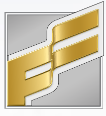

First Citizens Wealth™

2025 WEALTH PLANNING GUIDE

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Introduction

As a new year begins, the tax environment remains uncertain. The sunsetting of the Tax Cuts and Jobs Act (TCJA)—originally aimed at boosting economic growth and reducing tax burdens—is unlikely. This may lead some to adopt a more relaxed approach to income and estate planning. Geopolitical instability will also further contribute to economic fluctuations, such as continued conflicts, shortages, inflation rates and tariffs, and responses can result in new tax legislation that may have long-range ripple effects. It remains crucial to be prepared for any legislative updates or shifts in policy and aware of their impact on your situation and having a plan in place to move forward and take action—often ahead of enactment of new legislation to reap the most benefit and protection. Now more than any other time is when the average citizen must be more conversant in economics and tax law to maintain personal advantages and stay compliant as complexity is ever increasing.

The purpose of the 2025 Wealth Planning Guide is to highlight issues and changes to the tax landscape of most concern to our clients and explore how those changes may impact your financial circumstances. This guide is not comprehensive, but deals with strategies that are effective, overlooked or have complexity that may disqualify you from other strategies or expose risks that may not be initially apparent given the benefits of the transaction. It was created specifically for those wishing to actively shape their financial situation.

This year's Guide consists of three main sections, and we encourage you to navigate to the section(s) most relevant to you, which may be more than one:

Section 1:
HIGHER-INCOME INDIVIDUALS & FAMILIES

Section 2:
BUSINESS OWNERS

Section 3:
FOUNDERS

Where appropriate, each of these sections includes overviews of key issues facing this group, strategies to consider, practical case studies, and next steps to take in collaboration with your First Citizens Wealth Consultant or other specialist.

We hope this year's Guide serves as a trusted resource and inspires you to take meaningful steps toward securing your financial future.

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Higher-Income Individuals & Families

The net effect of high taxes and overpaying taxes, even on a high-income household can be an insidious result that continually diminishes one's ability to maintain quality of lifestyle throughout retirement and leave a legacy to loved ones. Moreover, dealing with high taxes is a significant challenge for high-net worth individuals, as making a mistake can have monumental consequences not only for oneself, but also for everyone else if an unfavorable outcome of your case sets precedent. Staying informed about your income, expenses, and overall tax situation is essential.

It is tempting to outsource the management of your household finances and taxes to others, such as your business manager, family office, accountant, or spouse. Regardless of who you utilize to manage the daily transactions, it is vitally important that you stay regularly engaged in your finances by overseeing transactions, verifying statements and decisions on a frequent basis both with your advisor and with outside parties (banker, broker, lender, etc.) Being proactive means understanding the tax strategies you qualify for and incorporating them into your financial plan. Regular check-ins with your Wealth Consultant can help you evaluate trends, monitor your progress, and adapt to changes in the economic environment.

These conversations are key to ensuring you're maximizing tax efficiency while staying on track to achieve your objectives.

Key Taxation Issues Likely to Impact Income Tax and Retirement Planning

The Tax Cuts and Jobs Act (TCJA) 2.0

What is it? The Tax Cuts and Jobs Act (TCJA) reduced most individual income tax rates, including the top marginal rate, and updated income tax thresholds. It increased the standard deduction, eliminated the personal exemption, and limited other itemized deductions.

Will TCJA 1.0 be retained? Probably but most likely with adjustments due to reconciliation.

What changes are on the table? There is a proposal to amend the TCJA to eliminate the $10,000 cap on state and local deductions (SALT), and to increase the Child Tax Credit to $5,000.

What is the economic context? The federal deficit is at record levels: $1.83 trillion. Interest rates are much higher than they were for TCJA 1.0 in 2017.

What is the political context? Given the federal deficit, there is likely to be pushback by Congress for a more prudent tax policy before any changes are enacted.

What are the next steps? Keep your eyes open. Discuss impacts of any TCJA changes with your Wealth Consultant as soon as they are confirmed.

Important potential changes to tax laws to watch out for include:

The SALT Cap

What is it? The TCJA implemented a $10,000 cap on property and state taxes deductions. The $10,000 SALT (state and local tax) cap stayed the same, whether taxpayers filed as single, head of household, or married and filing jointly. For married taxpayers filing separately, the cap dropped to $5,000 each.

What is the political context? There is a proposal to repeal the SALT cap, given its impact on states' tax revenues (estimated as up to $100 billion over 10 years if the limit were raised to $100, 000, or $200,000 for married filers.)

What changes are on the table? It looks more likely that the limit would be raised, instead of repealed completely. The marriage penalty within the cap will likely be fixed.

What are the next steps? A repeal or increase will impact any current decision to itemize your deductions on your return. You need to:

- Start thinking about increasing other potential areas to itemize, including charitable donations.
- Consider whether to stay in a high local income or property tax state or move.

Child Tax Credit (CTC)

The CTC could **more than double**. It is likely this bipartisan and popular measure will return in some form to help reduce the burden on parents.

How has the CTC changed? The credit was expanded during the pandemic by the American Rescue Act from $2,000 per child to $3,600 per child. It has since reverted to the previous level of $2,000 per child.

What is the political context? The CTC expansion halved child poverty rates and reducing the cost of childcare continues to be a prominent political and societal issue.

What changes are on the table? There is a proposal to significantly increase this, from the current $2,000 to $5,000.

Social Security

What is the status of Social Security today? Around 67 million people receive Social Security, and it is subject to tax on up to 85% of the benefit, for an income over $34,000 ($44,000 for married filers).

What changes are on the table? The key development to watch is the proposal to eliminate tax on Social Security. With the removal of taxes on distributions, available funding would drop significantly, leading to reduced Social Security payouts.

3 Tax Efficiency Strategies for 2025

With these potential tax changes on the horizon, what can high net worth individuals and families be thinking about and discussing with their advisors today? We've outlined several strategies below that are underutilized (Conversion to Roth IRA), represent a recent change in the law (Secure 2.0 catch-up contribution rules), or are effective strategies that are less well-known (Private Placement Life Insurance) for you to consider.

1. **Conversion to Roth IRA** This strategy is highly underutilized
2. **Increasing your catch-up contributions** to highlight recent changes in Secure Act 2.0
3. **Private Placement Life Insurance** An effective strategy that is less well-known outside of advisors

Tax Efficiency Strategy 1: Conversion of Roth IRA

Overview

Converting a traditional IRA (or qualified employer sponsored retirement plan) to a Roth IRA will turn a tax-deferred tool into one that allows you tax-free distributions. Conversion does not have to be all or nothing. It can be done as a partial portion of your eligible retirement accounts. While Roth IRAs are often discussed, we still find them to be underutilized by those who could benefit.

Roth IRA Key Features at-a-Glance

Distributions You can start taking distributions from a Roth IRA any time after you separate from service from your employer, the Roth IRA has been open longer than five years, and you are at least 59 ½ years old, or you are disabled. There is a first-time homebuyer exception.

Tax savings For higher income earners, a Roth IRA conversion can produce significant tax savings. Especially given you will be paying the conversion tax now at a lower rate, and, as a high-income earner, you will likely be in a higher tax bracket in the future. Or you will not need or want to take required minimum distributions during retirement.

RMDs Are not required for Roth IRAs as they are for traditional IRAs. Tax-free distributions would remain for beneficiaries who inherit the Roth IRA. Given the elimination of the stretch IRA by the Secure Act, an alternative way to transfer a tax-free qualified plan may be a better option.

Timing Now is the time to execute if you anticipate moving to a higher tax bracket. If you plan to convert to a Roth IRA, you must pay income taxes on the conversion.

Next Steps

Talk to your Planner Have your Planner run a benefit comparison. This will show how, although you are paying income taxes now, the benefit of not paying them on distributions on the IRA after it has appreciated outweighs the up-front cost.

Seek specialist advice Consult with the plan administrator and a tax advisor before making any decisions regarding your retirement assets.

Tax Efficiency Strategy 2: Increasing Your Catch-up Contributions

Once you reach the age of 50, you can make additional catch-up contributions to a 401k plan. Some recent changes to the law provide you with a crucial opportunity to put away a lot more towards your retirement. This is a benefit to those people who either haven't saved enough yet, have maxed out their traditional contribution ability to qualified plans, or who are playing catch-up with the catch-up opportunity.

At-a-glance

For 2025 The catch-up amount is still $7,500.

Impact of age on contributions After January 1, 2025, in the year that an individual turns 60, 61, 62, or 63, they can make catch-up contributions equal to the greater of $10,000 annually or 150% of the regular catch-up limit (or $11,250).

Roth catch-up rule Starting in 2026, if you earn more than $145,000 in the prior calendar year, all catch-up contributions to a workplace plan at age 50 or older will need to be made to a Roth account in after-tax dollars.

Exceptions If you earn less than $145,000, adjusted for inflation, you're exempt from the Roth requirement.

Tax Efficiency Strategy 3: Private Placement Life Insurance (PPLI)

What is it? Private Placement Life Insurance (PPLI) is a flexible premium variable universal life insurance policy, set up as a private placement offering.

Who can benefit? For high- and ultra-high-net-worth individuals, the ability to invest in a wide portfolio selection of tax-inefficient assets, and then turn them into a tax-deferred or tax-free asset by placing them in a life insurance policy, makes for a very strategic option. The private placement structure allows you to negotiate and custom design all aspects of the product with the carrier. While PPLI has been around for a long time, it isn't widely utilized. For those who have the means to meet the minimums it can provide exponential benefits. Any tax-free strategy is a bonus compared to taxable investing.

PPLI at-a-Glance

Investment choices

- Individuals can invest in at least five funds.
- Many can be customized assets including, but not limited to, private equity, private debt, real estate, hedge funds and venture capital.
- The usual threshold to benefit from the PPLI option is to gift at least $5 million to fund the policy. This does not have to be in a lump sum.

Differences from other policies

- PPLIs are more liquid than traditional life insurance policies, being easily accessed to pay for cash needs, such as estate taxes.
- PPLIs focus more on the cash value account than the death benefit, with a short pay structure, rather than paying premiums for the life of the policy.

Tax advantages

- All options qualify for tax deferral because they are held in a life insurance wrapper.
- With careful planning, the cash value accounts can be accessed federal and state tax-free during the insured's lifetime.

Costs

- PPLI costs include professional fees and services of an insurance specialist to structure the product.
- Carriers will negotiate favorable pricing because the premiums are higher than for more typical policies.

Next Steps

- As the insured person you can use your own investment managers to set up PPLI.
- Follow the rules carefully to avoid the insured from being considered the owner.

6 Estate & Transfer Tax Planning Strategies for 2025

Overview

For many clients who postpone planning, they should be aware that a health event is often sudden. The impact and precipitous decline can be too fast to leave time to work on estate planning and important tasks are left undone, often devastating loved ones and leading to ambiguities and conflict. An important factor for clients to remember is that estate tax planning is a small component of estate planning, the majority of which is driven by family values, family dynamics, and distribution of assets to creditors, loved ones and charities, if chosen.

What is the level of Estate Taxation Exemption today? The estate tax exemption for 2025 is $13,990,000 ($27,980,000 for marrieds) and annual gift exemption has risen to $19,000.

What changes are on the table? Potential TCJA retention means the doubling of the estate tax exclusion amounts would likely remain. Given the high deficit and recent inflationary struggles, Congress could use the estate tax exemption as a funding tool to extend the income and other costly tax cuts.

Next Steps

- Review documents.
- Plan regularly and identify issues that could result from changes in your life, your choices, or the law.
- Do not leave potential problems to be revealed after your passing.
- Include the following six strategies in your estate planning activity.

Some estate planning opportunities that we encourage in 2025 include the following:

1. Liquidity Modeling

Overview

Even with the current extent of estate tax exemption, many families may find themselves facing an estate tax liability. This is often the case where the high value asset is a family business and the family has been living a modest lifestyle. The reason is estates are valued at fair market value, which may be highest use, not necessarily what the family is currently using the asset for. Prior planning can help identify these issues and create a roadmap to solve for them beforehand.

Next Steps

Plan ahead Make time to work with a Wealth Consultant to model various scenarios.

Understand the choices available Identify options to obtain liquidity, for example through life insurance, or to potentially reduce estate tax.

CASE STUDY

Moore Family Farm

Situation

The Moore Family Farm specializes in sweet potatoes and has grown into a significant operation. The husband and wife own the farm, and their two adult sons work on it. The Moores are not aware of the farm's monetary value. But its location (with potential for mixed use housing development) and size make its fair market value $40 million. Being unaware of this valuation, the Moores don't engage in any financial planning. After their deaths, their sons face a cashflow shortfall as they try to pay the estate taxes due.

What strategic approach could help them?

With a Section 2032A Special Use Valuation, the value for estate purposes can be set as a farm rather than fair market value. Section 2032A conditions include:

- The Moores used the property as a farm for 5 of the last 8 years before death,
- The farm real property should be at least 25% of the total estate,
- The farm real and personal property should be at least 50% of the total estate,
- The farm will pass to a qualified heir, and
- The qualified heir will continue to operate the farm for the next 10 years.

Section 2032A could therefore be a good solution for the Moore family. But pre-planning is vital, most importantly to determine if the adult sons want to continue the farm. If not, they'll need to consider other options to lower the estate tax liability.

2. File Timely Gift Tax Returns

Overview

Very often in conversations with clients, we hear from them in passing that they gave an adult child something of high value—a home, paid off their student debt, shares in a business, etc.—and no gift tax was filed, no mention was made of this gift to their CPA, and no documentation was made of the gift. They are likely unaware that the IRS aggressively searches for unreported gifts. They also receive shared information from state revenue agencies regarding such transactions or transfers.

What are the current rules on gifting?

- You can make gifts of up to $19,000 in 2025 without filing a gift tax return.
- You can make gifts directly to an educational or medical institution as a donee. That won't count against the annual $19,000 and you still won't have to file a gift tax return.
- All other gifts require that you file a Form 709 or be subject to penalties. It's likely no gift tax will be due as the gift will reduce your $13,990,000 gift and estate tax exemption.
- If your CPA is aware of a gift that you have made that should be filed, then they are obligated to file.
- If your estate is high value, it is highly likely to be audited and any prior gifts will be unearthed then.
- If the IRS uncovers any unreported gifts that qualify for tax, they will assess penalties and interest from the date the gift tax return should have been filed.

Next Steps

- Review your gifting.
- Make sure that your filing of any gift returns is timely. Speak with a tax advisor about filing returns for past gifts.

3. Utilize Planning Opportunities Around Gifts

Overview

Many clients have made a huge financial gift to an adult child, without either first discussing it with a Wealth Consultant or filing a gift return afterwards. Take advantage of your advisor's specialized knowledge to add some additional benefits to the gift.

Strategies to Consider

Identify an effective approach before making the gift:

- Adopt a more tax efficient way to transfer the asset and utilize less of the gift exclusion. (So, instead of a dollar-for-dollar decrease, perhaps only using 2/3 of a dollar gift for a full dollar of tax credit decrease.)
- Protect a gift from the adult child's creditors (in instances such as a lawsuit, car crash, or health event).
- Think ahead to be able to keep some control over the gift, if necessary.

Next Steps

Talk to your Wealth Consultant about any plans to make substantial gifts before you act.

CASE STUDY

The Generous Wedding Present

Situation

A father gifted his daughter a new home at her wedding. He didn't seek financial planning advice beforehand, so gave the property to the newlyweds outright. After a year, the marriage failed, and the husband sought half of the home. Relatively young, the wife didn't have enough cashflow to buy him out.

As a result, her father had to find an additional 50% of the property's value (and then some since the home's value had appreciated) to pay off the soon to be ex-husband. All this to dispose of what was originally a gift to his daughter.

What strategic approach could help the father?

Had dad sought some planning advice, he could have put the house in a trust that would have contained conditions to protect the title of the home for his daughter in the event of divorce.

4. Make Your Estate Audit Ready

Overview

All high-net-worth estates should be approached as if it is going to be audited because the IRS has created a unit specifically for this purpose, especially ultra-high-net-worth estates and returns with technical issues or controversial positions.

Which estates are most likely to be audited?

- Ultra-high-net-worth estates.
- Returns with technical issues or controversial positions.
- Estates where there are unanswered questions, inconsistencies, or lack of a documented valuation.

Strategies to Consider

- Maintain documented substantiation for all return positions and all prior gifting transactions (including basis for prior gifts).
- Help equip your family with an estate settlement plan by filing an ante-mortem probate petition (some jurisdictions, such as Alaska, allow this, even if you are not a resident).

Next Steps

- Pre-prepare a Form 706 as a tabletop exercise with your advisors.
- Create a game plan so your family knows all the advisors to call during a time of grief.

5. Seek Advice When Managing Aging Parents

Overview

As children of declining parents start to take over their parents' financial affairs, the children start to make decisions to help them gain financial authority, such as taking over title of the parent's assets. The choice to do this seems understandable, as even armed with a Durable Power of Attorney, it can be difficult to get financial institutions to honor the document. A parent may be in denial of their decline, susceptible to fraud, or the coercion of another person or entity, and assuming ownership would seem to be a logical avenue of protection.

Strategies to Consider – Or Not

- Adult children often put themselves on the title of an aging parent's asset, such as a house.
- This is not automatically the most effective approach.

Next Steps

Seek advice before making such a decision. (See the case study on the next page.)

CASE STUDY

Jake Triggers Possible Unintended Consequences

Situation

An adult child, Jake, put himself on his mother, Laura's, deed for her home. Some unintended consequences include:

- The change in title would be considered a gift from Laura to Jake (this will deplete Laura's gift exemption amount and require a gift tax return),
- A carryover basis is transmitted for the portion of the house (likely assumed to be half) gifted to Jake, thus losing the step-up in basis that would occur if the transfer to Jake occurred at Laura's passing,
- Laura would risk losing a portion of the $250,000 capital gain exemption if the house sold, since Jake may not meet the qualifications,
- Laura is exposed to Jake's creditors and debt (possibly including a divorce), and
- Any transaction Laura wants to undertake regarding her home requires Jake's consent, including a HELOC, refinancing or a reverse mortgage.

What strategic approach could help Jake avoid these possible outcomes?

Jake may be better off helping Laura move her home into a revocable trust or evaluating other alternatives such as a ladybird deed, if available in her state.

6. Plan Multi-State Moves During Retirement

Overview

Technological advances and remote working has made us a much more mobile society. Retirement today can involve moving to another state and splitting time between two or three homes.

Strategies to Consider

- Consider your choice of primary state of residence.
- Be aware of what is involved in meeting that state's requirement for residence or domicile. Keep in mind that it may differ for income tax versus estate tax purposes.
- Think about title, especially when community property is involved.
- Think about the transfer tax rules.

Next Steps

- Get familiar with the tax rules of the states you are considering for retirement.
- Be aware that income tax rates and laws differ in various states, from no income tax (Florida, for example) to a rate as high as 13.3% (California).
- Understand different transfer tax rules. Some states have estate taxes, some have inheritance taxes, some have both. Only Connecticut has a gift tax. The state estate exemption amount could also be significantly smaller than the federal amount.

There are other cross-state issues to consider, discussed below.

Documents If you already have a will, trust or other testamentary documents with a selected trustee and beneficiaries, moving to a new state will have implications. You may need to draft a new will or codicil, power of attorney or health care advanced directive, for the governing law of your new state to apply. For trusts, a change in location of the trust or trustees and beneficiaries may trigger new tax filing requirements and income allocation changes.

Probate administration Variations by state include threshold estate amount for what qualifies as summary probate, admissibility of holographic (handwritten) wills, and specialty deeds such as ladybird deeds or transfer-on-death deeds.

State protection laws Homestead, life insurance and other state laws protect certain assets. Be aware of how the laws of your new state work and whether they still offer the same level of protection if your home or asset is held in trust or outright.

Business Owners

Business owners face a complex landscape with opportunities and challenges that can impact their financial strategies.

As competition for skilled and unskilled workers intensifies, effective strategies for **attracting and retaining talent** while **staffing and budgeting** appropriately are essential. The new overtime pay threshold increase starting January 1, 2025 is a challenge many business owners will face this year. Another will be sourcing talent from other countries given the forecasted tightening of immigration policies in 2025.

Tax laws likely to stay, such as the 20% deduction under Section 199A for pass-through businesses, 100% bonus depreciation, and other benefits such as research and development expensing, offer advantages for many. The proposal to increase tariffs presents new hurdles as it may increase cost of goods and compel companies to bring manufacturing back to the US.

For those business owners **planning for business transitions,** whether through growth, succession, or sale, start conversations with your Wealth Consultants early as getting plans in order often requires 3-5 years of preparation.

This year's Guide focus on how to support business owners in attracting and retaining talent, exploring the tax issues that affect staffing and budgeting, and planning for business transitions.

A Strategy for Attracting and Retaining Talent in 2025

Qualified Plan Alternatives

Overview

Many employers feel they lack the cash flow to afford a qualified plan such as a 401(k). Nor do they want to take on the administrative burden, especially given that some lower-income employees often quit their jobs abruptly.

These two alternatives can offer benefits to attract and retain talent, without all the administrative burden of qualified plans such as the 401(k).

1. The 401(k) Look-Alike Plan

What is it? A nonqualified, deferred compensation plan, that can supplement or replace a qualified 401(k) plan.

How does it differ from a qualified 401(k) plan? It provides certain qualified plan benefits but without many of the Employee Retirement and Income Security Act of 1974 (ERISA) requirements or excise taxes under the Internal Revenue Code.

What are its key features?

- Employees can defer contributions to the plan pre-tax.
- Employers can make matching contributions.
- Taxes are not paid until distributions are taken from the plan.

2. The SIMPLE IRA

What is it? The SIMPLE IRA, or Savings Incentive Match Plan for Employees, is an option that many employers are unfamiliar with.

How does it differ from a qualified 401(k) plan? It has lower contribution limits, no provisions to take a loan, and the penalty for distributions before age 59½ is 25% (higher than the 10% for other qualified plans).

What are its key features?

- Works well for businesses with under 100 employees.
- Easy set-up and lower costs than a 401(k).
- Mandatory requirement for employers to make either a 3% matching contribution or a 2% non-elective contribution for each eligible employee.
- Employees can make pre-tax contributions.
- Employer contributions are deductible.

2 Tax Issues that Affect Staffing and Budgeting

1. Overtime Pay Rules Have Changed

Changes at-a-Glance

Date	Change
JULY 2024	The Department of Labor, or DOL, passed a new rule. Overtime pay was extended to workers who earned **less than $844** weekly ($43,888 annually).
JANUARY 1 2025	Overtime pay was set to be extended to workers earning **less than $1,128** per week ($58,656 annually).
NOVEMBER 15 2024	A Texas court blocked the expansion of the overtime rule, putting the threshold of eligible employees back to $35,568.

The Fair Labor Standards Act Workers exceeding 40 hours a week at work must receive 1.5 times their regular pay for each hour over the 40.

Before July 2024 Overtime pay was only available for workers who earned **less than $684 weekly** ($35,568 annually).

Overview

Overtime pay change and tax-free tips may impact some business owners' approach to staffing and budgeting.

Strategies (Not) to Consider

Applying the exception for employees designated as professionals may appear as one way to avoid the rule. But giving low-ranking employees high-sounding titles will result in problems during an audit.

Next Steps

The new DOL may choose to appeal the ruling or set their own threshold. There has also been discussions about making overtime compensation tax-free. Employers will have to decide to go back to the prior threshold if they have already been making payments on the threshold set in July. Overall, it will be important to keep an eye on this topic as it is rapidly evolving.

2. Tips Could Be Tax-Free

Overview

Only about 2.5% of the U.S. workforce is in a tipped job and one-third of that population doesn't make enough income to pay taxes. During the presidential campaign both candidates offered plans to eliminate taxes on tips.

Strategies (Not) to Consider

Some employers may try to represent employees' status as tipped when they aren't. This could lead to greater oversight by the IRS or a backlash against the whole idea.

Next Steps

Follow developments in the coming months.

Planning for Business Transitions

Overview

50% of owners leave their businesses for reasons outside their control, including divorce, death, disability, and disagreement. Prior to expanding our Business Advisory resources, we were frequently faced with a phone call from a business owner saying "I just sold my business for $X dollars. Can you help me lower my tax liability on the proceeds?"

Getting this type of call was disappointing because most of the real opportunity to reduce capital gain taxes needs to occur through planning done prior to the business sale. After the sale, we are limited to very few options. Even planning 1-2 years prior to a transition isn't enough as 1-2 years is just enough time to plan solely for the transition itself. By allowing yourself 3-5 years, you also can prepare your personal readiness including determining how much you need from the proceeds to retire in the lifestyle you are accustomed to, or what you will do once you no longer run your company. This latter discussion about who you will be after sale is of utmost importance and can be the difference between being satisfied and content with the sale and being filled with regret and wanting your business back.

Strategies to Consider

- Plan to reduce capital gain taxes well ahead of the business sale. (The options after sale are very limited.)
- Start your planning cycle **3-5 years** before a transition to cover all the complex factors involved.
- Even planning 1 or 2-years prior is only enough time to address the tactical issues around sale or transfer to the next generation.

Next Steps

Selling or transferring your business will impact your whole life. Consider these 5 steps to determining building your new rewarding life after the sale of your business:

- **Financial empowerment** Understanding how the markets and investments work, what is a reasonable distribution rate, and what to do in a market downturn is key to remaining calm and at peace with your assets and income. Managing your money is your responsibility, and it will be different from running an active company.
- **Find a new motivation** Find a new benchmark of achievement before the sale. Your business was what motivated you before, so you'll want to plan proactively for what's next.
- **Take time to recharge** After a sale, some people jump into a new project (business owners will always be entrepreneurs at heart). An owner should take the time to assess new projects and time off to refill the coffers. Giving yourself up to a year will allow you to figure out who you are now and what you really want from life. It will also prevent you from taking on too much or saying yes to every new opportunity.
- **Improve physical health** After a sale is a good time to get in shape, improve your diet, or start an exercise regime.
- **Complete an Ikigai analysis** A Japanese concept that helps you identify your life's next true purpose.

Business Transfer Tax Planning

Overview

Early transfer tax planning preserves options, and options for how to transition the business are numerous. But they narrow depending upon the transferee.

Strategies to Consider

- Confirm whether you are selling to a third party, an inside party (e.g. a manager), the next generation, or gifting to charity.
- Recognize that learning the tax planning strategies that apply to each party takes time. Start early and give yourself time to build your education and preserve your ability to make an informed decision without unnecessary pressure.

CASE STUDY

Three Potential Strategies

Situation

Connie owns a business worth $12 million. Her daughter Chloe also works in the business and would like to take it over from Connie. Connie started transition preparation early. Working with her Planner, she has identified the following three possible strategy options.

1. **Chloe buys the business from Connie with a combination cash payment and installment note for 10 years.** Chloe had saved enough for a small cash payment up front. Cash flow analysis confirmed the business is capable of paying the note to Connie over the 10 years. It is growing and they do not think the note will burden the company's balance sheet. By receiving the proceeds in installments, Connie can spread her tax liability over several years.
2. **Connie does a retirement analysis that shows she already has enough assets to retire with her current quality of life.** But Connie wants her daughter to show commitment to the company by buying it. Connie's Wealth Consultant shows her a grantor retained annuity trust (GRAT) strategy that allows her to fund a trust with shares of her company. For the term of the trust, Connie will receive an annuity or payout from the trust. At the term of the trust, Chloe will receive the company shares. Because Connie takes an annuity from the trust, her gift is reduced, and she pays less gift tax than if she gave the company outright. Connie has a lot of options for the size of the payout, the length of the trust, and whether she wants to give the shares outright at the end or put them in another trust, subject to additional protections.
3. **Connie sets up and funds a grantor trust.** Then she sells her company shares to the trust. Because it is a grantor trust, she does not have a tax recognition event on the sale. Connie chooses very favorable terms for the interest rate on the note she receives from the trust. Chloe is the beneficiary of the trust. This strategy is called an Installment Sale to Grantor Trust (IDGT). Connie also has the option to forgive her annual note payments, if she chooses, and treat them as a gift to Chloe.

Next Steps

Follow Connie's example with these steps:

- Start the planning process as early as possible—ideally 3 to 5 years out from sale of your business.
- Have plenty of time to learn about, identify, model and analyze and then select a strategy without time pressure.
- Work with your CPA and attorney to implement your decision.

Founders

The common expectation is that mid- to late 2025 will bring a marked increase in liquidity events. Higher interest rates had been a roadblock for VC-backed exit opportunities because of the higher cost of capital. As the Fed slowly makes basis cuts and inflation slows, some of the factors blocking the IPO market should slowly thaw and create more liquidity opportunities.

Changes in the deal market don't happen suddenly and overnight, so against the backdrop of retaining a favorable estate tax environment and potential rapid wealth accumulation, making gifts in advance of these possible events may be a desirable course of action to take in the meantime.

Before proceeding, we recommend reviewing the section that begins on page nine: **6 Estate & Transfer Tax Planning Strategies for 2025** to understand why gifting prior to liquidity can be meaningful.

3 Strategies for Gifting Before a Liquidity Event

1. Spousal Lifetime Access Trust (SLAT)

Making gifts before the liquidity event itself enables locking in each gift at a lower value, thereby avoiding higher transfer tax costs. Founders have the added advantage of having knowledge of the timeframe of when their business interest will be subject to a rapid increase in value. Knowing a period of rapid wealth accumulation will occur and the relative time frame gives the founder opportunities to make gifts prior to the onset, locking in the gift at a lower value and avoiding higher transfer tax costs. Making gifts via trusts that offer flexibility retains the grantor's ability to access the asset should their fortunes take a turn for the worse in the future. It is often antithetical to lock up assets in irrevocable estate strategies for someone younger than 45 but given the high levels of wealth accumulation and the flexibility afforded by some strategies, it may be worth the tax savings and estate planning. Moreover, even with the estate tax exemption at $13.99 million, this could easily be exceeded by the levels of wealth achievable by some founders.

CASE STUDY

Greg Chooses a Spousal Lifetime Access Trust (SLAT)

Situation

Greg founded a software business 5 years ago. It's set to see a major liquidity event in the next 6 months. Greg believes the outcome will push him into a taxable estate and wants to share his increase in wealth with his wife and children and he wants to do so as tax-efficiently as possible. What strategy is available to him?

He can enjoy flexibility within gifting with a Spousal Lifetime Access Trust (SLAT). Greg as the grantor funds the trust with his separate assets – in this case his founder's stock. The trust lists his spouse and children as income beneficiaries and remainderpersons. The gift tax is paid on the shares at today's low, pre-liquidity event value. Once the liquidity event happens, the shares are already in trust, so their appreciation in value escapes gift tax.

Even if Greg has a downturn in his fortunes later, his spouse can still access the trust and receive distributions, retaining access to the funds as long as their marriage remains intact. Provisions can be added to the trust to remove the spouse, should they and Greg separate or finalize a divorce, or characterize his spouse only as the person he is married to and not legally separated from.

If there were a sale later, capital gain is already able to be split between the founder and the beneficiaries' trust. Situs (place of legal jurisdiction) of the trust can be one with favorable income tax laws or that offers more debtor protection. Any gifting would need to comply with the Articles of Incorporation, Partnership Agreement, restrictions on shares, or other governing documents of Greg's company.

2. QSBS Stacking

What is it? The qualified small business stock exemption, QSBS, is a windfall tax break applicable to many early-stage investors, founders, and entrepreneurs. Founders need to be aware of the impact any gifting strategies have on their income tax strategies.

How does it apply? Sec. 1202 provides that if a non-corporate taxpayer sells QSBS issued after Sept. 27, 2010, and has held the shares for 5 years, the greater of the first $10 million of gain or 10 times basis in the stock, is excluded from federal income taxation (equal to $2.38 million on $10 million of gain).

How can it be implemented? By gifting to several entities or individuals with an opportunity to gain the tax savings via Section 1202: called "QSBS Stacking".

How does it work? The gift of QSBS retains the QSBS qualification (note that selling the stock loses it) and the original holding period of the transferor carries over to the donee. Upon sale of the stock, the donee is now eligible to exclude federal capital gains up to their own $10 million exclusion amount.

How can tax exclusion be maximized? To leverage as much exclusion as possible, a founder would gift QSBS to several loved ones and/or non-grantor trusts. Each would have its own QSBS qualification and its own $10 million capital gain exclusion at sale.

How many different donees or trusts can receive gifts? There is not much official guidance. But, when utilizing 'QSBS Stacking', it is critical to make sure the trusts are not identical or reciprocal and that the beneficiaries are not the same. It is also important to note that this strategy may make an IRS estate audit more likely.

CASE STUDY

Lin and QSBS

Situation

Lin is a founder whose company has been growing rapidly. She sold $2 million in stock at her Series C, all of which was eligible for the qualified small business exemption. Since then, the company has been continuing to outperform and her ownership is now worth around $25 million. She thinks that the company might be acquired in the next 12 months and realizes that it might be time to do more advanced estate planning before the company is acquired.

After connecting with her advisors, she decides to set up two irrevocable trusts for the benefit of each of her children. She decides to fund each with $5 million of her stock. Eight months later the company is acquired at double the valuation from her last round. Lin is eligible to take an additional $8 million in a QSBS exclusion and each of the trusts can take $10 million in a QSBS exclusion. Using the QSBS stacking strategy saved Lin over $4.6 million in federal taxes and allowed her to move $10 million in gains outside of her estate.

3. Donor Advised Fund (DAF)

Overview

Entrepreneurs, particularly those in the innovation economy are often philanthropically-minded. They have a vision for their company, know they are going to take it to its heights, and when they reach their financial acme, they plan to donate a portion to charity. Philanthropy appeals to their inner sense of purpose. Gifts of company shares can be made to charity to avoid capital gain taxes. But many entrepreneurs are too busy with pre- and post-liquidity events to choose a charity and how they want their gift to be utilized.

What is it? A donor-advised fund can receive your tax-deductible donations of shares or other assets and allow you to make donations to eligible charitable organizations over time.

How does it apply? You do not need to make distributions from DAFs (as opposed to private foundations), so your donations have time to grow until you're ready to make distributions or grants to other IRS qualified charities.

How does it work? You get an income tax charitable deduction in the year you made the donation; however, your grants can be made over several years and to multiple charitable organizations.

How can it be implemented? Give highly appreciated stocks directly to the charity without selling them first. With the correct structure, you may be able to contribute the full value of the shares without paying capital gains on any appreciation and take the full value as a tax deduction.

Other issues to note? Carried interest and restricted stock are all also potentially eligible for donation, with careful tax and legal planning. Consider avoiding the use of stock qualifies for QSBS, unless it's over the $10 million threshold.

Next Steps

Work with a Wealth Consultant to help you determine the amount and timing of your gifts, to maximize their tax and/or portfolio balancing benefits.

The Bottom Line

Geopolitical changes, economic shifts, and evolving tax regulations will continue to shape the financial landscape, impacting your personal wealth, business endeavors, and philanthropic goals. The strategies outlined in this guide are directional in nature and provide an excellent starting point for a conversation with your First Citizens Wealth Consultant.

As we've tried to point out with the examples in this guide—don't go it alone. The landscape changes frequently and it is too fraught with chances for error. By collaborating with our team, you'll gain personalized guidance to help you make well-informed financial decisions aligned with your aspirations. Our modular planning philosophy allows us to address your goals step by step, ensuring effective implementation and sustained, achievable progress toward your financial objectives. As always, we recommend consulting with a tax professional before taking any tax-related actions.

We look forward to partnering with you on your financial journey and supporting your success in 2025 and beyond.

Questions? Contact your First Citizens partner or visit **firstcitizens.com/wealth**.

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