Southern California Institute

FPA Orange County
February 16, 2022

Boosting Your Practice - The Anatomy, Math, and Process of Business Succession Planning

Presented by Joe Strazzeri, Esq.

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WEALTH STRATEGIES COLLABORATIVE

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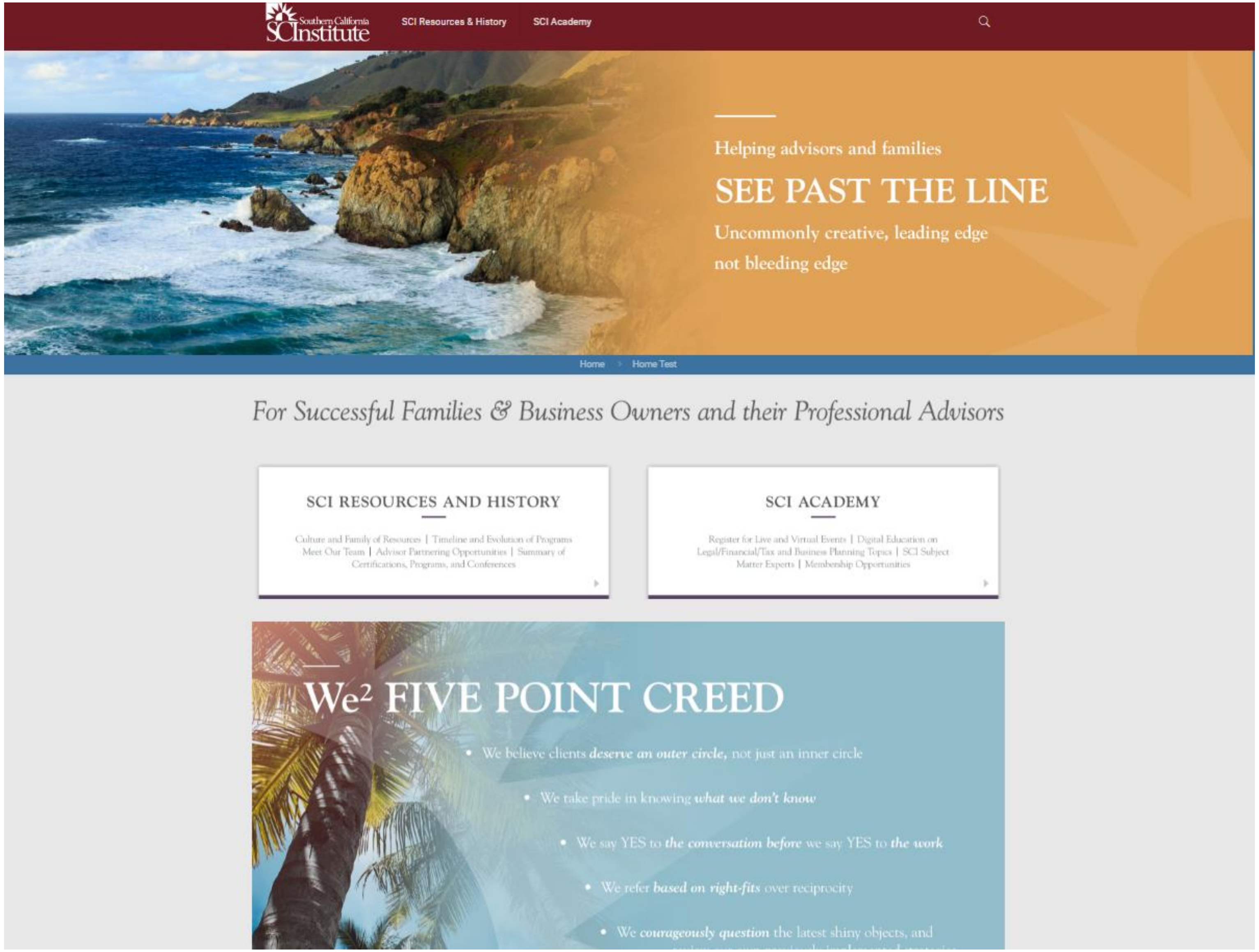
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We² FIVE POINT CREED
We believe clients deserve an outer circle, not just an inner circle
We take pride in knowing what we don't know
We say YES to the conversation before we say YES to the work
We refer based on right-fits over reciprocity
We courageously question the latest shiny objects, and

Overview

Anatomy of Choice

The Math

The Process

Case Study

Anatomy of Choice

- 10 Business Exit Options
- Five Limitations to Progress
- Five Transition Goals
- Five Stages of Business

Anatomy of Choice – 10 Business Succession Options

Internal Options	External Options
Transfer to Family Members	Sell to Third Party (Strategic or Financial)
Transfer to Management (“MBO” or “LBO”)	Refinance or Recapitalize the Business
Transfer to Shareholders	IPO (Go Public)
Transfer to ESOP (Employee Stock Ownership Plan)	Liquidate the Business
Do nothing and wait for the market to change	
Keep and Grow through Enhancement Initiatives for a period of time	

Sell All or In Part

Anatomy of Choice – The Five Limitations to Progress

- Lack of clarity about the true problem
- The Missing Math™ around the real number
- Lack of clarity about the non-financial risks
- How to make a regretless choice
- Who's going to drive the work that follows the decision?

Anatomy of Choice – Five Transition Goals

Anatomy of Choice – Planning for Successful Families and Business Owners

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Planning for Successful Families and Business Owners

Maintaining Control Over Your Person & Affairs

- *Durable Power of Attorney*
- *Health Powers*
- *Living Trusts*
- *Long-Term Health Care*
- *Disability Protection*
- *Living Wills*

Assure Lifestyle/Tax-Free Conversion of Paper Profits

- *CRATs, CRUTs, & NIMCRUTs*
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Protection from Administrative Expense & Delay

- *Durable Power of Attorney*
- *Fully Funded Revocable Living Trusts*
- *Nominee Partnerships*
- *Business Succession Planning*

Anatomy of Choice – Five Stages of Business

	Vision and Drive	Attracting and Engaging Customers	Working with Customers & Administration
Stage 1	Owner	Owner	Team supported by Owner
Stage 2	Owner supported by Leadership	Owner supported by Leadership	Team supported by Leadership
Stage 3	Leadership supported by Owner	Leadership supported by Owner	Team
Stage 4	Leadership supported by Owner and Team	Team supported by Leadership	Team
Stage 5	Leadership supported by Team	Team	Team

Overview

Anatomy of Choice

The Math

The Process

Case Study

The Math

Before: X ($$$) + Y ($$) = Z ($$$$$)

(salary) (benefits)

After:

$$$$$ Offer – $due diligence – $taxes – $costs of sale

= "Net Sale Proceeds"

Invest "Net Sale Proceeds" and get **1/2 to 2/3** of X $$$ (not even close to Z$$$$$!)

The Math - Example 1

Energy Company S

50% owned by Mom and Dad

50% owned by trust for 4 kids

<u>Current</u>

- $35 million estimated value (Mom says $40 million)
  - $2.050 million total/year salaries & profit
    - *$750k/year salary for owner mom*
    - *$75k/year salary for each kid ($300k total)*
    - *$500k/year profit Mom and Dad*
    - *$125k/year profit for each kid ($500k total)*

The Math - Example 1

Sale?

Due Diligence – Cost of Earnings - $4mil reduced

$35mil est. value

$31mil actual offer

Costs of Sale - $1mil

$31mil offer

$30mil net before taxes

Fed & CA Taxes $9.900mil

$30mil before tax

$20,100mil net after tax

The Math - Example 1
Annual take home at 4%

$20.100mil net after-tax:

$10.050mil to Mom and Dad
- Invested at 4% = $402k/year
  (versus old $750k salary + $500k profit = $1.25mil)

$2,512,500 to each kid
- Invested at 4% = $100,500/year
  (versus old $75k salary + $125k profit = $200k)

AND - now, no after-tax benefits of:

- 6 company cars
- 5 family health insurance plans
- $150k/year entertainment budget
- $50k/year travel budget
- Job flexibility
- Retirement plan
- Pride and Personality of ownership
- Etc.

The Math - Example 1
Annual take home at 6%

$20.100mil net after-tax:

$10.50mil to Mom and Dad
- Invested at 6% = $603k/year
  (versus old $750k salary + $500k profit = $1.25mil)

$2,512,500 to each kid
- Invested at 6% = $150,723/year
  (versus old $75k salary + $125k profit = $200k)

Still no after-tax benefits of:

- 6 company cars
- 5 family health insurance plans
- $150k/year entertainment budget
- $50k/year travel budget
- Job flexibility
- Retirement plan
- Pride and Personality of ownership
- Etc.

The Math - Example 1
Annual take home at 8%

$20.100mil net after-tax:

$10.050mil to Mom and Dad
- Invested at 8% = $804k/year
  (versus old $750k salary + $500k profit = $1.25mil)

$2,512,500 to each kid
- Invested at 8% = $201,000/year
  (versus old $75k salary + $125k profit = $200k)

Still no after-tax benefits of:

- 6 company cars
- 5 family health insurance plans
- $150k/year entertainment budget
- $50k/year travel budget
- Job flexibility
- Retirement plan
- Pride and Personality of ownership
- Etc.

The Math - Example 2

Sale?

Due Diligence – Cost of Earnings – No findings to reduce offer

$35mil est. value → $35mil actual offer

Costs of Sale - $1mil

$35mil offer → $34mil net before taxes

Fed & CA Taxes $2.0mil

$34mil before tax → $32mil net after tax

The Math - Example 2
Annual take home at 4%

$32mil net after-tax:

$16mil to Mom and Dad
- Invested at 4% = $640k/year
  (versus old $750k salary + $500k profit = $1.25mil)

$4mil to each kid
- Invested at 4% = $160,000/year
  (versus old $75k salary + $125k profit = $200k)

Still no after-tax benefits of:

- 6 company cars
- 5 family health insurance plans
- $150k/year entertainment budget
- $50k/year travel budget
- Job flexibility
- Retirement plan
- Pride and Personality of ownership
- Etc.

The Math - Example 2
Annual take home at 6%

$32mil net after-tax:

$16mil to Mom and Dad

- Invested at 6% = $960k/year
  (versus old $750k salary + $500k profit = $1.25mil)

$4mil to each kid

- Invested at 6% = $240,000/year
  (versus old $75k salary + $125k profit = $200k)

Still no after-tax benefits of:

- 6 company cars
- 5 family health insurance plans
- $150k/year entertainment budget
- $50k/year travel budget
- Job flexibility
- Retirement plan
- Pride and Personality of ownership
- Etc.

The Math - Example 2
Annual take home at 8%

$32mil net after-tax:

$16mil to Mom and Dad
- Invested at 8% = $1.28mil/year
  (versus old $750k salary + $500k profit = $1.25mil)

$4mil to each kid
- Invested at 8% = $320,000/year
  (versus old $75k salary + $125k profit = $200k)

Still no after-tax benefits of:

- 6 company cars
- 5 family health insurance plans
- $150k/year entertainment budget
- $50k/year travel budget
- Job flexibility
- Retirement plan
- Pride and Personality of ownership
- Etc.

The Math –
Compared for Risk/Return

Before Tax Planning Net Sale Proceeds invested at:	**Mom & Dad** (prior total income $1.25mil/year)	**Kids** (prior total income $200k each/year)
4%	$402k/year	$100,500/year
6%	$603k/year	$150,723/year
8%	$804k/year	$201k/year

After Tax Planning Net Sale Proceeds invested at:	**Mom & Dad** (prior total income $1.25mil/year)	**Kids** (prior total income $200k each/year)
4%	$640k/year	$160k/year
6%	$960k/year	$240k/year
8%	$1.28mil/year	$320k/year

The Math – Five Types of Valuations

Common Forms of Business Valuation

Valuation Type	Description	Typical Uses
Quality of Earnings Report	Detailed analysis of all the components of a Company's revenue and expenses to assess the sutainability and accuracy of a Company's historical and projected earnings.	*Due Diligence* *Sale of a Business*
Certified Valuation Report	Comprehensive analysis of a Company to determine the current per share value of the ownership interests or enterprise asset value of the tangible and intangible assets in the Company.	*Due Diligence* *Sale of a Business* *Mergers & Acquisitions* *Trusts & Estates* *Tax Planning* *ESOPs* *409A Stock Incentive Plans* *Financing* *Intellectual Property Spinoffs* *Partner Disputes/Buyouts* *Divorce* *Purchase Price Allocation* *Goodwill Impairment*
Calculated Valuation Report	Valuation analysis of a Company based upon a defined set of exit planning parameters.	*Pre-Due Diligence* *Exit/Succession Planning* *Client Specific Requirements*
Restricted Use Valuation	Limited valuation for a specific intended user(s) that does not require all of the supporting rationale for the opinions and conclusions of value.	*On a case-by-case basis*
Re-Casted Financials Report	Contains historical normalized earnings of a Company along with some comps to determine a range of value for a Company.	*Investment Bankers & Business Brokers to determine an initial value*

The Math - Review and Design

- Business Attractiveness & Readiness Assessment
- Personal & Financial Assessment
- Calculated Business Valuation
- Prioritized Enhancement Initiative Plan

The Math - The Decision

- *Do I keep the business and its cash flow?*
- *Transition it to my family/internal team or to an external group?*
- *Do I transition it in whole or in part?*

- If Keep and Grow:
  - Enhancement Initiatives Maintenance Program
- If Ownership Transition:
  - Update Business Valuation
  - Business & Legal Due Diligence
  - Create the book & slide deck sales package
  - Advisory support throughout the transaction

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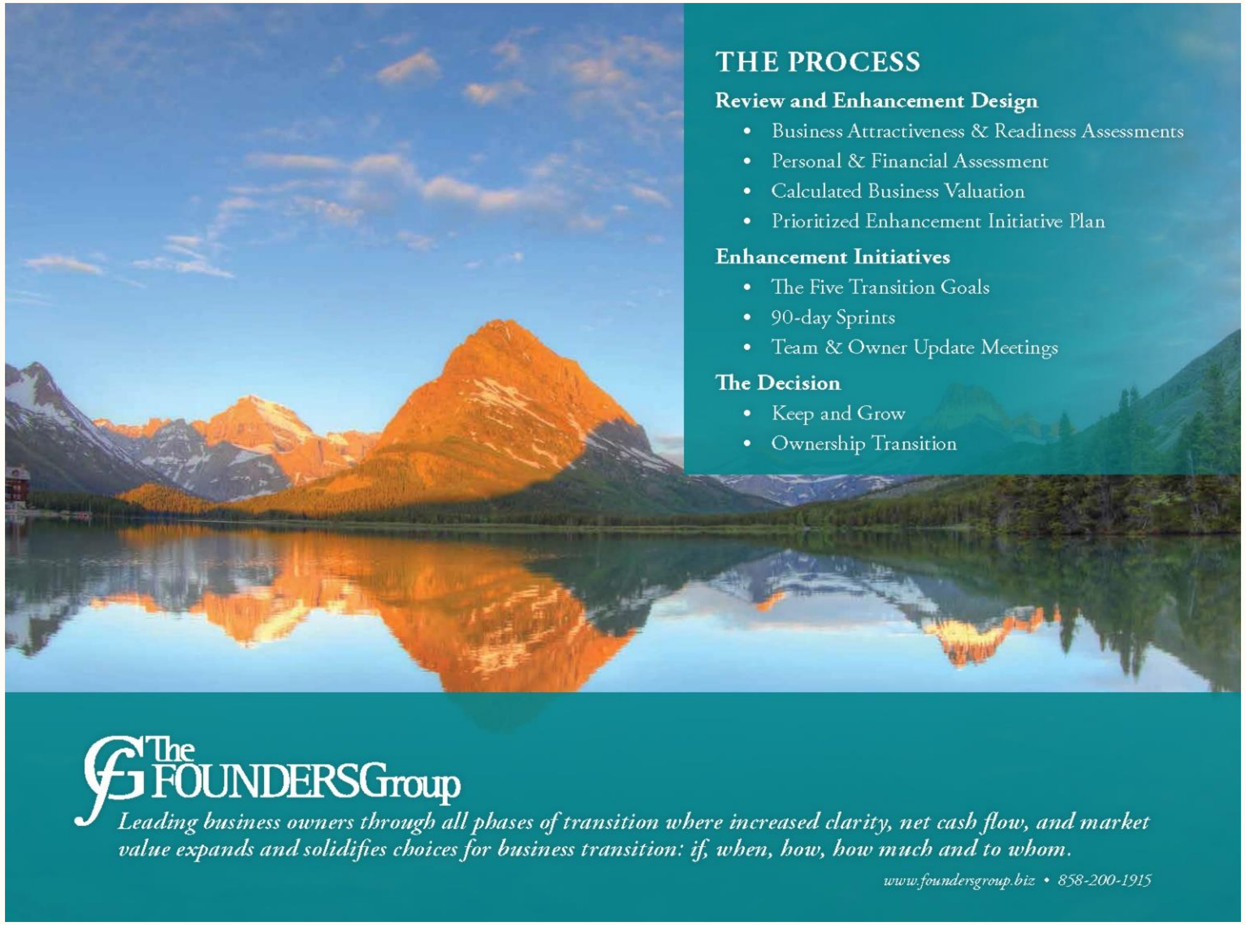

THE PROCESS
Review and Enhancement Design
• Business Attractiveness & Readiness Assessments
• Personal & Financial Assessment
• Calculated Business Valuation
• Prioritized Enhancement Initiative Plan
Enhancement Initiatives
• The Five Transition Goals
• 90-day Sprints
• Team & Owner Update Meetings
The Decision
• Keep and Grow
• Ownership Transition
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“Timing, Combining, and Sequencing.”

- Simon Singer

WEALTH DESIGN CONCEPTS FOR REVIEW

DRAFT FOR DISCUSSION PURPOSES ONLY

PREPARED FOR:

BACH AND HOLLY ASSIRE

November 11, 2020

PRESENTED BY

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STATEMENT OF NET WORTH

VALUES PROVIDED BY CLIENT

	BACH	HOLLY	COMMUNITY	TOTAL
CASH AND EQUIVALENTS				
Citibank 4444	$ -	$ -	$ 4,000	$ 4,000
Citibank 9444 & 9777	-	-	13,000	13,000
Goldman Sachs 5678	-	21,000	-	21,000
Wells Fargo 0123	-	-	17,000	17,000
Total of Cash and Equivalents	-	21,000	34,000	55,000
OTHER INVESTMENTS				
1,000,000s Panther Web Media	$ -	$ -	15,000,000	15,000,000
Total of Other Investments	-	-	15,000,000	15,000,000
QUALIFIED RETIREMENT PLANS				
Edward Jones 09-1-2	-	14,635	-	14,635
Edward Jones 09-1-3	110,000	-	-	110,000
Total Qualified Retirement Plans	$ 110,000	$ 14,635	$ -	$ 124,635
PERSONAL RESIDENCES				
2789 Harbor Hill Road	-	-	1,200,000	1,200,000
3456 Sheridan Road, Lake Arrowhead	-	-	470,000	470,000
Total of Personal Residences	-	-	1,670,000	1,670,000
TOTAL ASSETS	110,000	35,635	16,704,000	16,849,635
LIABILITIES				
2789 Harbor Hill Road	-	-	330,000	330,000
3456 Sheridan Road, Lake Arrowhead	-	-	300,000	300,000
TOTAL LIABILITIES	-	-	630,000	630,000
NET WORTH	$ 110,000	$ 35,635	$ 16,074,000	$ 16,219,635

ENDNOTES

BACH AND HOLLY ASSIRE

Value of shares	$	15,000,000
Cost basis*		-
Net gain on outright sale	$	15,000,000

* We believe your cost basis is very low but likely greatere than zero. We used zero in this analysis because we believe it is a reasonable estimate

FAMILY INFORMATION

BIOGRAPHICAL DATA

CLIENT NAME	Bach Assire	**DATE OF BIRTH**	June 15, 1962
SPOUSE NAME	Holly Assire	**DATE OF BIRTH**	February 25, 1965
HOME ADDRESS	2789 Harbor Hill Road Laguna Beach, CA 92222		

CHILDREN AND GRANDCHILDREN

NAME	DATE OF BIRTH	SPOUSE'S NAME	CHILDREN
Gene Assire	November 3, 1992		
Nellie Assire	February 21, 1995		

How the case came to us:

- Bank Wealth strategists and team have met with the client and proposed a plan for the sale of the business:

  - Allocate $10mil of stock to qualify for section 1202 (QSBS), which will qualify as a ½ federal tax deduction due to the year that they started the company;
  - Gift $5mil of stock to their two children ($2.5mil each as individuals), to qualify for section 1202 (QSBS), which will qualify as a ½ federal tax deduction due to the year that they started the company; and
  - Pay the tax, federal and state of CA, while saving approximately $1.5mil of federal tax.

- Bank team has brought the client in and asked us to brainstorm with them as the client not currently willing to move forward even though a sale is pending within approximately a year.

- So, now what?

GOALS AND OBJECTIVES

1. Prepare for the sale of Panther Web Media
2. Prepare for a new project, My Trading Space
3. Gift some money to children
4. Reduce income and estate taxes
5. Asset protection
6. Consider charitable contributions that support an observatory

SCHEDULE OF LIFE INSURANCE

CURRENT PLAN

COMPANY	INSURED	POLICY #	ISSUE DATE	BENE-FICIARY	POLICY TYPE	PREMIUM	CASH VALUE	DEATH BENEFIT
POLICIES OWNED BY BACH								
Voya	Bach	AD11307432	2/14/2011	Holly	Term*	3,814	-	2,000,000
Totals						$ 3,814	$ -	$ 2,000,000

SUMMARY OF CONCEPTS TO CONSIDER

You have asked us to consider strategies that could be effective in helping you reach your goals particularly in connection with selling your shares of Panther Web Media. Here is a summary of the ideas we believe are most relevant to your situation. We will provide a general overview of each topic in the balance of this report.

1. Arrange to transfer $1 million of sale proceeds into a new business that qualifies for a 1045 Tax-Free Exchange.
   You will have 60 days to from the time of the sale of Panther Web Media to investment in another qualifying small business. This will defer the tax attributable to the portion of your sale you allocate to the exchange.

2. Take advantage of the IRC Section 1202 exclusion of gain on $10 million of your Panther Web Media stock. You are able to apply this exclusion at the rate of 50% because of the year you received the stock. This may save approximately $1,000,000 in Federal income taxes.
   We considered with you the option of transferring some stock to your children now. However, given your current asset level you choose not to do so at this age.

3. Transfer $10 million into a Nevada Incomplete Gift Non-Grantor Trust ("NING").
   This will provide relief from California income taxes both on sale and future income (provided that you don't use that income) and provide for asset protection.

4. Contribute $3.5 million of Panther Web Media stock into a Charitable Remainder Unitrust.
   This can avoid gain tax on the sale of stock by the trust. The trust will reinvest the sale proceeds and pay income (greater than the income had you paid the tax on the stock) to Bach and Holly for life. The contribution will also generate a charitable income tax deduction. The assets remaining in the trust at the end off your lives will pass to the charity of your choice. The life insurance in the ILIT mentioned below will offset what would otherwise would have been removed from your heirs – using some of this additional income.

5. Add $3.5 Million of new life insurance coverage on Bach and Holly.
   Establish a new Irrevocable Life Insurance Trust to be the applicant, owner and beneficiary of this coverage.
   This will serve to "replace" the assets you contribute to the CRT and the proceeds will pass to your children free of income and estate tax.

SUMMARY OF CONCEPTS TO CONSIDER
(CONTINUED)

6. Contribute $500,000 to a Donor Advised Fund Program.

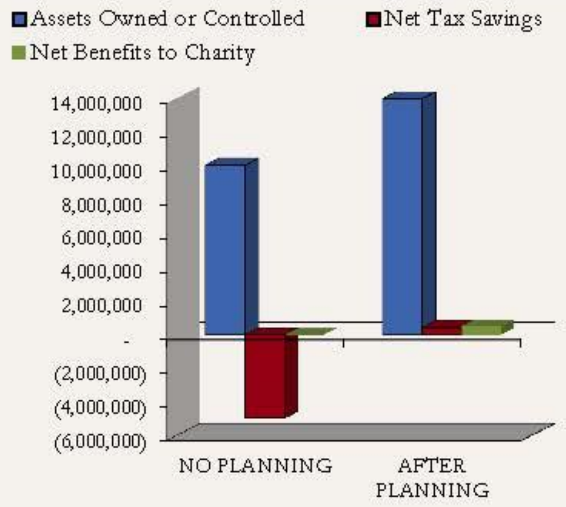
   You can use this program to support your charitable goal to support an observatory. While supporting your charitable intent, this will have a side benefit of reducing your income taxes in the year of contribution.

7. Update your Revocable Living Trust and add a Testamentary Charitable Lead Annuity Trust to eliminate potential future estate taxes while also serving your desire to support charities such as the observatory and/or others.

   This trust would only be funded upon the death of the surviving spouse. It transfer assets otherwise subject to estate tax into a trust that will distribute income to your Donor Advised Fund for a term of year and leave the assets to your children at the end of the term.

COMPARISON OF INCOME TAX BENEFITS AND NET SALES PROCEEDS

YEAR 2020



YEAR 2020

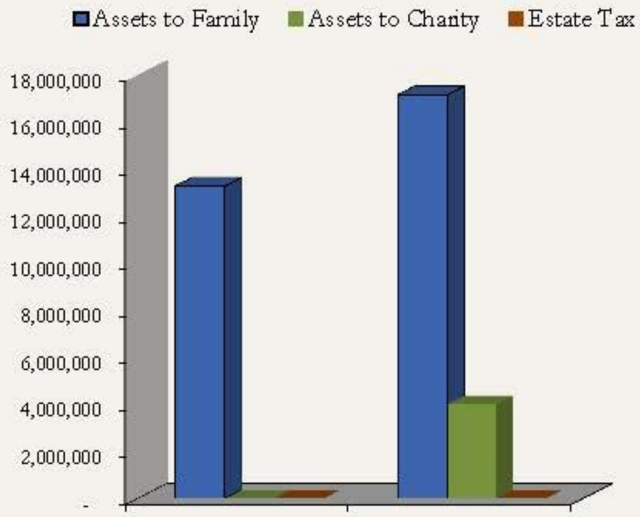
	NO PLANNING	AFTER PLANNING
Net direct sales proceeds	10,050,000	10,000,000
Assets under advisement	-	4,000,000
Assets owned or controlled	10,050,000	14,000,000
Net tax Savings (Liability)*	(4,950,000)	426,134
Net Benefits to Charity	-	500,000

*$426,134 represents tax savings from CRT and DAF contributions.

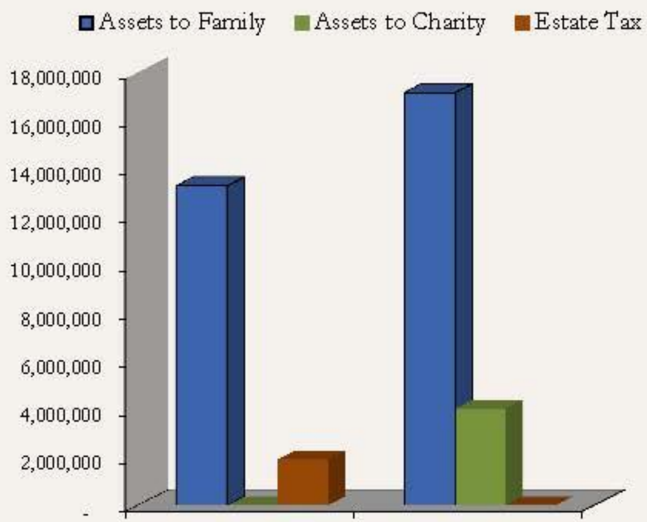
BACH AND HOLLY ASSIRE

COMPARISON OF ESTATE TAX BENEFITS AND NET ESTATE DISTRIBUTIONS

YEAR 2020



YEAR 2026



YEAR 2020	No Planning	After Planning
Assets to Family	13,269,635	17,145,769
Assets to Charity	-	4,000,000
Estate Tax (1)	-	-

YEAR	No Planning	After Planning
Assets to Family (2)	15,205,433	19,662,635
Assets to Charity	-	6,484,066
Estate Tax (3)	1,896,955	-

(1) Estate tax rates may increase in 2026 or sooner.

(2) Assumes assets in the estate grow at 3% annually.

(3) Assumes estate tax rates revert to 2017 levels in accordance with the Tax Cuts and Jobs Act and are adjusted for inflation at 2% annually.

SUPPORTING DETAILS FOR INCOME TAX BENEFITS AND NET SALES PROCEEDS

The strategies under consideration offer a variety of different income tax and financial benefits. Here is a snapshot of the potential improvement over an outright sale.

Outright Sale; No Planning			
Total sale value		15,000,000	
Less adjusted cost basis		-	
Reportable gain		15,000,000	
Federal and state tax due	33%	4,950,000	
Net cash proceeds			10,050,000

Hypothetical Results of Planning			Net Personal Cash	Tax Savings from Deduction	LTCG Tax Avoided/ Deferred
Section 1202 and NING Trust					
Allocation of assets		10,000,000			
Gain attributable to this value		10,000,000			
Gain avoided by applying IRC Section 1202	50%	5,000,000			
Federal tax due	20%	1,000,000			
State tax due		-			
Net after-tax proceeds			9,000,000		
Federal tax avoided	20%				1,000,000
State tax avoided	13%				1,300,000
Charitable Remainder Trust					
Contribution		3,500,000			
Assets under advisement in CRT			3,500,000		
Charitable income tax deduction		791,315			
Net tax savings from income tax deduction	33%			261,134	
Federal and state LTCG tax avoided					1,155,000

SUPPORTING DETAILS FOR INCOME TAX BENEFITS AND NET SALES PROCEEDS

CONTINUED

			Net Personal Cash	Tax Savings from Deduction	LTCG Tax Avoided/ Deferred
Irrevocable Life Insurance Trust					
New Life Insurance		3,500,000			
Section 1045 Exchange					
Allocation of assets		1,000,000			
Gain attributable to this value		1,000,000			
Net proceeds reinvested			1,000,000		
Fed and state tax income tax deferred	33%				330,000
Donor Advised Fund					
Assets contributed		500,000			
Assets under advisement in DAF			500,000		
Charitable income tax deduction		500,000			
Net tax savings from income tax deduction	33%			165,000	
TOTALS			14,000,000	426,134	3,785,000

Summary	Outright Sale	After Planning
Net sales proceeds after tax	$ 10,050,000	$ 9,000,000
Exchange for other SBSC		1,000,000
Net assets controlled through charity (CRT + DAF)	-	4,000,000
Tax savings from charitable income tax deductions	-	426,134
Tax	4,950,000	1,000,000
Totals	$ 15,000,000	$ 15,426,134
Net owned or controlled after tax	$ 10,050,000	$ 14,426,134

SUPPORTING DETAIL FOR ESTATE TAX BENEFITS AND NET ESTATE DISTRIBUTIONS

	2020		2026 with growth of 5%	
	No Planning	After Planning	No Planning	After Planning
Assets and Initial Transaction Taxes				
Current assets	$ 16,219,635	$ 16,219,635		
Minus net taxes (1)	(4,950,000)	(573,866)		
Minuse lifetime charitable gifts	-	(4,000,000)		
Estate value after transaction	11,269,635	11,645,769	$ 15,102,389	$ 15,606,444
Estate Tax Estimation				
Assets owned after sale and planning	11,269,635	11,645,769	15,102,389	15,606,444
Plus life insurance owned in estate	2,000,000	-	2,000,000	-
Net Taxable Estate	13,269,635	11,645,769	17,102,389	15,606,444
Less first spouse estate exemption	(11,580,000)	(11,580,000)	(6,180,000)	(6,180,000)
Estate of survivor	1,689,635	65,769	10,922,389	9,426,444
Less deduction for TCLAT (2)	-	-	-	(3,246,444)
Taxable estate	1,689,635	65,769	10,922,389	6,180,000
Tentative tax before unified credit	621,654	14,500	4,314,755	2,417,800
Unified Credit available	(621,654)	(14,500)	(2,417,800)	(2,417,800)
Estate tax due (3)	-	-	1,896,955	-
Distribution of Estate Assets				
Assets in estate to family after estate tax	11,269,635	11,645,769	13,205,433	12,360,000
Plus insurance to family	2,000,000	5,500,000	2,000,000	5,500,000
Plus NPV of TCLAT to family	-	-	-	1,802,635
Total to family	13,269,635	17,145,769	15,205,433	19,662,635
Charitable Assets				
Charitable remainder trust contribution (4)	-	3,500,000		3,500,000
DAF contribution	-	500,000		500,000
NPV @3% of TCLAT distribution to DAF				2,484,066
Total	-	4,000,000	-	6,484,066

(1) $573,866 represents $1,000,000 of Federal tax liability due upon sale (after application of Sec. 1202 benefits and NING Trust funding) minus $426,134 tax savings from charitable contributions. See page 12 for more details.
(2) TCLAT is funded only to the extent required to reduce estate tax to zero.
(3) In 2026 estate tax exemption is scheduled to revert to 2017 levels of $5 million per taxpayer adjusted for inflation. Moving or replacing exising life insurance to be outside the taxable estate could become important to minimize or eliminate estate tax.
(4) Available to generate income to Assires for life; an important source of income not subject to estate tax.

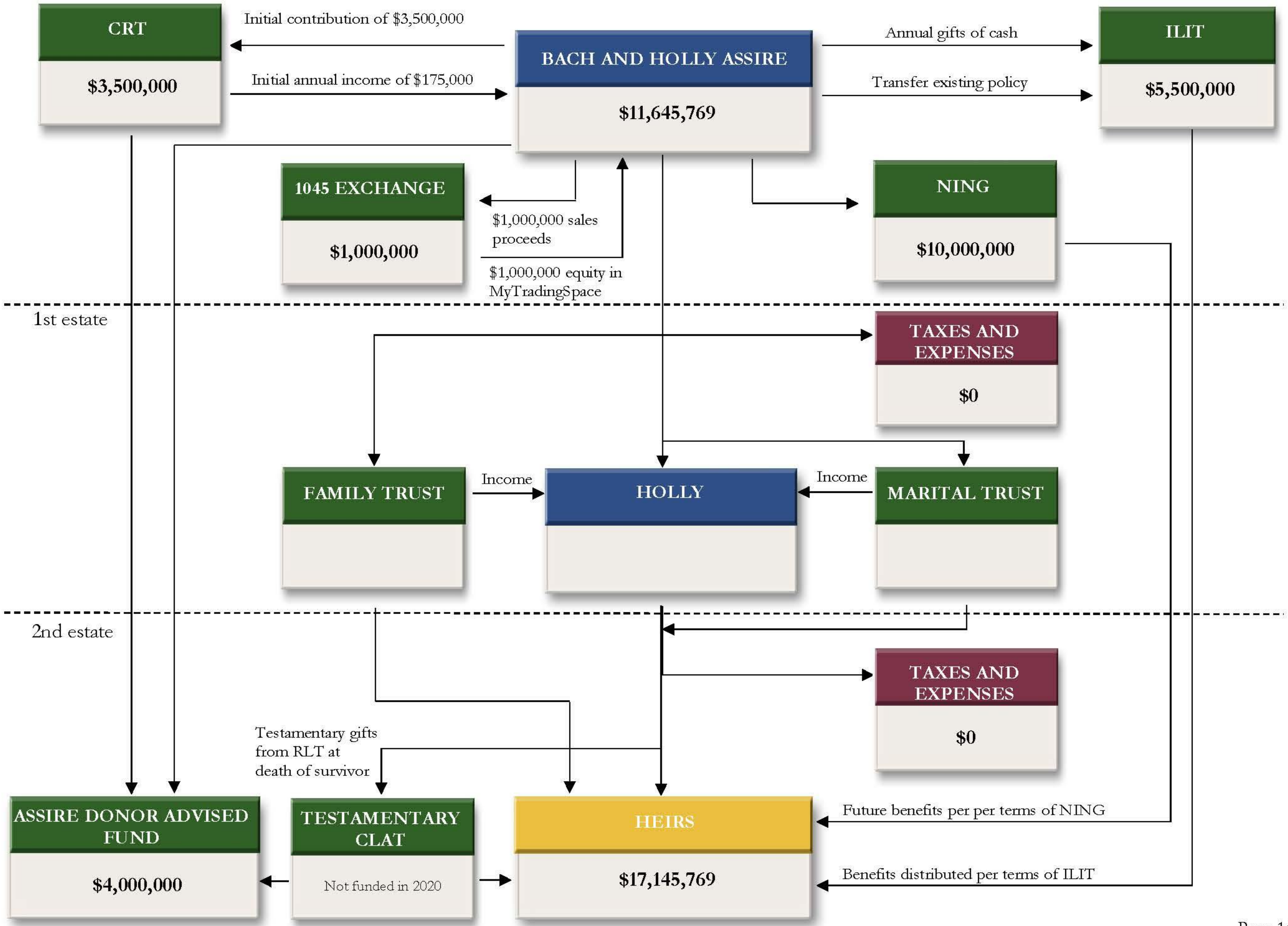
HYPOTHETICAL VALUE OF NET REINVESTED SALE PROCEEDS OVER TIME

On the previous page we illustrated the impact of income taxes and estate taxes on the entire estate before and after planning if death occured currently or in 2026. On this page we show a simple snapshot of the potential impact of taxes on the reinvested business sale proceeds only assuming both spouses are living at the end of a 10-year period.

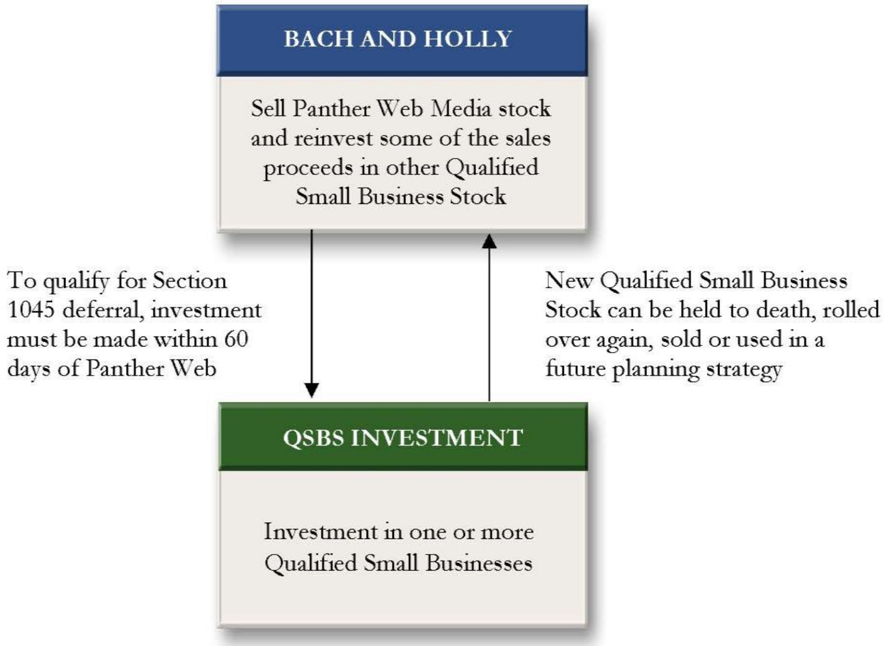
	No Planning	Proposed Planning	Improvement
Current net capital owned or controlled after tax	10,050,000	14,426,134	4,376,134
Compounded benefits over 10 years @7%	19,769,871	28,378,389	8,608,518

RECOMMENDED STRATEGIES AND ESTATE DISTRIBUTION DIAGRAM

DEATH OCCURS IN 2020



1045 EXCHANGE



1045 EXCHANGE

KEY BENEFITS AND DESIGN CONCEPTS

KEY BENEFITS

- Defer capital gain tax on any portion of Qualified Small Business Stock ("QSBS") sale proceeds
- Invest pre-tax dollars in future qualified business projects

DESIGN CONCEPTS

- It is clear to us that you are a lifelong entreprenuer and will be involved in your next business venture for your family and community.
- This strategy enables you to offer $1 million of pre-tax seed capital to fund your next venture and avoids Federal and State tax that would apply to your sale if you did not take advantage of this exchange strategy.
- Section 1045 permits founders and angel investors to move money from one business venture to the next without having to pay tax on appreciation in the first business venture.
- Section 1045 allows non-C corporation taxpayers to elect to defer recognition of gain from the sale of QSBS if the taxpayer purchases replacement QSBS within a 60-day period beginning on the date of the QSBS sale.
- There is no limit on how much you can roll over or how many times you can elect rollover treatment.
- The replacement stock doesn't have to be stock of only one company: you can roll over the proceeds into a diversified portfolio of QSBS and still defer the gain.
- The basis of your old shares is "carried over" into your new shares.

SECTION 1202

BACH AND HOLLY

$10 million of Panther Web stock meets the requirements to exclude 50% of gain

↕

FINAL BUYER

SECTION 1202

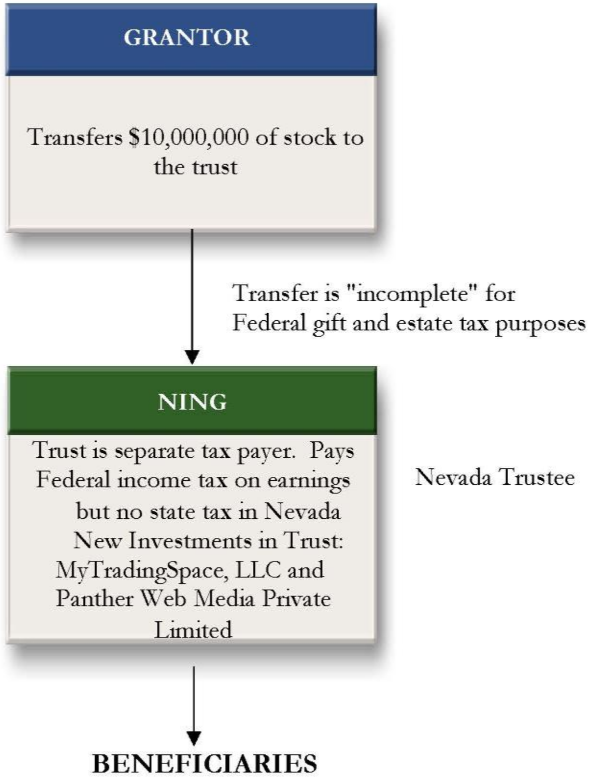
KEY BENEFITS

- Permanently avoid capital gain tax on the sale of appreciated assets that qualify under IRC Section 1202

DESIGN CONCEPTS

- Sec. 1202(a) provides that a noncorporate shareholder can exclude 50% of the gain from the sale of qualified small business (QSB) stock that has been held for five years. QSB stock must be stock in a C corporation.
- The amount of gain that any investor can exclude under Section 1202 is limited to a maximum of the greater of $10 million or 10 times the adjusted basis of the stock.
- The excluded gain is not a preference item for AMT purposes.
- Capital gains that are exempt from tax under this section are also exempt from the 3.8% net investment income (NII) tax applied to most investment income.

NEVADA INCOMPLETE NON-GRANTOR TRUST ("NING")



NEVADA INCOMPLETE NON-GRANTOR TRUST ("NING")

KEY BENEFITS AND DESIGN CONCEPTS

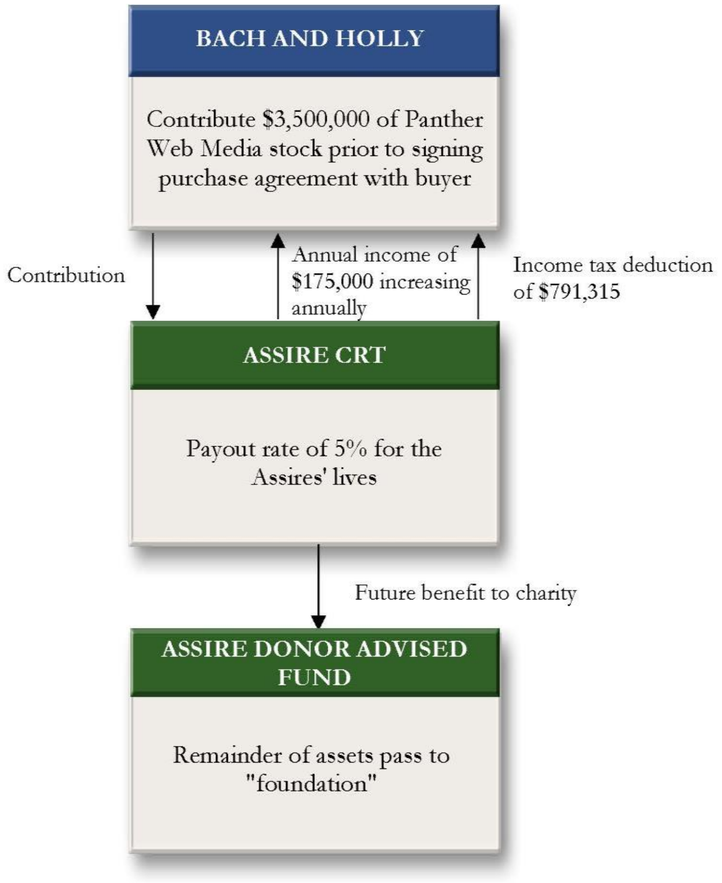
KEY BENEFITS

- Avoid state income tax on the sale of assets owned by the trust
- Improved creditor protection for grantors and beneficiaries under Nevada law

DESIGN CONCEPTS

- A Nevada Incomplete-Gift Non-Grantor Trust ("NING Trust") is an estate planning tool that can eliminate state income tax while providing asset protection for assets transferred to the trust.
- The NING is a Non-Grantor Trust. This means it is treated as a separate taxpayer for income tax purposes. This is important to achieve favorable income tax treatment for the trust.
- Transfers of assets to a NING are incomplete gifts. This is important so that assets transfered to the trust will not be subject to the gift/estate tax system. In other words, no annual gift tax exclusions or lifetime gift/estate tax exemption need to be applied. Moreover, assets in a NING are included in the settlor's gross estate so the cost basis can be stepped up on the date of death.
- Nevada is usually our jurisdiction of choice because it has no income tax and has the most favorable Trust laws. To qualify as a Nevada trust, the trust must have a Nevada trust company serving as trustee.
- Since Nevada has no state income tax, a NING is attractive to individuals who are otherwise subject to a much higher state income tax.
- To be effective, the trust must find the delecate balance of control. It must give the grantor enough control to make the gift incomplete and to satisfy personal financial needs. But, it must also require the grantor to up enough control to avoid grantor trust status and its adverse income tax status.
- The initial beneficiaries of the trust will be children.
- The grantor of the trust cannot exercise direct control over the assets in the NING. However, the Grantor can retain certain powers and can be added later as a discretionary beneficiary.
- There are ways for the grantor(s) to obtain funds from the trust in the future. Borrowing from the trust is one option.

CHARITABLE REMAINDER TRUST



CHARITABLE REMAINDER TRUST

KEY BENEFITS AND DESIGN CONCEPTS

KEY BENEFITS

- Generate current income tax deduction
- Avoid capital gain tax on the sale of appreciated assets
- Increase current income
- Diversify assets in a tax-free environment
- Protect assets from potential creditors
- Produce large future charitable gifts

DESIGN CONCEPTS

- A Charitable Remainder Unitrust (CRUT) is an irrevocable tax-exempt trust designed to pay income to you for a period of years or for life, with the remainder interest ultimately passing to charity.
- We have illustrated that you initially contribute $3,500,000 to the trust.
- For making this contribution you receive a charitable income tax deduction.
- This charitable income tax deduction is calculated by reference to tables in Treasury Regulations and is based on the term and payout rate of the trust and other factors. We estimate this deduction to be about $791,315.
- You can use this charitable deduction up to an amount equal to 30% of your adjusted gross income (AGI). Any excess deduction can be carried over for 5 additional years.
- You can choose the payout rate (fixed percent) of the trust. You must select a payout rate between 5% and 50%. Additionally, the net present value of the charitable remainder interest must be at least 10% of the initial contribution.
- We have illustrated a payout rate of 5.0%. This will result in an initial annual income to you of $175,000 which would increase annually in accordance with actual investment performance.
- If this $3,500,000 would have been taxed at 33% in an outright sale, the net proceeds would have been about $2,345,000. If invested at 5%, this would have produced annual income to you of about $117,250.

CHARITABLE REMAINDER TRUST

DESIGN CONCEPTS CONTINUED

- The extra income produced by the CRT plus tax savings from the income tax deduction can be allocated to pay premiums on life insurance designed to replace the assets for your family that pass to charity.
- If the return on the trust assets exceeds the payout in a given year, the excess earnings will compound in the trust tax free and increase the income to you in the following year (assuming the trust is a CRUT).
- A reason for selecting a modest payout rate is that the income tax deduction is inversely proportionate to the payout rate. Additionally, by selecting a lower payout, the trust principal should appreciate faster and generate more income to you in the future.
- The assets in the trust are revalued each year to determine your distribution.
- You, as income beneficiary, can retain the right to change the charitable beneficiary. You can remove existing charities and/or add new ones. However, the remainder interest must ultimately pass to a qualified charity(ies).
- You can be trustee of the trust and control the investment policy. If assume this fiduciary duty, you should delegate the administrative requirements to a professional trust administrator.
- Based on our assumed return on CRT assets, we project the value passing to charity at the termination of the CRT to be $6,339,766.

IMPORTANT CAVEATS

- A special independent trustee must be appointed to be the owner and seller of any stock contributed to a CRT. The trustee must not be bound or obligated by any existing restrictive stock transfer agreement.
- If C-corp stock is sold inside a CRT the sale should be tax-free. But, if the corporation sells its assets, the sale at the corporate level will be subject to corporate tax. A subsequent liquidation of corporate assets to shareholders will be tax-free to the CRT a tax-exempt shareholder.
- Contributing founder's stock to a CRT that names a private foundation as a remainder beneficiery will generated in a charitable deduction that is based on the donor's cost basis. For this reason we have recommended that you name a Donor Advised Fund at a public charity as the remainder beneficiary so you can maximize your charitable income tax deduction.

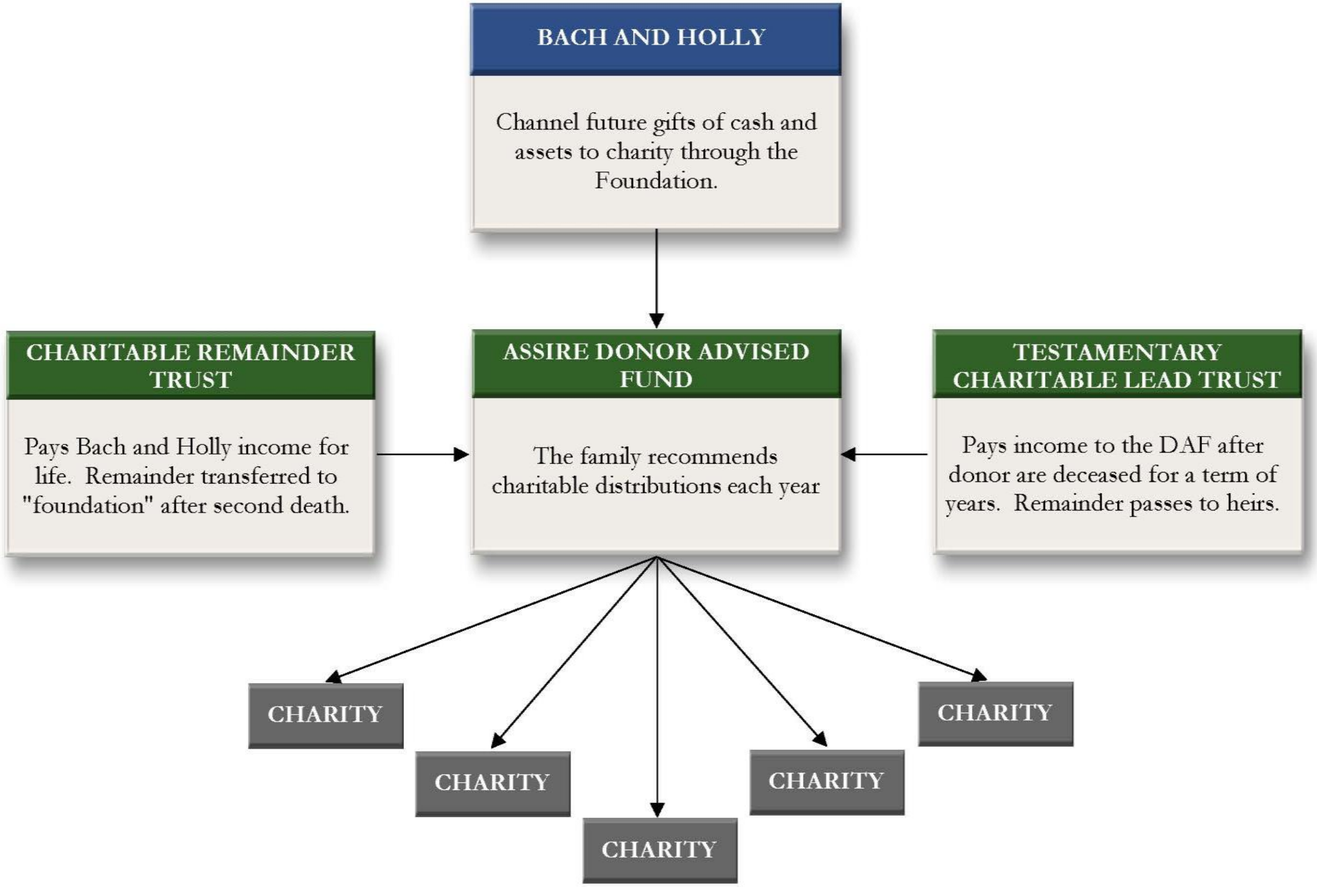
CHARITABLE REMAINDER TRUST

HYPOTHETICAL VALUES

ASSUMPTIONS			
PAYOUT RATE	5.0%	**TOTAL RETURN**	7.0%
TERM	2 lives	**7520 RATE JULY '20**	0.4%
DEDUCTION FACTOR	22.6%		

Year	Contribution	Unitrust Value (EOY)	Gross Income	Income Tax Deduction Generated	Benefit to Charity
1	3,500,000	3,570,000	175,000	791,315	-
2	-	3,641,400	178,500	-	-
3	-	3,714,228	182,070	-	-
4	-	3,788,513	185,711	-	-
5	-	3,864,283	189,426	-	-
6	-	3,941,568	193,214	-	-
7	-	4,020,400	197,078	-	-
8	-	4,100,808	201,020	-	-
9	-	4,182,824	205,040	-	-
10	-	4,266,480	209,141	-	-
11	-	4,351,810	213,324	-	-
12	-	4,438,846	217,591	-	-
13	-	4,527,623	221,942	-	-
14	-	4,618,176	226,381	-	-
15	-	4,710,539	230,909	-	-
20	-	5,200,816	254,942	-	-
25	-	5,742,121	281,477	-	-
30	-	6,339,766	310,773	-	6,339,766
Totals	3,500,000		7,099,414	791,315	6,339,766

DONOR ADVISED FUND



DONOR ADVISED FUND

KEY BENEFITS AND DESIGN CONCEPTS

KEY BENEFITS

- Create large charitable income tax deductions
- Support worthy charitable causes
- Maintain effective control over investments, policies, timing of distributions
- Perpetuate family name and influence
- Involve family members in philanthropic activities
- Create leadership, management and community involvement opportunities for family

DESIGN CONCEPTS

- Create a "family foundation" to support your favorite charitable causes. Initially, we recommend that you use a "Donor Advised Fund" ("DAF") as a public charity.
- A DAF is a program offered by some public charities that allows a donor to make a charitable contribution and retain a meaningful influence over how the funds are allocated toward charitable projects. Many donors have found that a DAF is an attractive alternative to a private foundation.
- The charitable organizations that offer DAFs have specific policies with respect to operational details. Because policies differ among organizations, it is important to obtain specific information about any DAF before making a contribution.
- You can make gifts directly to your DAF during your life and name your DAF as the beneficiary of charitable trusts and as a partial beneficiary of your estate.
- When you make a charitable contribution to establish a DAF, the charity accounts for the funds as if they were held in a segregated account. The donor generally is given the privilege to request that the board of directors make distributions from the fund, from time to time, to charitable projects of the donor's choosing.
- Although the board is under no legal obligation to comply with the donor's request, as a matter of policy, they generally will do so provided that the request falls within the scope of the stated purpose of the sponsoring organization and if the designated recipient is a public charity.

DONOR ADVISED FUND

DESIGN CONCEPTS CONTINUED

DESIGN CONCEPTS

- Public charities include many hospitals, educational institutions, social service providers, religious groups, environmental organizations and community foundations.
- Contributions to a DAF are irrevocable and become the sole property of the organization. Without this feature, no charitable income tax deduction would be allowed.
- Donors that make a contribution to a DAF generally receive a charitable income tax deduction equal to the fair market value of the contribution. Donors are allowed to use the charitable deductions up to an amount equal to 50% of their adjusted gross income for contributions of cash and up to 30% for contributions of long term capital gain property. Any excess deduction can be carried over and used in the following year for up to five additional years.
- Most charities will insist on investing the funds according to investment policies established by the board of directors. In a few instances, the board may be open to the requests of the donor but legally the donor can have no direct control over the management of funds.
- The charitable organization handles all reporting and administrative issues. The donor does not have to file any paperwork other than requests to the board to make charitable distributions. Generally, you will receive at least quarterly reports on your DAF.
- You may choose to enhance your family influence through your DAF helping to preserve your family name and reputation, giving the members of each generation better opportunities to establish their own presence in their communities or you can elect to give anonymously.
- You can establish an advisory board composed of your family members and decide together which causes to support.
- Private Foundations are the most common alternative to DAFs but they are more expensive to create and manage and are subject to more restrictions. Some experts recommend private foundations only if a donor is prepared to contribute $2 million or more.

IRREVOCABLE LIFE INSURANCE TRUST

BACH AND HOLLY

Make cash gifts to the ILIT enabling the trustee to pay annual premium costs.

Annual gifts to ILIT of approximately $63,600

IRREVOCABLE LIFE INSURANCE TRUST (ILIT)

Acquires a $3.5 million policy on Bach and Holly.

HEIRS

Receive death benefits according to terms of ILIT.

* Allocated to extra income to you and to pay insurance premiums.

IRREVOCABLE LIFE INSURANCE TRUST

KEY BENEFITS AND DESIGN CONCEPTS

KEY BENEFITS

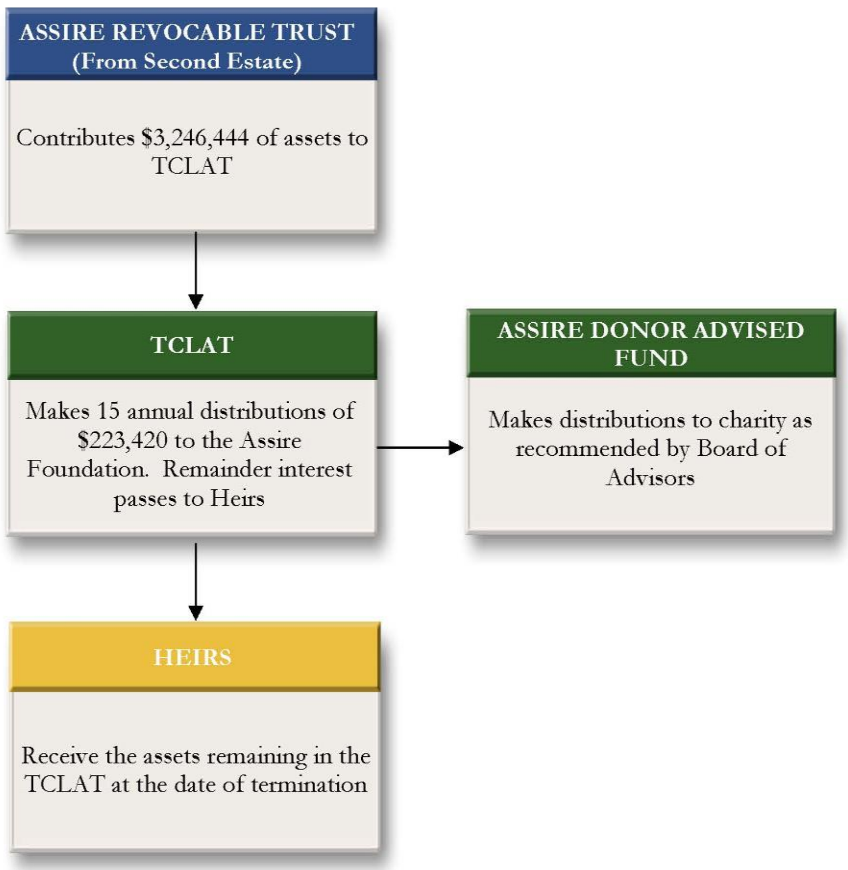
- Accumulate assets outside your taxable estate
- Protect assets from claims of creditors
- Avoid income tax on the accumulation of funds
- Avoid estate tax upon the distribution of funds to the family
- Create a source of liquidity to cover estate taxes or expenses
- Replace assets gifted to charity

DESIGN CONCEPTS

- You establish an Irrevocable Life Insurance Trust and make an initial gift to the trust.
- The trustee will be the applicant and owner of a $3.5 million life insurance policy insuring your life (or lives). The trustee will pay annual premiums of approximately $63,600 for ten years.
- You can shelter large gifts to the ILIT by applying your annual exclusions. To qualify for the annual gift tax exclusion, your gifts must be gifts of *present interest*. To accomplish this, after you make each gift, the trustee will notify your children that they have a right to withdraw the funds within a limited period of time.
- After the withdrawal period expires, the trustee will use the funds to pay premiums on a life insurance policy on your lives.
- If the amount of desired death benefit requires premiums greater than the annual gift exclusion, you can use a portion of your unified credit for the excess gift.
- Upon receiving the policy death benefit, the trustee will either hold the proceeds, invest the funds, and distribute income to the beneficiaries, or distribute the funds outright, depending on how you direct the document to be drafted.
- A joint and last-to-die life insurance policy has the advantage of relatively inexpensive joint mortality rates, but careful consideration of the client's situation should be taken before selecting a policy.
- A further consideration could be made to just have the insurance on one spouse so that the other spouse could be a lifetime and/or afterlife beneficiary (spousal lifetime access trust – "SLAT"). Not included here.

TESTAMENTARY CHARITABLE LEAD ANNUITY TRUST

Hypothetical trust funding if the death of surviving spouse occurred in 2026, estate assets grew at 3% annually and estate tax rates reverted to 2017 levels adjusted for inflation.



TESTAMENTARY CHARITABLE LEAD ANNUITY TRUST

KEY BENEFITS AND DESIGN CONCEPTS

KEY BENEFITS

- Create a deferred inheritance for your beneficiaries
- Reduce or eliminate the estate tax attributable to the assets transferred to the trust
- Make large charitable contributions

DESIGN CONCEPTS

- Your Trustee funds a Testamentary Charitable Lead Annuity Trust (TCLAT) with assets from your estate according to the instructions you leave in your Revocable Trust. You can change these instructions any time during your life.
- It is an irrevocable trust that will make annual distributions to a charity(ies) you choose for a specified term of years. At the end of the term, the assets remaining in the trust pass to your beneficiaries.
- We have assumed that you direct your Trustee to fund the trust with $3,246,444. This would be calculated based on asset values, interest rates and tax laws at the time of the death of the surviving spouse. The contribution would be as small as possible to eliminate any estate tax due.
- We have assumed that the trust will have a fixed charitable distribution of $223,420 annually for a term of 15 years.
- When your Trustee funds the TCLAT, the contribution is treated as a simultaneous gift to charity and a gift to your beneficiaries.
- The charitable gift value is calculated by reference to tables in Treasury Regulations and is based upon the term, the charitable distributions, the current interest rate and other factors. It is deductible from your taxable estate.
- Based on these assumptions, we estimate your estate tax charitable deduction to be 100.0% of the value of your contribution. In other words, out of your initial contribution of $3,246,444, the amount includable in your taxable estate will be reduced to $0.
- If the assets in the TCLAT earn a total return of 6.88%, we estimate that your beneficiaries will receive approximately $3,246,444 at the end of the term.

TESTAMENTARY CHARITABLE LEAD ANNUITY TRUST

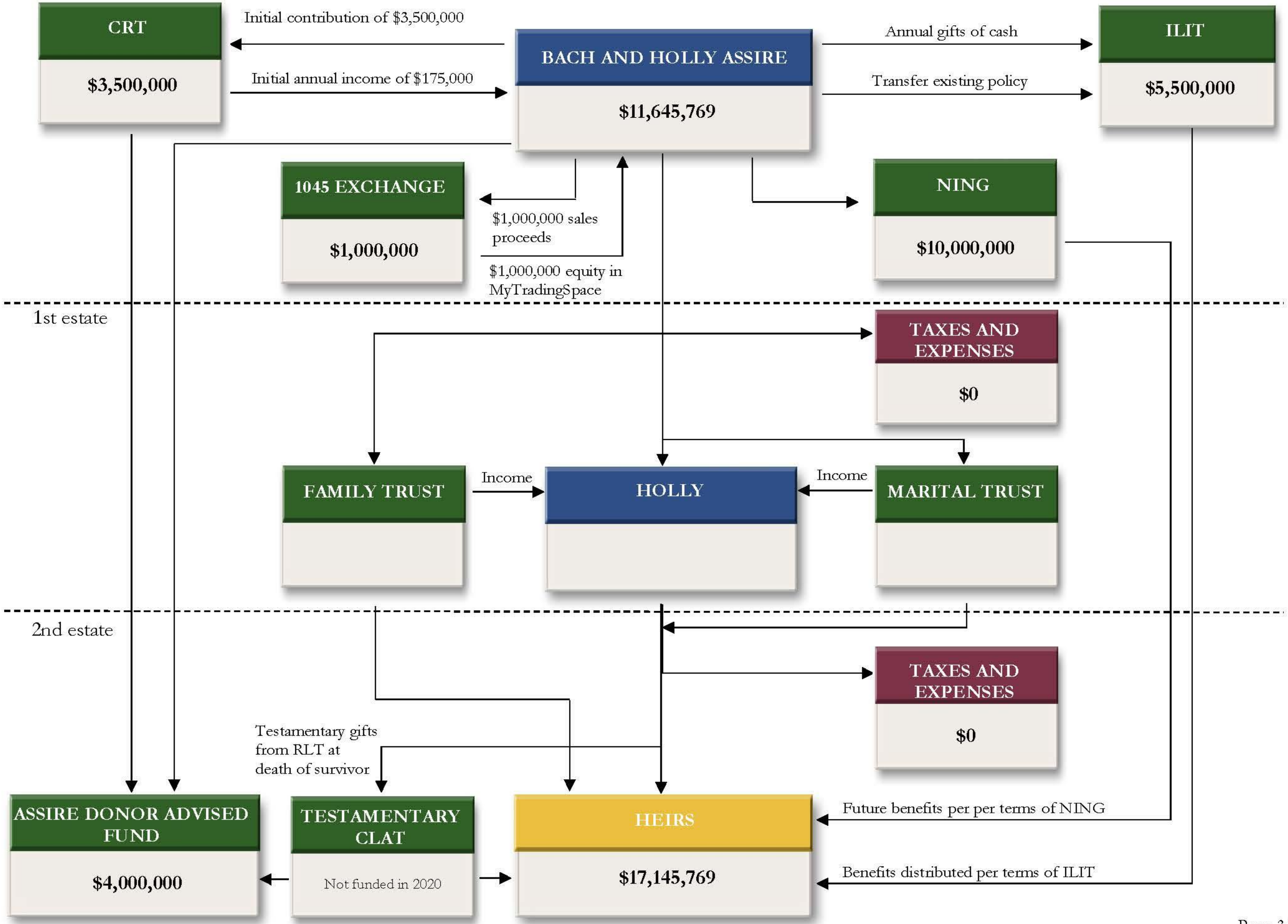
HYPOTHETICAL VALUES

ASSUMPTIONS			
TOTAL RETURN	6.88%	PAYOUT RATE	6.88%
DEDUCTION FACTOR	100.0%	TERM	15
CURRENT 7520 RATE	0.4%	NPV RATE	2%

Year	Contribution (BOY)	Value of Assets In TCLAT	Earnings of Assets In TCLAT	Distribution to Charity	Distribution to Heirs
1	3,246,444	3,246,444	223,420	223,420	-
2	-	3,246,444	223,420	223,420	-
3		3,246,444	223,420	223,420	-
4		3,246,444	223,420	223,420	-
5		3,246,444	223,420	223,420	-
6		3,246,444	223,420	223,420	-
7		3,246,444	223,420	223,420	-
8		3,246,444	223,420	223,420	-
9		3,246,444	223,420	223,420	-
10		3,246,444	223,420	223,420	-
11		3,246,444	223,420	223,420	-
12		3,246,444	223,420	223,420	-
13		3,246,444	223,420	223,420	-
14		3,246,444	223,420	223,420	-
15		-	223,420	223,420	3,246,444
Totals	3,246,444			3,351,295	3,246,444
NPV				2,484,066	1,802,635

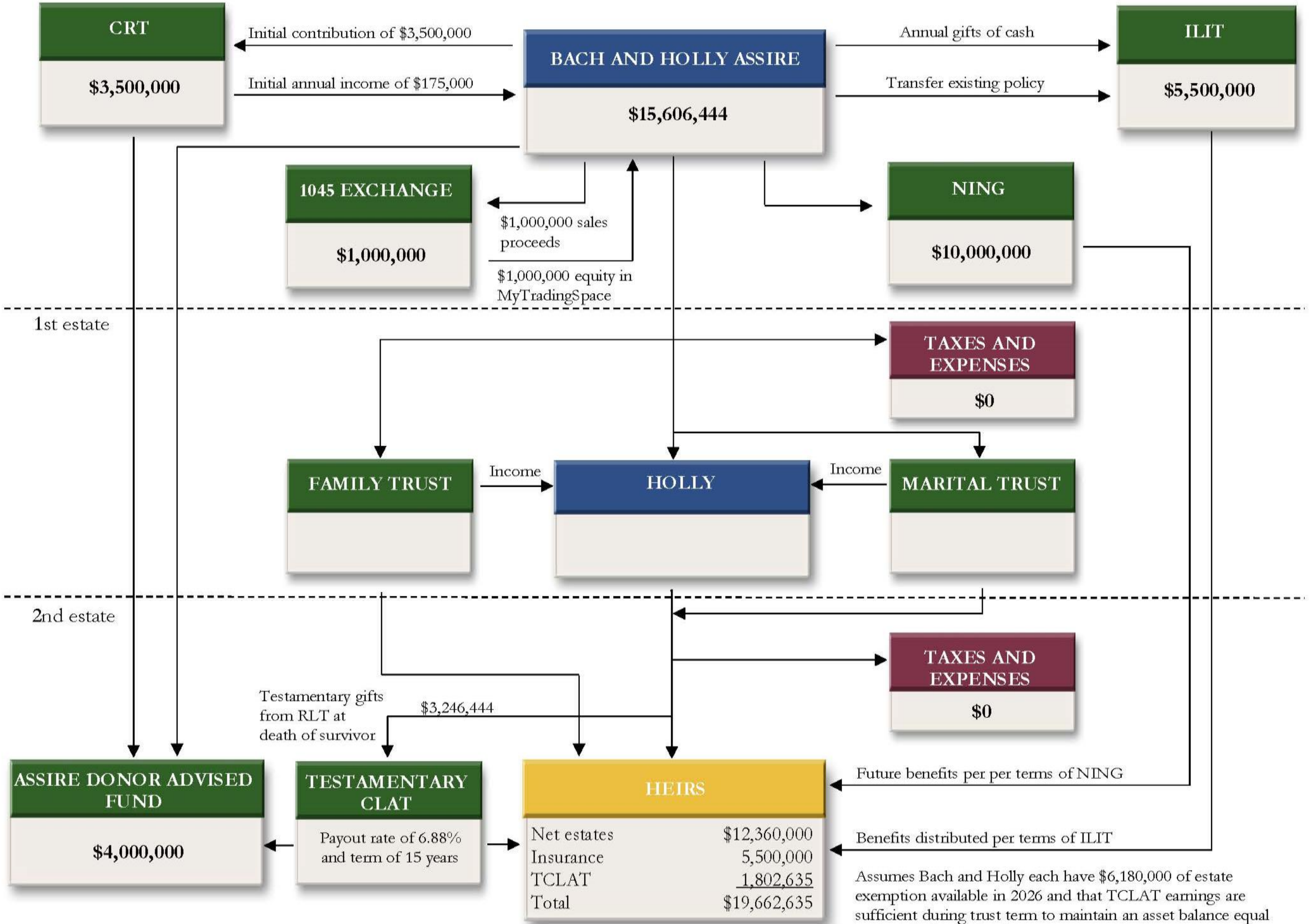
RECOMMENDED STRATEGIES AND ESTATE DISTRIBUTION DIAGRAM

DEATH OCCURS IN 2020



RECOMMENDED STRATEGIES AND ESTATE DISTRIBUTION DIAGRAM

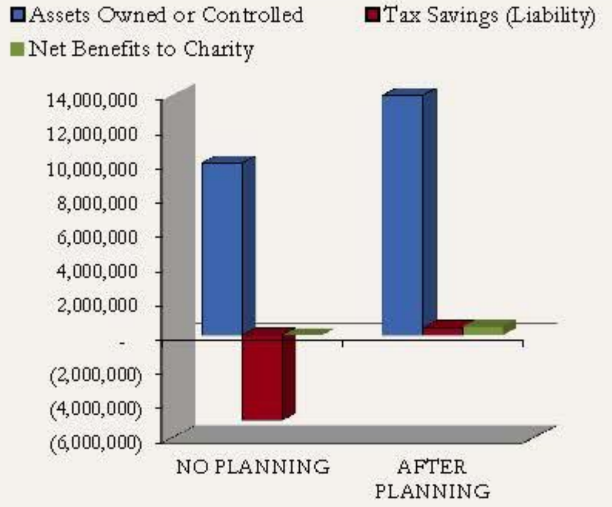
DEATH OCCURS IN 2026



Assumes Bach and Holly each have $6,180,000 of estate exemption available in 2026 and that TCLAT earnings are sufficient during trust term to maintain an asset balance equal to the initial contribution.

COMPARISON OF INCOME TAX BENEFITS AND NET SALES PROCEEDS

YEAR 2020

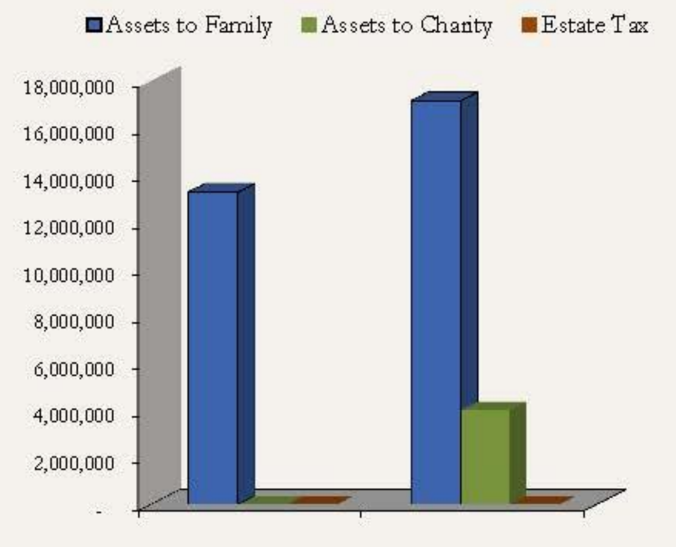


YEAR 2020	NO PLANNING	AFTER PLANNING
Net direct sales proceeds	10,050,000	10,000,000
Assets under advisement	-	4,000,000
Assets owned or controlled	10,050,000	14,000,000
Net Tax Savings (Liability)*	(4,950,000)	426,134
Net Benefits to Charity	-	500,000

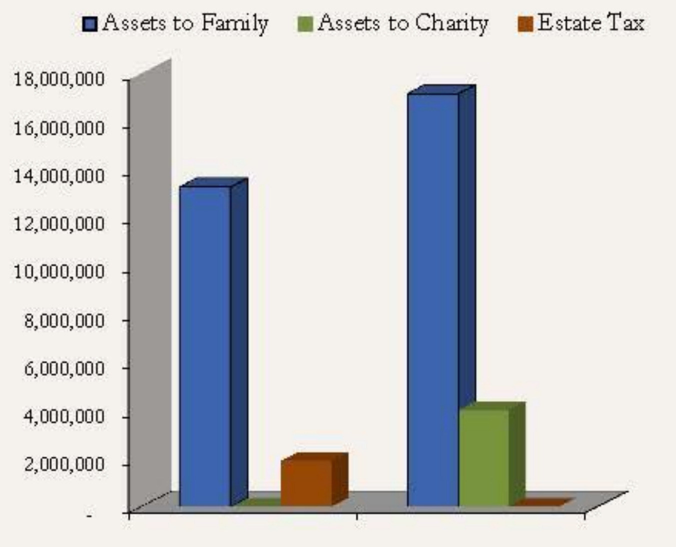
*$426,134 represents tax savings from CRT and DAF contributions.

COMPARISON OF ESTATE TAX BENEFITS AND NET ESTATE DISTRIBUTIONS

YEAR 2020



YEAR 2026



YEAR 2020	No Planning	After Planning
Assets to Family	13,269,635	17,145,769
Assets to Charity	-	4,000,000
Estate Tax (1)	-	-

YEAR	No Planning	After Planning
Assets to Family (2)	15,205,433	19,662,635
Assets to Charity	-	6,484,066
Estate Tax (3)	1,896,955	-

(1) Estate tax rates may increase in 2026 or sooner.

(2) Assumes assets in the estate grow at 3% annually.

(3) Assumes estate tax rates revert to 2017 levels in accordance with the Tax Cuts and Jobs Act and are adjusted for inflation at 2% annually.

SUMMARY OF NEXT STEPS TO CONSIDER

1. Arrange to transfer $1 million of sale proceeds into a new business that qualifies for a 1045 Tax-Free Exchange.

2. Take advantage of the IRC Section 1202 exclusion of gain on $10 million of your Panther Web Media

3. Transfer $10 million into a Nevada Incomplete Gift Non-Grantor Trust ("NING")

4. Contribute $3.5 million of Panther Web Media stock into a Charitable Remainder Unitrust.

5. Add $3.5 Million of new life insurance coverage on Bach and Holly.

6. Contribute $500,000 to a public charity that provides a Donor Advised Fund Program.

7. Update your Revocable Living Trust. Add a Testamentary Charitable Lead Annuity Trust.

Summary

Anatomy of Choice

The Math

The Process

Case Study

Anatomy of Choice – The Five Limitations to Progress

- Lack of clarity about the true problem
- The Missing Math™ around the real number
- Lack of clarity about the non-financial risks
- How to make a regretless choice
- Who’s going to drive the work that follows the decision?

The Math - The Decision

- *Do I keep the business and its cash flow?*
- *Transition it to my family/internal team or to an external group?*
- *Do I transition it in whole or in part?*

- If Keep and Grow:
  - Enhancement Initiatives Maintenance Program
- If Ownership Transition:
  - Update Business Valuation
  - Business & Legal Due Diligence
  - Create the book & slide deck sales package
  - Advisory support throughout the transaction

THE LAW FIRM OF STRAZZERI MANCINI LLP
WEALTH STRATEGIES COLLABORATIVE

Planning for Successful Families and Business Owners

Maintaining Control Over Your Person & Affairs

- *Durable Power of Attorney*
- *Health Powers*
- *Living Trusts*
- *Long-Term Health Care*
- *Disability Protection*
- *Living Wills*

Assure Lifestyle/Tax-Free Conversion of Paper Profits

- *CRATs, CRUTs, & NIMCRUTs*
- *MIS, DST 1, DST 2*
- *Off-Shore Entities*
- *Non-Qualified Deferred Compensation Plans*
- *GRATs & GRUTs*
- *Salary Continuation Plans*

Protection From Lawsuits & Judgements

- *CRATs, CRUTs, & NIMCRUTs*
- *GRATs & GRUTs*
- *Domestic Family Limited Partnerships*
- *Limited Liability Companies*
- *Off-Shore Entities*
- *Equity Stripping*
- *Captive Insurance Companies*
- *Asset Protection Trusts on shore & off shore*
- *Retirement Plan Trusts*
- *Spousal Lifetime Access Trust*
- *Private Placement Life Insurance*
- *BDIT*

Income Tax Reduction

- *Charitable Lead Trusts*
- *CRATs, CRUTs, & NIMCRUTs*
- *Conservation Easements*
- *Private Foundations*
- *Family Corporations*
- *Qualified Plans*
- *Private Placement Life Insurance*
- *NING/DING*
- *Monetized Installment Sale*
- *Installment Sale Trust*
- *Delaware Statutory Trust*
- *Donor Advised Fund*
- *Pooled Income Fund*

Managing the Value of Family Businesses

- *ESOPs & LESOPs*
- *Wealth Replacement Trusts*
- *Dynasty Trusts*
- *CRATs, CRUTs, & NIMCRUTs*
- *ILITs*
- *Grantor Deemed Owner Trusts*
- *Business Succession Planning*
- *Family Split-Dollar Planning*
- *Buy Sell Planning*

Passing Value & Responsibility to Family Members

- *Fully Funded Revocable Living Trusts*
- *Dynasty Trusts*
- *Wealth Replacement Trusts*
- *Private Foundations*
- *Testamentary Foundations*
- *Supporting Organizations*
- *GRATs & GRUTs*
- *Premium Financing*
- *Incentive/Education Trusts*
- *Asset Protection Trusts*
- *Grantor Deemed Owner Trusts*
- *Self-Canceling Installment Notes*
- *Generation Split Dollar*
- *Donor Advised Fund*
- *Pooled Income Fund*

Federal Gift & Estate Tax Reduction

- *QTIPs & QDOTs*
- *ILITs*
- *Charitable Foundations*
- *Charitable Remainder Trusts*
- *Grantor Retained Annuity Trusts & Unitrusts*
- *Family Limited Partnerships/LLCs*
- *Discounted Gifts*
- *QPRTs*
- *Split Gifts*
- *Conservation Easements*
- *Grantor Deemed Owner Trusts*
- *Self-Canceling Installment Notes*
- *Retirement Plan Trusts*
- *Spousal Lifetime Access Trust*
- *BDIT*

Protection from Administrative Expense & Delay

- *Durable Power of Attorney*
- *Fully Funded Revocable Living Trusts*
- *Nominee Partnerships*
- *Business Succession Planning*

"Timing, Combining, and Sequencing."

\- Simon Singer

Questions?