting interests to future heirs—and second, the restructuring can sow the seeds for incorporating DLOV into the appraisal of the minority interest.

Exhibit 11. The Traditional Value Chart

Key Takeaway: Three conceptual levels of value assist certified appraisers in determining fair value.



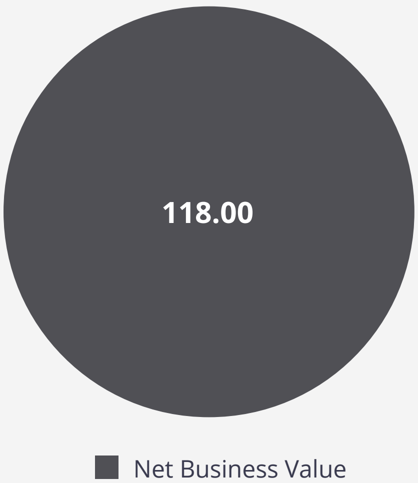
Source: Sofer Advisors

CASE STUDY:

The Impact on Business Enterprise Value When Adjusting for Valuation Discounts and Higher Rates

Exhibit 12: No Adjustment for Valuation Discounts or Higher Rates

Key Takeaway: Lifetime exemptions may be reduced by 50% if the TCJA is not extended at the end of 2025. Business owners can utilize their full exemption by transferring minority business interests prior to a potential sunset. Yet, bypassing valuation discounts—especially during a period of high interest rates—can present opportunity costs.

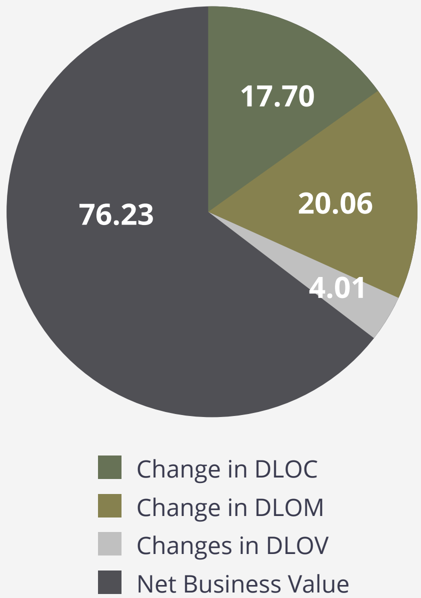


Key Summary:

- **Valuation Approach:** Discounted Cash Flow ±
- **Enterprise Value:** $118.00 million ‡
- **Valuation Discounts:** Not applicable
- **Higher Interest Rates:** Not applicable
- **Minority Interest Value:** $118.00 million
- **Lifetime Exemption (Joint):** $27.98 million
- **Interest Transferred.** $27.98 million, or 24% [$27.98 lifetime exemption / $118.00 business value]
- **Estate Tax Savings:** $11.19 million [($118.00 enterprise value X 24% interest transferred) X 40% estate tax rate]

Exhibit 13: Reduction in Value When Adjusting for Discounts

Key Takeaway: Valuation discounts can reduce the value of closely held minority interests for transfer tax purposes. With an experienced advisor-team, business owners can capitalize on these strategies to maximize lifetime exemptions on gift transfers of minority business interests ahead of the potential sunset at the end of 2025.

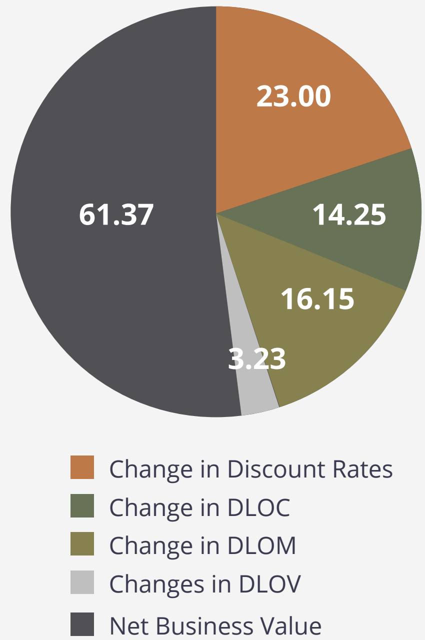


Key Summary:

- **Valuation Approach:** Discounted Cash Flow ±
- **Enterprise Value:** $118.00 million ‡
- **Valuation Discounts:** $41.77 million, or 35%, decrease in the minority, non-marketable, non-voting value [DLOC of 15%; DLOM of 20%; DLOV of 5%] §
- **Higher Interest Rates:** Not applicable
- **Minority Interest Value:** $76.23 million
- **Lifetime Exemption (Joint):** $27.98 million
- **Interest Transferred.** $43.31 million, or 37% [$27.98 lifetime exemption / $76.23 minority interest value]
- **Estate Tax Savings:** $17.33 million [($118.00 enterprise value X 37% interest transferred) X 40% estate tax rate]

Exhibit 14: Change in Business Value when Adjusting for Discounts and Higher Rates

Key Takeaway: Business enterprise value can be compressed due to the rise in long-term interest rates. The future remains uncertain, but it is plausible interest rates have temporarily peaked—which is why it may be prudent to lock in gifts of closely held minority business interests at potentially reduced valuations.



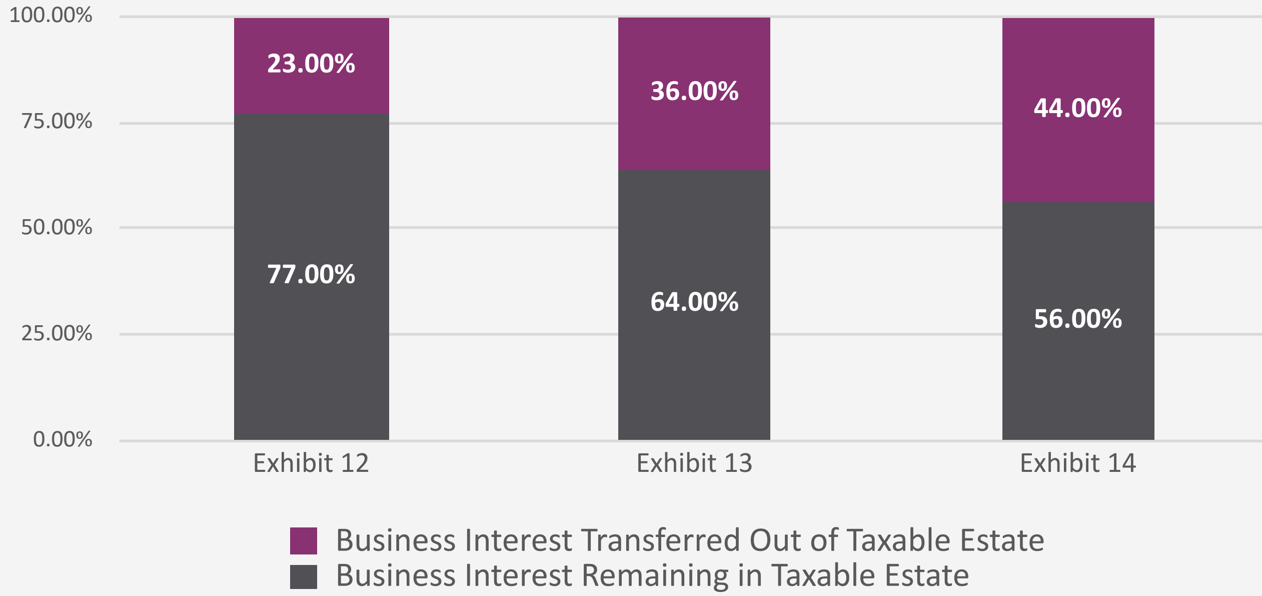
Key Summary:

- **Valuation Approach:** Discounted Cash Flow ±
- **Enterprise Value:** $95.00 million ‡
- **Valuation Discounts:** $41.77 million, or 35%, decrease in the minority, non-marketable, non-voting value [DLOC of 15%; DLOM of 20%; DLOV of 5%] §
- **Higher Interest Rates:** $23.00 million, or 21%, reduction in enterprise value [increased WACC from higher discount rates between valuation dates of January 1, 2022 and June 1, 2024]
- **Minority Interest Value:** $61.37 million
- **Lifetime Exemption (Joint):** $27.98 million
- **Interest Transferred.** $52.30 million, or 46% [$27.98 lifetime exemption / $61.37 minority interest value]
- **Estate Tax Savings:** $21.52 million [($118.00 enterprise value X 46% interest transferred) X 40% estate tax rate]

Source: Sofer Advisors

Exhibit 15: Summary of Proportion of Minority Business Interest Transferred Out of Taxable Estate

Key Takeaway: As a minority business interest value is reduced from control level value, the taxpayer's maximum lifetime exemption can be utilized to transfer a greater proportion of the closely held business interest out of their taxable estate. As shown in the case study above, when comparing Exhibit 12 to Exhibit 13 and 14, additional business interest was transferred of 13% (37% - 24%) and 22% (46% - 24%) representing greater estate tax savings of approximately $6.13 million ($17.33 million – $11.19 million) and $10.49 million ($21.52 million – $17.33 million). Moreover, the business interest transferred out of the taxable estate will appreciate estate-tax free over multiple generations.



Endnotes:

± Valuing a hypothetical closely held business using the Discounted Cash Flow Method using the same projection of future revenue, EBITDA and cash flows based on market-based discount rates as of January 1, 2022 and June 1, 2024. Assuming that net cash (cash less interest-bearing debt) is zero, enterprise value is equal to equity value for purposes of these illustrations.

‡ When valuing a hypothetical closely held business using the Discounted Cash Flow Method, the weighted average cost of capital (WACC), or discount rate, is higher as of June 1, 2024 due to the following considerations:

- In developing the cost of equity (COE), the risk-free rate (or 20-year treasury bond yield) increased from 1.9% to 4.7%;
- In developing the COE, the equity risk premium (Kroll supply-side), size premium (Kroll 10th decile), industry risk premium (Kroll GICS 2550 - Consumer Discretionary Distribution & Retail) and industry beta (selected consumer retail guideline public companies) remained relatively unchanged;
- In developing the COE, no company-specific risk premium was assumed;
- In developing the cost of debt, the Moody's Baa rate increases from 3.4%;
- In developing the WACC, the median debt to capital ratio for the guideline public companies increased from approximately 6.0% to 8.0%;
- In developing the WACC based on the above considerations, the WACC increased from 12.7% to 15.3% primarily as a result of the increase in interest rates (risk-free rate and cost of debt).

§ The DLOC can be estimated based on comparison to control premium studies, closed-end funds and publicly traded real estate partnerships (among other sources) and generally ranges between 10% to 40%, but the magnitude of the DLOC is heavily dependent on the specific facts and circumstances surrounding the company and subject minority interest, specifically the degree of control that the minority interest holds.

The DLOM can be estimated based on comparison to restricted stock studies, pre-IPO studies and put option analyses (among other sources) and generally ranges between 10% to 50%, but the magnitude of the DLOM is heavily dependent on the specific facts and circumstances surrounding the company and subject minority interest, specifically considerations related to expected holding period, distribution/dividend rights, transfer restrictions and put rights held by the minority interest.

The DLOV can be estimated based on studies and observed market pricing that compare the voting shares and non-voting share of publicly traded companies which generally range from 1% to 10%, the DLOV tends to be lower than other discounts given the voting right, without controlling the entirety of the voting rights of a company, tends to be low.

Source: VentureMFO

Qualified Small Business Stock: Tacking, Stacking and Rolling

In Brief

- In an effort to stimulate small business growth, and U.S. economic growth generally, lawmakers have provided a highly attractive tax incentive to investors in small businesses. In many cases, taxpayers are eligible for 100% gain exclusion on the sale of qualified small business ("QSB") stock—potentially a zero-percent effective tax rate.
- If the 2017 TJCA sunsets at the end of 2025, the maximum federal corporate tax rate will increase from 21% to 35%, the maximum federal individual ordinary tax rate will increase from 37% to 39.6%, and the deduction for pass-through firms under Section 199A equal to 20% of qualified business income will expire. Accordingly, business owners may consider conversion from their existing passthrough structure to a C corporation—especially if eligibility for QSB stock gain exclusion can be attained.
- Most entrepreneurs place a high priority on reducing the income tax burden of an eventual business sale—yet, tax planning prior to a full or partial disposition can be complicated; however, owners of stock in a closely held C corporation should determine, at a minimum, whether their ownership interest meets the statutory definition of QSBS under Section 1202.
- Given the complexity of Section 1202, start-up founders, business owners, venture capitalists, and ultra-high net worth families who may have ownership in QSB stock should consider consulting with their advisor in order to achieve the most tax-efficient outcome upon exit.

Exhibit 16: Per-Issuer Limitation

Key Takeaway: While there are gain-exclusion limitations, they are quite generous; moreover, the gain exclusion is applied on a per-taxpayer and per-issuer basis—so an exclusion will apply each time you invest in a separate QSB.

Prescribes the maximum gain that can be excluded (or partially excluded) each taxable year shall not exceed the GREATER of:

- $10 million reduced by aggregate eligible gain taken for prior taxable years ($10 million per taxpayer limitation); or
- 10 times the aggregate adjusted basis of QSB stock sold by the taxpayer in the taxable year (10 times basis limitation).

Source: VentureMFO

Exhibit 17: Eligibility for QSB Stock Gain Exclusion

Key Takeaway: Requirements for Section 1202 can be rigorous; however, the devil is in the details. Indeed, even practitioners who are aware of the provision may not fully appreciate its potential.

1. **Issuers of QSB stock must be domestic C corporations; recipients of QSB stock corporations themselves.** That said, not all C corporations can issue QSB stock. Domestic international sales corporation (DISCs), possessions corporations, regulated investment companies (RICs), real estate investment trust (REITs), and cooperatives all do not qualify.
2. **You must hold QSB stock for more than 5 years.** In general, the holding period begins when you buy the QSB stock, but specialized rules apply. For instance, when QSB stock is converted into other stock of the same corporation, the newly acquired stock is also treated as QSB stock, and the prior stock-holding period is still used for purposes of the five-year holding requirement; the legal term for this is called "tacking." A similar scenario arises when a taxpayer receives QSB stock as a gift or by inheritance. When this occurs, the holding period of the transferor still pertains (or "tacks") for the recipient.
3. **You must acquire QSB stock as part of an original issuance,** either directly through the corporation or an underwriter, in exchange for money, property (other than stock), or as compensation for services provided to the corporation (other than as an underwriter).
4. **The aggregate gross assets of the corporation must not have exceeded $50 million at any time from August 10, 1993, until immediately after the issuance of your stock.** Generally, the term aggregate gross assets means the amount of cash plus the aggregate adjusted tax basis of property held by the corporation.
5. **A corporation must meet the active-business requirement during your holding period. At least 80% of the corporation's assets (including intangible assets) must be used by the corporation in the active conduct of a trade or business.** Services in the fields of health, law, engineering, consulting, or financial services do not qualify, and the same is true for hotel, restaurant, oil, gas, banking, investment, farming, and certain other types of businesses. Research and start-up activities related to a future qualified trade or business generally may be treated as the active conduct of the qualified trade or business, regardless of whether these activities have generated any gross income.

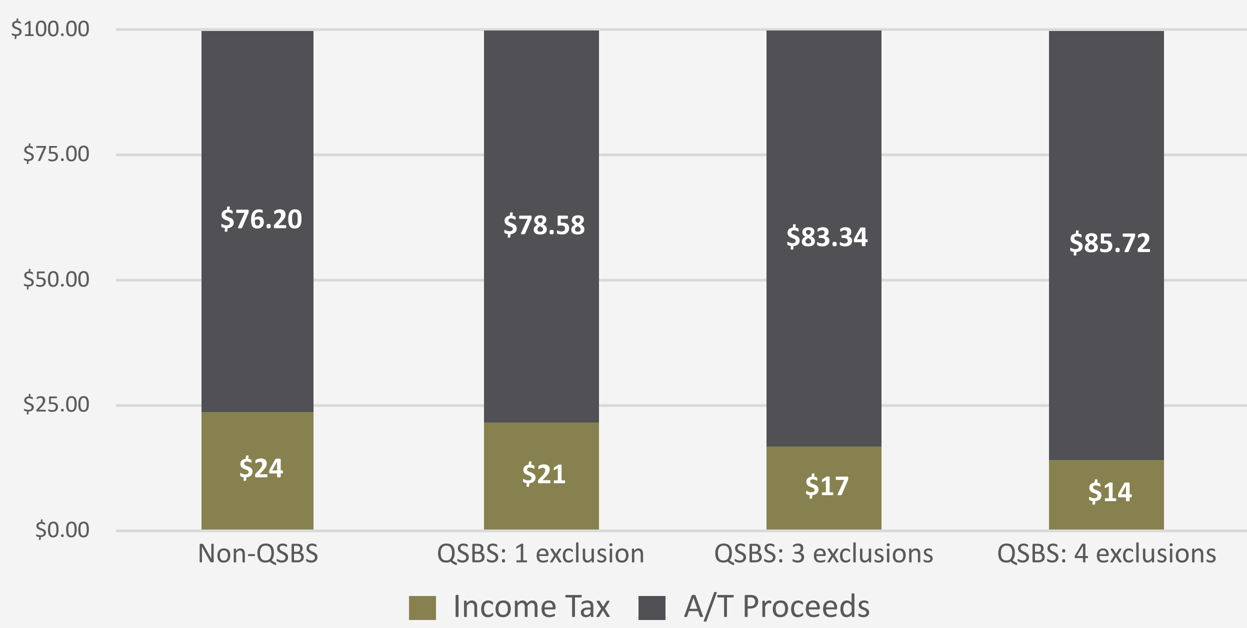
Source: VentureMFO

Advanced Planning: “Tacking”, “Stacking”, and “Rolling” the Per Issuer Limitation

- **“Tacking”.** When a taxpayer receives QSB stock as a gift, the holding period of the transferor “tacks” for the recipient—and they are able to claim their own QSB stock gain exclusion upon sale.
- **“Stacking”.** Due to the “per taxpayer” limitation, there is an opportunity to increase the number of eligible QSB stock gain exclusions—which generally consists of gifting QSB stock to multiple donees (or “stacking”).
- **Spousal stacking.** When making a gift transfer of QSB stock to a spouse, the QSB stock gain exclusion can be stacked; however, the IRS requires the QSB stock gain be reported on a jointly filed tax return—and if a separate tax return is filed the gain exclusion is reduced by half for each spouse.
- **Non-grantor trust stacking.** When making a gift transfer(s) of QSB stock to a separate irrevocable trust(s) treated as a nongrantor trust(s), the gain exclusions can effectively be “stacked”.
- **Grantor trust “toggling”.** If a gift of QSB stock was made to an irrevocable trust treated as a grantor trust, the grantor status can be turned off prior to the sale of QSB stock thereby retaining gain exclusion eligibility—and the grantor status can be subsequently toggled back on after the sale.
- **1045 Rollover.** When a taxpayer sells QSB stock prior to meeting the 5-year holding period requirement, it is still possible to defer gain on the sale of QSB stock. If replacement stock is purchased, and several other requirements are met—the gain will only be recognized to the extent that the sale proceeds from QSB stock exceed the cost of the replacement QSB stock; moreover, the replacement QSB stock will now be subject to a new gain-exclusion limitation.

Exhibit 18. After-Tax Proceeds: $100 Million Sale, Zero Tax Cost Basis

Key Takeaway: Stacking QSB stock gain exclusions can substantially reduce the federal long-term capital gains tax rate on the sale of a business—potentially a near zero-percent effective tax rate.



Endnotes:

Values assume that the sales qualify for QSB stock tax treatment under Section 1202. All non-eligible QSB stock gains are subject to a federal long-term capital gains tax rate of 23.8% [maximum federal long-term capital gains tax rate (20%) + NII tax rate (3.8%)]. State income taxes are not considered; however, taxpayers should note that not all states adopt the federal law provided for QSB stock under Section 1202.

Source: VentureMFO

Conclusion: Positioning for Secular Trends into 2025

During periods of fiscal dominance, modern debt dynamics may result in less favorable tax and interest rate policies. Indeed, these secular changes may lead to a paradigm shift in wealth planning—requiring a top-down macroeconomic approach to the design and implementation of income tax and wealth transfer strategies for ultra-high net worth families.

However, time is of the essence. The 2017 TCJA tax cuts are set to sunset at the end of 2025, and funding future budget deficits may influence lawmakers' decision to extend favorable tax legislation. Moreover, although interest rates are forecasted to remain higher over the next decade—it is plausible that rates have peaked for this economic cycle, and move lower in the near-term.

Certainly, business-owning families may need to execute planning strategies ahead of economically-driven and time-sensitive tax and interest rate policy decisions; however, with the right guidance and foresight—there is a wide array of techniques available to transfer wealth and minimize taxes in the current environment.

Parting Thoughts

Thank you for reading our latest update. As always, we will continue to monitor the latest economic and policy trends to adjust planning insights accordingly. Given the backdrop, if you are an entrepreneur contemplating a potential wealth transfer and, or, sale of your closely held business, we recommend that you contact your advisor team to determine which timely planning opportunities may be available and practical for you and your family ahead of economically-driven and time-sensitive tax and interest rate policy decisions.

About Our Authors

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Mr. Caprio founded VentureMFO, an independent accounting and investment advisory firm, in 2019 to provide entrepreneurs with a single point of contact for the oversight of their business transition, family governance, and wealth planning needs. He focuses on the design and administration of complex multigenerational estate and financial plans through the firm's comprehensive multi-family office solutions, including tax compliance and consulting, family office services, and investment management.

Cameron has counseled ultra-high-net-worth families and their closely held businesses for his entire career—from working with startup companies on tax-efficient structuring and formation to advising family-owned enterprises on executive compensation arrangements and ownership transfers. Certainly, this in-depth knowledge of tax, estate, and investment planning allows him to design effective strategies—but Cameron understands that to help his clients accomplish their financial goals, his strategic advice should be founded in their family's mission.

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Mr. Reardon is a Managing Director with Sofer Advisors, LLC focusing on business advisory services related to litigation assistance, estate and tax planning, and business enterprise valuations for various privately-held and public companies. He has over 20 years of experience providing business valuations across a broad range of industries including retail, manufacturing, wholesale and distribution, information technology, construction, consumer products, healthcare, telecommunications, broadcast, food and beverage, homebuilders, agriculture, financial institutions, financial services, professional services and asset holding companies. Jay assists clients with succession and business plans, merger and acquisition transactions, litigation support, strategic planning, financial modeling and consulting for both private and public companies in the U.S. and internationally.

Jay provides comprehensive valuations for estate and gift tax purposes and management planning as well as other purposes. In addition, he provides valuations for financial reporting purposes (ASC 350-20, 360, 718, 805 and 820), warrant/option valuations, purchase price allocations and valuation of intangible assets such as customer relationships, patents, trademarks and trade names, technology, in-process research and development, and non-compete agreements.

About VentureMFO

Fueled by the shared purpose, vision, and plan of our clients, VentureMFO is a multi-family office that advises entrepreneurial families on their exit strategy, family governance design, and multi-generational legacy plan. Through our comprehensive tax compliance, family office, and investment management services, our strategic advice is founded in your family's mission.

About Sofer Advisors

Sofer Advisors, established in 2019, aims to deliver high-quality, neutral third-party valuations for lower- and middle-market businesses, empowering owners with confidence in their financial decisions. Our services encompass business valuations for estate and gift tax planning, financial and tax reporting, conflict resolution, strategic planning, bank and venture financing, merger and acquisition, as well as other purposes.

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