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SELLING YOUR BUSINESS?

3 Strategies to Consider in Advance of a Sale

For many founders, the sale of a business is the most significant financial event of their lives. It's also the biggest tax event.

There is no shortage of solutions to consider. Here we highlight just a few. Most importantly, if you're thinking about selling in the next one to three years, the time to plan is now.

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Shift deal-based appreciation out of your estate

Example: Grantor Retained Annuity Trust

A GRAT lets you transfer appreciating assets to your heirs while using little or none of your lifetime gift exemption. You put shares into the trust and receive a fixed annuity back over a set term, typically 2 to 5 years. Whatever value is left above the IRS hurdle rate (the Section 7520 rate) passes to your beneficiaries free of gift and estate tax.

This strategy works before a sale because pre-sale shares are often appraised at a discount for lack of control and marketability. A sale then establishes a much higher value. That gap is exactly what a GRAT is designed to capture.

$10M
shares placed in a 2-year GRAT

$16M
value when the company sells

~$5M
passes to heirs outside the estate

Example: A founder puts non-voting shares appraised at $10M into a 2-year "zeroed-out" GRAT. At an assumed 5% hurdle rate, the trust pays the founder about $10.8M over two years. The company sells 14 months later, and those shares bring $16M. Roughly $5M passes to the children outside the estate, which could avoid about $2M of estate tax at a 40% rate.

Keep in mind:

- A GRAT does not avoid income tax. The founder still pays the capital gains tax, which further reduces the taxable estate.
- If the grantor dies during the term, the assets come back into the estate.
- Fund it well before a deal is pre-arranged.

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Maximize charitable giving, accelerate income tax deduction, and reduce capital gains tax

Example: Funding a Donor Advised Fund with private shares

If charitable giving is part of your plans, giving privately held shares to a DAF before the sale can be far more efficient than giving cash from the proceeds afterward.

The benefits:

- You avoid capital gains tax on the donated shares.
- You generally receive an income tax deduction for fair market value, up to 30% of AGI, with a five-year carryforward.
- You can recommend grants to charities over many years.

$2M
near-zero-basis stock donated

$476K
federal cap gains + NIIT avoided

~$700K
value of the deduction in a sale year

Example: A founder with near-zero basis gives $2M of company stock to a DAF before the sale is substantially certain (ideally before an LOI). The fund sells the shares as part of the transaction, tax-free. The founder avoids about $476K of federal capital gains and net investment income tax, plus state tax. The fair market value deduction, taken in a high-income sale year, is worth roughly $700K more. The result is about $1.2M of tax benefit, and $2M is set aside for charity.

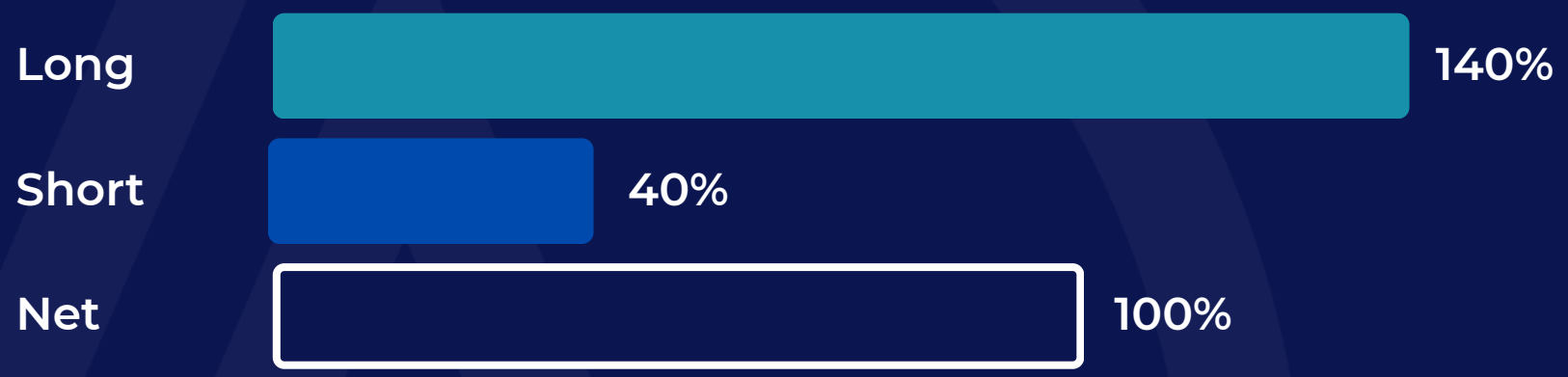
Keep in mind:

- Timing is critical. If the sale is substantially certain before the gift, the IRS can attribute the gain back to you.
- Gifts of private stock over $5,000 require a qualified appraisal.
- Not every DAF sponsor accepts private company shares, so confirm early.
- Starting in 2026, new rules add a 0.5%-of-AGI floor on charitable deductions and limit their value for top-bracket taxpayers. Model these carefully.

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Generate losses to offset capital gains

Example: Long-Short tax loss strategy



* 140/40 shown, but there are many alternatives

Traditional tax-loss harvesting runs out of steam as a portfolio appreciates. A tax-aware long-short strategy is built to keep producing realized capital losses.

In the case of 140/40, for example, for every $100 invested, the portfolio holds about $140 in long positions and $40 in short positions. Net market exposure stays around 100%, similar to an index fund. Because it holds both longs and shorts, there are usually losing positions to harvest in any market. Those realized losses can offset the capital gain from the sale, and unused losses carry forward indefinitely.

$10M
invested early in the closing year

$2.5M
net losses realized by year-end

~$595K
federal tax saved in the sale year

Example: A founder expects a $20M gain from a sale occurring early in the year. They put $10M of liquid assets into a 140/40 strategy (a year in advance if they have it, or early in the closing year if relying upon proceeds). If it realizes $2.5M of net capital losses by year-end of the closing year (results vary widely), that could offset $2.5M of the gain, save about $595K in federal tax in the sale year, and the money stays invested in the market.

Keep in mind:

- This is mainly tax deferral, not elimination. Cost basis falls over time, and unwinding the strategy can trigger gains.
- Expect leverage, shorting costs, higher fees, and tracking error against a benchmark.
- Loss generation usually slows after the first few years.
- These strategies are generally available only to qualified investors.

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Timing is everything.

Any strategy works best when it's in place before the deal is. Once the LOI is signed, options may become limited.

GRAT
Fund it while shares still carry pre-sale valuation discounts.

Donor-Advised Fund
Give the shares before the sale is substantially certain (ideally before an LOI).

Long-Short Tax Loss Strategy
Start well in advance of the anticipated close so losses have time to build up.

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Planning a liquidity event?

The right plan, put in place early, can keep more with your family and the causes you care about.

If you're thinking about selling in the next one to three years, the time to plan is now.

LET'S TALK EARLY.

For informational purposes only; not tax, legal, or investment advice. Examples are hypothetical and illustrative, assume federal rates of 20% capital gains plus 3.8% NIIT and a 40% estate tax, and do not represent actual client results. Strategies involve risks and may not be suitable for all investors. Consult your tax and legal advisors before acting.

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