Solving complex tax and planning challenges

ZS Wealth Partners

Private Wealth Management

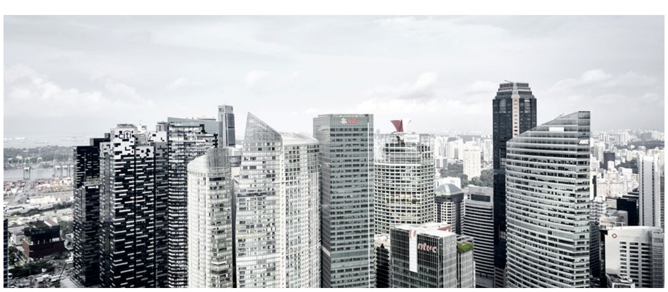
The situation

Our client was formerly a C-suite executive at a successful tech "unicorn" that had undertaken an initial public offering (IPO). After the company went public, he left and started his own successful venture, obtaining Series A backing from a VC Firm. While planning for another significant venture capital raise (Series B), he came to us to help him explore what to do with the shares and options from his previous IPO, as well as our thoughts on how to take advantage of significant tax and advanced planning opportunities.

The strategy

At ZS Wealth Partners, we have deep experience guiding and advising entrepreneurs through the life cycle of their businesses, from capital raises to the eventual exit/sale of the business. Depending on the client's specific needs, we draw on specialized resources and experts to help them achieve the optimal outcome.

In this case, we held a roundtable discussion with a UBS Senior Wealth Strategist, CPAs and estate attorneys. This discussion included considerations for the client around the stock options and shares of their prior IPO, as well as possible strategies in advance of the upcoming venture capital raise for the new start-up. This unified approach allowed us to identify gaps and room for improvement in their current financial plan and estate docs.



A large component of our recommendation was a strategy involving the qualified small business stock (QSBS) tax exemption. Many founders and entrepreneurs may be familiar with the QSBS exemption, but most are not familiar with the concept of QSBS stacking, also called "trust stacking." With an upcoming capital raise that would raise the fair market value of the founder's shares, we recommended that our client consider gifting shares to trust vehicles to multiply the QSBS exemption and use up a lower portion of their lifetime exemption.

We discussed the strategy and solution with the client in detail, including how the QSBS exemption works, what stacking means and how to establish multiple irrevocable trusts, thereby multiplying the QSBS exemption across four irrevocable trusts (two for their children, two for siblings). We also advised on the future administration of these trusts and how to best structure them to guard against any concern that their children might not, at least initially, be responsible stewards of wealth.

The result

We worked with a tax attorney to provide a QSBS opinion letter on the founder's shares, then coordinated with trust and estate counsel to establish the trusts and execute the gifting of the shares into them. The four separate trusts that were established are designed to help preserve the family's generational wealth in a tax-efficient manner.

In total, our client will receive an additional $40 million in QSBS exemptions (4 trusts × $10 million per trust). Because the trusts were established in no-tax Nevada—instead of the client's residence of California—the resulting total tax savings for the family was $14,440,000 (23.8% federal capital gains tax + 12.3% California capital gains tax).

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