



# TAX ADVANTAGED BUSINESS SALES

SOUTHERN ARIZONA ESTATE PLANNING  
COUNCIL

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MEET THE  
PRESENTER



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## WHAT WE WILL TALK ABOUT



PLEASE ASK QUESTIONS AND  
ENGAGE IN THE  
PRESENTATION!!!

- There are many great opportunities for advisors and charities in tax-advantaged business sales
- Psychology of a business owner
- The structure of the company is relevant to what solutions might be applicable
  - S-Corporation structure is the most common
- Overview of planning tools
- Case studies
- It is not as complex as it may seem
  - It takes a team with multiple areas of expertise

**Many of the slides will not be covered in the presentation but are there for your future reference.**

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# \$30 TRILLION DOLLAR OPPORTUNITY

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THE LARGEST  
INTERGENERATIONAL  
WEALTH TRANSFER IN  
HISTORY WILL PASS  
DOWN OVER \$30  
TRILLION DOLLARS IN  
ASSETS TO THE NEXT  
GENERATIONS

JP MORGAN

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**The baby boomers hold one of the largest pools of wealth, much of which was generated from privately owned businesses — and about 40% are small business owners. This will create a massive business shift.**

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**40% OF BABY BOOMERS ARE SMALL BUSINESS OWNERS**

Forbes

## COPILOT'S RESPONSE

How many Baby Boomer's Retire  
Each Day?

When do Baby Boomer Business  
Owners Retire?

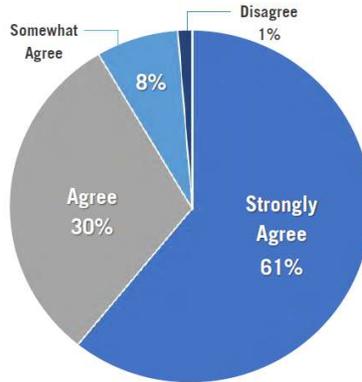
- **How many Baby Boomers retire each day?**
  - ~11,200 people turn 65 per day from 2024–2027 (about 4.1 million per year) during what researchers call “Peak 65” [[finance.yahoo.com](#)], [[retirepreneur.com](#)]
  - 2025 is the absolute peak, with ~11,400 Americans turning 65 every day—the highest rate in U.S. history [[prnewswire.com](#)]
- **Business owners retire later than employees**
  - A long-running study by the **U.S. Small Business Administration (Office of Advocacy)** found:
    - Average expected retirement age for small business owners: ~72.6
    - Average expected retirement age for employees: ~68.4

# State of Owner Readiness Fact



99% OF OWNERS AGREED WITH THIS STATEMENT:

**“Having a transition strategy is important both for my future and for the future of my business.”**



## AND YET...

The very same surveyed owners reported the following data which proved contrary to the statement that readiness was actionably important:

**79% OF OWNERS HAVE NO WRITTEN TRANSITION PLAN.**

**48% HAVE DONE NO PLANNING AT ALL.**

**94% HAVE NO WRITTEN PERSONAL THIRD ACT PLAN.**

**Entrepreneurs give and volunteer more than peers of similar economic circumstances.**

·On average, the median annual gift for entrepreneurs is 50% higher than non-entrepreneurs.

·Two-thirds of entrepreneurs volunteer two or more hours a month, compared with just more than half of non-entrepreneurs.

Fidelity Charitable



# THE PERFECT STORM FOR TAX ADVANTAGED BUSINESS SALES



## PSYCHOLOGY OF A BUSINESS OWNER



- Most business owners have leveraged their homes to fund their business
  - 50% have done it at least 3 times
- Business owners are NOT risk averse
  - They will gladly gamble on themselves and their ideas
- They spend their time working in the business rather than working on the business and planning
  - Perfect opportunity for advisors and charities to talk to business owners about their succession plan
- They do not like to be told what to do – even if they are paying for the advice
- Most successful business owners had a mentor that helped them
  - They are very generous and the most philanthropic class of people

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## BUSINESS OWNER PSYCHOLOGY



Business owners are **not dogs**; they don't like to be told what to do – even if they are paying for the advice.

They are **cats**; you have to point the laser at the right spot and have them think it was their idea.



## The Structure of the Business Matters

S-Corp

LLC

C-Corp

Partnership

### Tax Advantaged Sales Strategies - Tools Matrix

Tax Strategies	Type of Asset					*Darker colors indicate potentially stronger affinity*
	AKA	S-Corp	C-Corp	LLC	Assets	
Donor Advised Fund	DAF	Yes	Yes	Yes	Yes	Charitable savings account that is <b>easy to create and maintain</b> . Types of assets accepted are dependent on the sponsoring nonprofit organization.
Private Foundation	PF	Yes	Yes	Yes	Yes	Federal regulation and self dealing rules must be followed. PF must distribute 5% yearly and can <b>only deduct basis</b> .
Supporting Organization	SO	Yes	Yes	Yes	Yes	SO must support a 501(c)(3) or a class of 501(c)(3)s that can have a say in the governing board. <b>Works best with \$5M+ of assets</b> .
Charitable Remainder Trust	CRT	No	Yes	Yes	Yes	Great tool for <b>capital gains tax burden</b> . Provides tax free sale, income for life from the whole asset, and income tax deduction for future gift. Can be used for portion of the asset.
Pooled Income Fund	PIF	No	Yes	Yes	Yes	Appreciated assets can be sold tax-free, and income is only taxed as it is invested. <b>Income can payout for multiple generations</b> . There are some very creative PIFs.
Charitable Lead Trust	CLT	Yes - After the Sale	Great tool for <b>estate tax burden</b> . Can be used in life or at death. Works best in a low interest rate environment.			
Grantor Charitable Lead Trust	G-CLT	Yes - After the Sale	Flexible tool for <b>income tax planning</b> . Could function as a self endowment and works best in low interest rate environment.			
Charitable Stock Bailout	CSB	Yes	Yes	Yes	Yes	Requires very special circumstances. <b>Could turn out negatively</b> .
Opportunity Zones	OZ	Yes	Yes	Yes	Yes	<b>Gains are re-invested</b> . Defers capital gains and client can pull out basis in cash. Provides future nontaxable growth if held 10 years and criteria is met. Has extensive rules regulations.
1031 Exchange	1031	No	No	No	Yes	Re-invest in a <b>like kind asset</b> . Basis rolled into new investment.
Deferred Sales Trust or Intermediated Installment Sale Trust	DST /IIST	Yes	Yes	Yes	Yes	Allows an asset to be transferred to a Trust and defer the taxes. Installment note payments will be taxed as the client receives them. There is <b>no IRS ruling</b> on this strategy.
Employee Stock Ownership Plan	ESOP	Yes	Yes	No	No	ESOPs provide employees with pride of ownership. A C-Corp and an S-Corp can be an ESOP but with different tax benefits. They are <b>complicated and cumbersome</b> to set up and maintain.
Qualified Small Business Stock (1202)	QSBS or 1202	No	Yes	No	No	Can provide a \$10M federal tax exclusion for a C-Corp investor who <b>qualifies under specific rules and guidelines</b> . Must be original stock of less than \$50M business and held over 5 years.

Please Consult with trusted Tax, Legal and Financial Advisors.  
Tax Advantage Strategies often require an advisory team.



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HOW BUSINESSES ARE SOLD

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# ASSET SALE VERSUS STOCK SALE

## Asset Sale

- Taxed as:
  - Ordinary Income Tax
  - Capital Gains Tax
- Certain classes of assets are taxed differently
- Buyers often will try to structure the deal to be the most tax efficient for them
- Avoids lingering liability from past customers, employees, vendors, etc.

## Stock Sale

- Taxed as:
  - Capital Gains Tax
- Simplistic
- Previous liability stays with the corporation
- Used when the name and reputation are valuable
- Many C-Corps are sold as stock sales



## HOW S-CORPS ARE SOLD

Many buyers of S-Corps do not want to buy stock. Buyers prefer to buy assets because:

- They can avoid any lingering liability from the previous owner's customers, employees, and vendors
- They essentially get a step up in basis and can utilize depreciation and other tax benefits

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## **TAXATION OF A BUSINESS SALE**

When businesses sell for over \$1,000,000 via a STOCK SALE, the owners will likely be assessed:

- **20% Federal Capital Gains Tax**
- **3.8% Net Investment Income Tax**
- **0-13.3% State Tax**

However, MOST S-CORPS ARE SOLD VIA AN ASSET SALE, so part of the proceeds could be taxed at the ORDINARY INCOME TAX RATE OF 35%+.

**Are your clients prepared to gift the IRS 23.8% - 40%  
of their hard-earned proceeds?**

WHEN TO  
START  
PLANNING FOR  
A SALE OF A  
BUSINESS

**YESTERDAY!**





# DONOR ADVISED FUNDS

DAF IS A PRIVATE  
CHARITABLE SAVINGS  
ACCOUNT

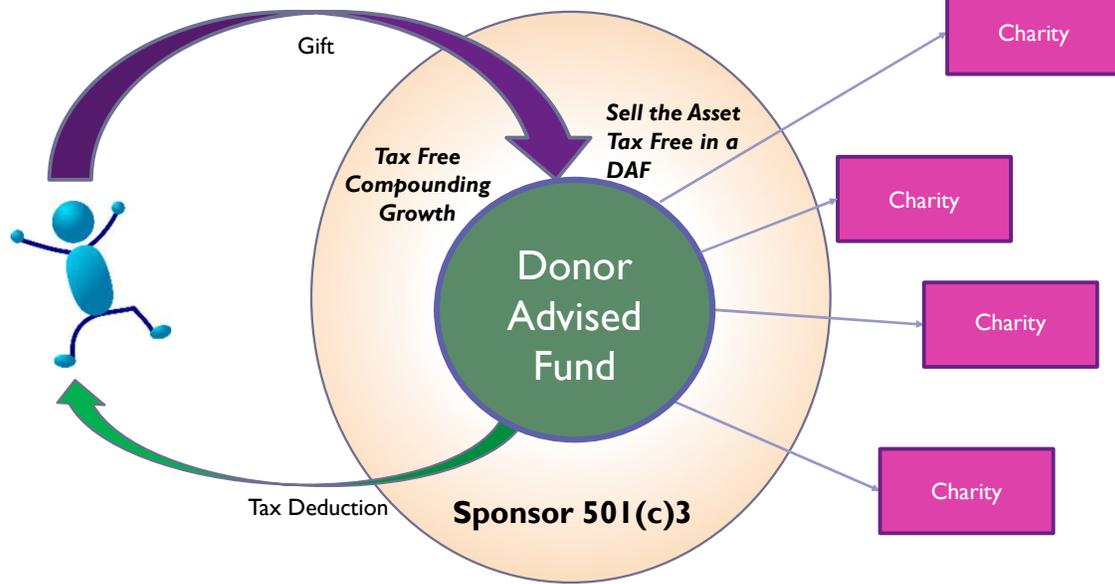
TAX WISE IT CAN  
COMPARE TO  
OUTRIGHT  
CHARITABLE GIFT

GREAT TOOL FOR  
COMPLEX ASSETS AND  
TEACHING  
PHILANTHROPY

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Is there a better solution?

# DONOR ADVISED FUND - DAF



DONOR ADVISED  
FUND (DAF)

=

**CHARITABLE  
SAVING AND  
INVESTMENT  
ACCOUNT**

- Put Money away today (high tax year) and disperse it when and how you desire
  - **End of year planning strategy**
- **Sell assets tax-free** inside of DAF
- All distributions must go to a qualified Charity
  - No scholarships unless done through 501c3
- Maintain control of how the assets are invested
- Assets grow **tax-free compounding**
- Could be used as a Private Endowment
- Brings family together to make philanthropic decisions
- “Forced” charitable inheritance
  - ***Teach children independent philanthropy***
- Some providers allow for complicated asset gifts that would be hard for a charity to accept
- **Can be used as the charitable beneficiary in a CRT and CLT**

# Part I

Continued on  
Next Slide....

Comparison of Private Foundations, Supporting Organizations, and Donor Advised Funds			
	Private Foundations	Supporting Organizations (Type I)	Donor Advised Funds
Tax Free Entity with Tax Free Growth	Yes	Yes	Yes
Adjusted Gross Income Limit for Deduction on a Cash Contributions	30%	60%	60%
Adjusted Gross Income Limit for Deduction on Public Stocks	20%	50%	50%
Adjusted Gross Income Limit for Deduction on Long Term Gain Assets	Basis	30%	30%
Who has Legal Control	Board	Board	Donor Advised Fund Provider (501c3)
Who can be on the Board of Directors	Donors, Family, Anyone	Donors, others, and at least 1 Member of a "Supported Organization"	No DAF Board

\* Administrative and Tax Returns Costs can be paid by the Entity  
 Many Private Foundations are Converting to Donor Advised Funds  
 Consult with your Trusted Tax, Legal and Financial Advisors



## Part II

### Comparison of Private Foundations, Supporting Organizations, and Donor Advised Funds

	Private Foundations	Supporting Organizations (Type I)	Donor Advised Funds
Who can Choose Investment Options	Board	Board	Sponsoring 501c3 Can Allow the Donor to Elect Investment Options
Can Board Members be Paid	Yes	Yes	No
Public or Private Giving/Granting	Public	Public	Can Provide Anonymity
Who can Receive Gifts/Grants	Charitable Intent	501c3 Organizations	501c3 Organizations
Self Dealing Regulations and Filing Requirements	Scrutinized	Some	None for the Donor
Mandatory Distributions	5% / Year (includes expenses and board compensation)	None	None
Recommended Contribution Amounts	2 Million +	5 Million +	\$5,000 - \$50,000 Minimum +
Costs* and Ease of Set Up	Legal Set Up, Annual Tax Returns, and Administrative Fees	Legal Set Up, Annual Tax Returns, and Administrative Fees	Administrative Fees, Simple Set Up, No Tax Return or Set Up Costs

\* Administrative and Tax Returns Costs can be paid by the Entity  
 Many Private Foundations are Converting to Donor Advised Funds  
 Consult with your Trusted Tax, Legal and Financial Advisors



# CHARITABLE TRUSTS

IN THE TAX CODE SINCE 1969

## CHARITABLE REMAINDER TRUST

- CAPITAL GAINS TAX
- ALSO, CAN HELP WITH INCOME TAX AND ESTATE TAX + OTHER TAXES

## GRANTOR-CHARITABLE LEAD TRUST

- INCOME TAX

## CHARITABLE LEAD TRUST

- ESTATE TAX

## Charitable Trust Tools Matrix

Charitable Trusts	Tax Savings				AGI Limit	Trustee	Best AFR (Rates)	Tax Exempt	When to Plan	Remainder goes to:	Provides Income to Donor	Types of Funding Assets	Description
	Tools	AKA	Capital Gains Tax	Income Tax									
*Donor Advised Fund	DAF	Yes	Yes	Yes	30% for Assets	Charity		Yes	Before Sale or Tax Year	Charity		Cash to Complex	Charitable savings account that is easy to create and maintain. It is sponsored by a 501(c)3.
*Supporting Organization	SO	Yes	Yes	Yes	20% for Assets	Board		Yes	Before Sale	Charity		Complex	SO must support a 501(c)3 or a class of 501(c)3s and is usually best with \$5M+ of assets.
Charitable Remainder Trust	CRT	Yes	Yes	Yes	30% for Assets	Donor	High	Yes	Before Sale	Charity	Yes	Semi-Complex. No S-Corp or UBTI	Provides tax free sale, income for life, income tax deduction to the donor, and charity (or DAF) gets the remainder interest.
Charitable Lead Trust	CLT - CLAT			Yes	NA	Donor	Low		Anytime (Trust in life or at death)	Donor's Estate		Semi-Complex	Donor sets an asset into Trust, pays income to the charity each year. FAMILY receives asset back at the end of the Trust term.
Grantor-Charitable Lead Trust	GCLT GCLAT		Yes		30% for Cash	Donor	Low		Tax Year of a Sale	Donor		Semi-Complex	Donor sets an asset into Trust, pays income to the charity each year. DONOR receives asset back at the end of the Trust term.
Super Charitable Lead Trust	SCLAT OCLAT		Yes	Yes	30% for Cash	Donor	Low		Tax Year of a Sale	Donor's Estate		Semi-Complex	Combines the benefits of the CLT and the G-CLT and can save on both estate and income taxes.
Pooled Income Fund	PIF	Yes	Yes	Yes	30% for Assets	Charity	Low		Before Sale	Charity	Yes	Complex	A new PIF can provide better tax deductions. Some PIFs are using other funding options to decrease taxes on income.

\*DAF's and SO's can be set up as Trusts, but are not always structured as a Trust.  
 Notes: Beware of Excess Business Holdings and UBTI issues.  
 Tax Deductions can be used for 5 years after the gift.  
 The AFR is linked to interest rates

Please consult with your trusted tax, legal, and financial advisors.



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Charitable Trusts are the Swiss Army Knife of Planning –  
even if the client is not charitable!

# CHARITABLE REMAINDER TRUST

IN THE TAX CODE SINCE 1969

CRT IS USED FOR  
APPRECIATED ASSETS  
AND CAN SAVE:

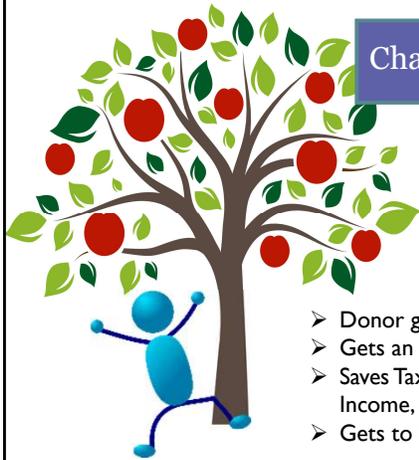
- CAPITAL GAINS TAX
- NET INVESTMENT  
INCOME TAX
- STATE INCOME TAX
- DEPRECIATION  
RECAPTURE

MADE FAMOUS BY JIM  
CRAMER OF MAD MONEY

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Is there a better solution?

# CHARITABLE REMAINDER TRUST

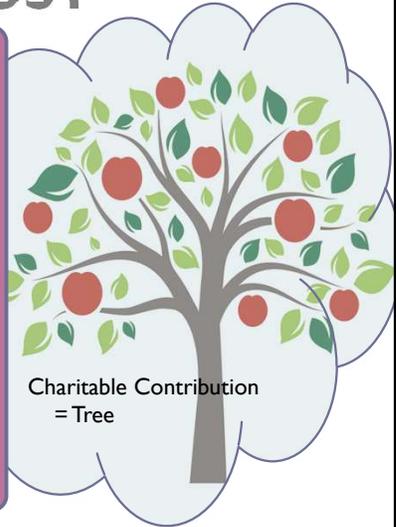


Charitable Remainder Trust

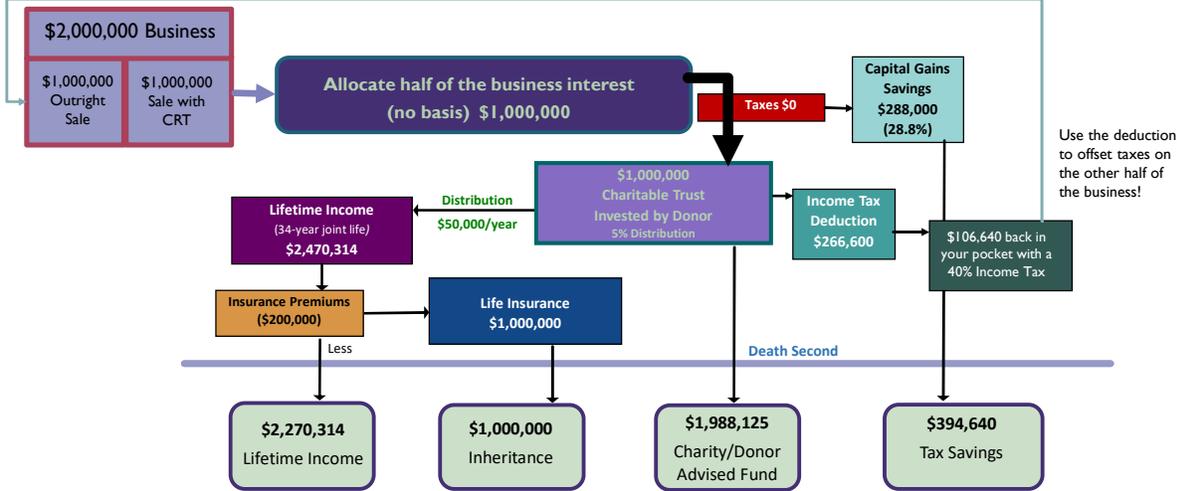


- Donor gets Lifetime Income
- Gets an Income Tax Deduction
- Saves Taxes - Capital Gains, Net Investment Income, Depreciation Recapture, State
- Gets to Nurture the Tree as Trustee

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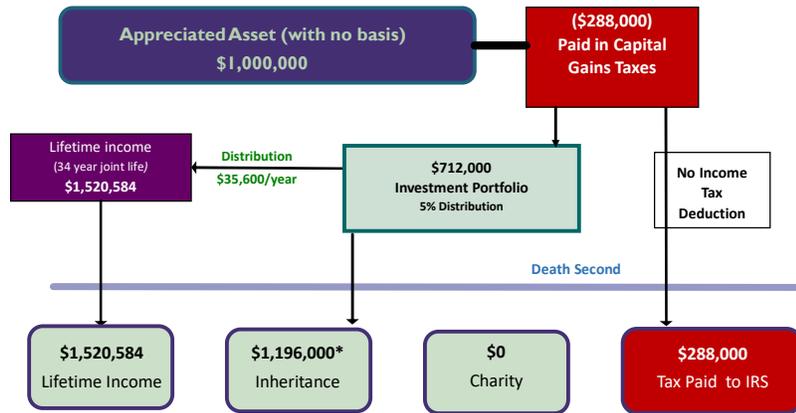


# SALE OF \$2,000,000 BUSINESS WITH A CRT



Assumptions: CRT Investment portfolio grows at 7%. Mr. and Mrs. Legacy are 60 at time of Legacy Gift. The AFR rate used in the calculations is 5.4%. Capital Gains Rate is 20%, plus 5% State Tax, plus 3.8% Medicare Tax for a total of 28.8%. This hypothetical example is for illustrative purposes only and does not reflect sales charges or other expenses that may be required for some investments. Rates of return will vary over time, particularly for long term investments.

# SALE OF AN ASSET WITH NO TRUST



Assumptions: Investment portfolio grows at 7%. Mr. and Mrs. Legacy are 60 at time of sale. Capital Gains Rate is 20%, plus 5% State tax, plus 3.8% Net Investment Income Tax. \* Taxation on growth was calculated at a 33% tax bracket. This hypothetical example is for illustrative purposes only and does not reflect sales charges or other expenses that may be required for some investments. Rates of return will vary over time, particularly for long term investments.

## COMPARISON

Sale with No Trust		Sale using Charitable Trust	
Lifetime Income	\$1,520,584	Lifetime Income (after Life Insurance Premiums)	\$2,270,314
Inheritance	\$1,196,000	Inheritance (Life Insurance Proceeds)	\$1,000,000
Charity	\$0	Charity (Or Donor Advised Fund)	\$1,988,125
Income Tax Savings	\$0	Income Tax Savings (\$266,600 deduction at 40% = \$106,640) (at 7% Growth for 34 years = \$1,064,066)	\$1,064,066
<b>Total Benefit</b>	<b>\$2,716,584</b>	<b>Trust Benefit</b>	<b>\$6,322,505</b>

That is Nearly a **\$3,600,000** Benefit to using a Charitable Trust!

The hypothetical investment results are for illustrative purposes only and should not be deemed a representation of past or future results. Actual investment results may be more or less than those shown. This does not represent any specific product [and/or service].

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## TAX ADVANTAGES OF A CHARITABLE TRUST

- Pay no tax on sale
  - Keep \$288,000 rather than “gift” it to the IRS
- Assets Grow Tax FREE in the Trust
- Receive an Income Tax Deduction
  - Can be used for additional 5 years
  - Can offset taxes on a part of the asset sold outside the Trust (Charitable Trusts are very Flexible)
  - Can be used to offset ROTH IRA Conversion
- Trust Assets are free from Estate Tax Assessment
  - Asset is protected from Litigation

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## FEATURES OF CRTS

- Can be based on **life expectancy or term of years or both**
  - Life expectancy works great if the donor plans to live long
  - Term of years is **maxed at 20 years**
  - Life expectancies and a term of years can be used if the calculation deems that 10% will benefit charity as a remainder beneficiary
- The amount of lifetime **income (at least 5%)** must leave at least a **10% remainder to charity**
- **Income Tax Deduction** depends on how much will go to charity (or DAF)
  - Impacted by the length of the Trust, amount of income to the donor, and the rates when Trust is set up
- Works best in **higher interest-rate** environments and uses the AFR 7520 Rate
- A Net Income, Makeup, or FLIP provision can be used to **defer income** until a later time
- If the CRT is created as a Unitrust, **assets may be added** to the Trust
- Has a **30% Adjusted Gross Income (AGI) Limitation**
  - Deduction can be used in the year of the gift and five years after (**6 years to use deduction**)

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## CONSIDERATIONS OF CRTS

- A CRT are Irrevocable Trusts
- The Taxation of the Original Asset will be applied to the Income
- Income will also be assessed Taxation on the Growth of the Assets
- The initial language of the Trust will dictate the Trust for its life
  - Language can be added to the Trust for some flexibility
- There are legal costs to setting up a CRT
- It is very important to understand the Trust and to have it be part of an overarching Estate Plan
- The CRT will have its own Tax Identification Number and be responsible to file taxes each year
  - There is a cost to filing taxes
- A Trust Administrator can be hired to ensure the integrity of the Trust and file the tax returns
- The Trust can pay tax filing, administrative, and other fees

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## TYPES OF CHARITABLE REMAINDER TRUST

- **FLIP** – A trust drafted with a trigger event to “turn on income”
  - **“FLIP the Income Switch”**
    - The Trigger event must be specified in the trust document and be outside the control of the donor, trustee, or income beneficiary
      - Sale of an illiquid asset
      - Specific date
      - Birth, death, divorce
      - Forced retirement
- **NICRUT** – Net Income Charitable Remainder Uni-Trust
  - The **Trust pays out the lesser of** the Trust’s net income or the “standard” percentage named in the trust document
- **NIMCRUT** – Net Income **Make-up** Charitable Remainder Uni-Trust
  - The **Trust pays out the lesser of** the Trust’s net income or the “standard” percentage named in the trust document
  - **Allows unpaid income in the low-earning years to be “made up” in later years when net income exceeds that standard percentage**

\* Financial Advisors often like to use Investment Annuities to dial in desired income for NICRUT & NIMCRUTs

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## SUITABLE ASSETS

- Rental Property
- Commercial Property
- Raw Land
- Publicly Traded Securities
- Closely Held Businesses (C-Corp, LLC or Partnership)
- Apartment Complexes
- Mobile Home Parks
- Storage Unit Facilities
- Any Highly Appreciated
- Asset Preferably With **No Debt!**

## UNSUITABLE ASSETS

- S-Corporations
- Unrelated Business Tax Income Assets - UBTI



# CHARITABLE LEAD TRUST

NON-GRANTOR CLT  
IS USED TO MITIGATE  
ESTATE TAXES

MADE FAMOUS BY JACKIE  
KENNEDY ONASSIS

GRANTOR CLT IS  
USED FOR AN  
UPFRONT INCOME  
TAX DEDUCTION

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Is there a better solution?



## AFTER THE BUSINESS SALE

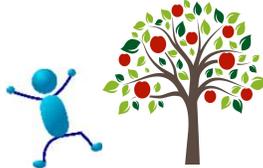
DIFFERENCE BETWEEN A

GRANTOR AND NON-GRANTOR

CHARITABLE LEAD ANNUITY TRUST

## GRANTOR VS. NON-GRANTOR LEAD TRUST

### Grantor CLT



- Donor Keeps "Tree"
- Gets an Income Tax Deduction
- Responsible for Taxes (phantom) on Growth



- Donor Gives "Tree" to Heirs
- Does Not get Income Tax Deduction
- Avoids Estate Tax Taxes
- No AGI Limitations



### Non-Grantor CLT

Note: A Super CLAT acts like both Grantor and Non-Grantor

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## SUPER - CHARITABLE LEAD TRUST (S-CLAT)

- Get the benefits of both the Grantor and Non-Grantor Styled Charitable Lead Trust
- Transfer assets to the Grantor or the next generation Estate/Gift Tax free
  - Will cause transfer tax if there is generation skipping
- Get an Income Tax Deduction today for future gifts
- Back loaded payments to the charity or Donor Advised Fund allow more of the asset to grow
- Provide income to a cause you care about while you are alive and can see the impact
- Keep the integrity of an heirloom asset
- Achieve asset protection
- Create a social and family legacy

# CHARITABLE STOCK BAILOUT

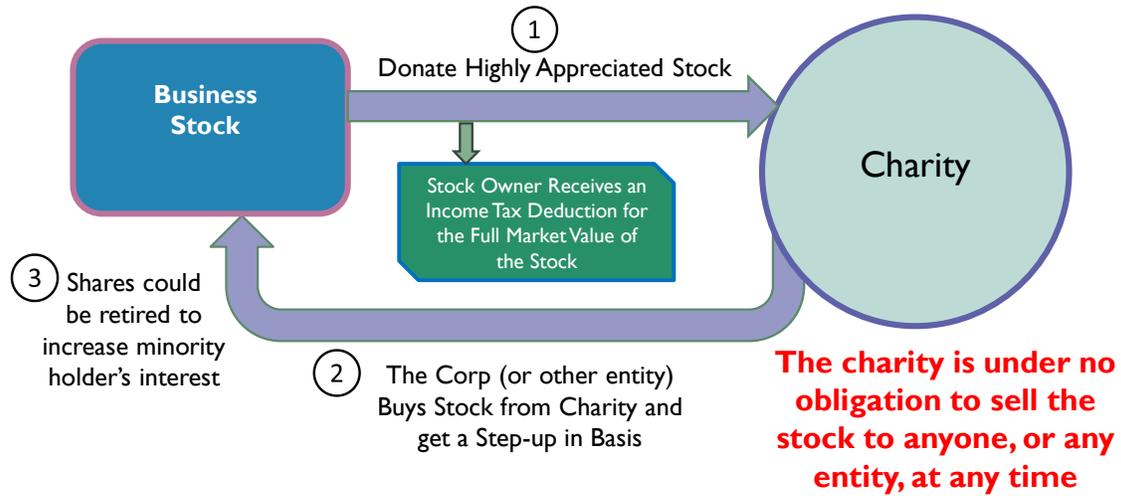
CSB ONLY WORKS  
WELL IN SPECIFIC  
SITUATIONS

CAN TURN OUT  
NEGATIVELY FOR THE  
DONOR

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Is there a better solution?

## CHARITABLE STOCK BAILOUT



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## CHARITABLE STOCK BAILOUT

- Get an Income Tax Deduction for the Full Market Value of Highly Appreciated Stock
- Opportunity to Buy Stock Back from the Charity and get a Step Up in Basis of the Stock
  - The Charity is under **No Obligation to Sell the Stock to Anyone or Entity**
- Potential to Retire Shares of Stock to Increase Minority Interest
  - A way to transfer assets to next generations without estate tax or generation skipping tax



POOLED  
INCOME  
FUNDS

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## “BABY” POLLED INCOME FUND VERSUS EXISTING PIF

### “Baby” Pooled Income Fund

- Created in the year of the Gift
- Calculates the income tax deduction for the future gift from the last three years of AFR Rates
  - Averages each of the last three years and uses the highest rate
  - Works best with lowest interest rates
- Often created for one specific family
- If popular for wealthy families to create their own fund

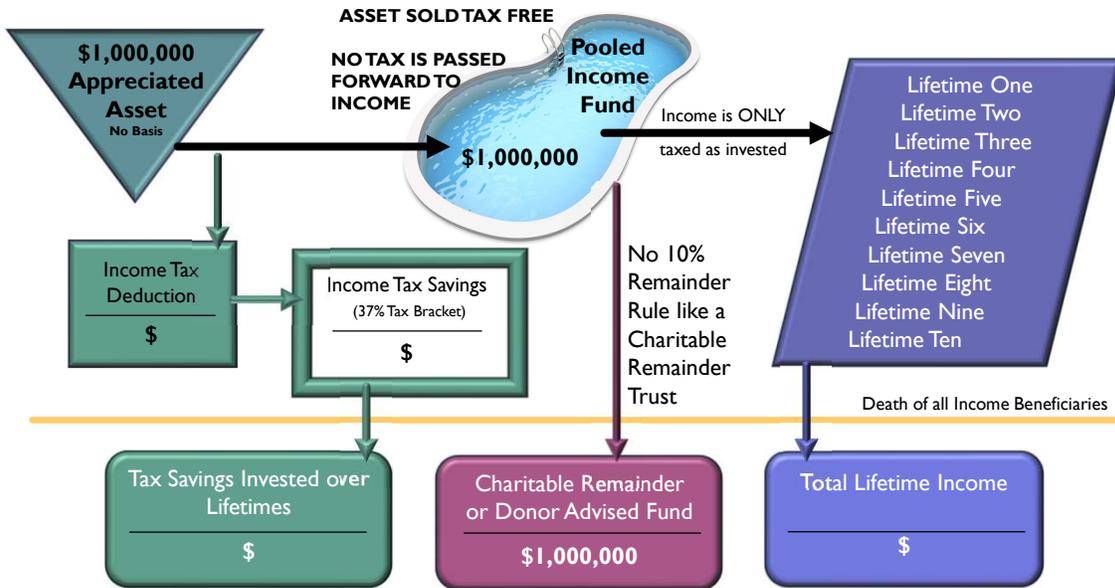


### Existing Pooled Income Fund

- Functions over time, allowing investors to enter at any point in time
- Calculates the income tax deduction for the future gift from the last 3 years of performance of the fund
  - Often provides lower deductions than a Baby PIF
- Created by a charitable organization and offered for donors to receive income
- Has lost favorability because tools like a CRT or Gift Annuity can be more attractive



# Pooled Income Fund



This hypothetical example is for illustrative purposes only and does not reflect sales charges or other expenses that may be required for some investments. Rates of return will vary over time, particularly for long term investments.

## WHAT IS A POOLED INCOME FUND?



- A Trust created by a nonprofit organization
- Investors pool their money together
- Donors receive income from the fund
- After the last income beneficiary passes, the remainder goes to charity
  - A family can be an income beneficiary
  - A Donor Advised Fund (family charitable savings and investment account) can be the charitable remainder beneficiary
- Donors receive a partial tax deduction for the future value of the gift to charity
- The income is taxed as it is invested
- The “pooled” donors do not have to collaborate
- Some Pooled Income Funds allow complex gifts and investment options in the Fund

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## BENEFITS OF POOLED INCOME FUNDS

- Pooled Income Funds have been in the tax code since 1969
- A PIF can have a higher tax deduction than other charitable planning tools if it is a newly formed fund – Baby PIF
- Low interest rates provide for larger tax deductions on a Baby PIF
- An entire family with multiple generations can be the income beneficiary (up to 10 family members)
- The income only pays out from classified gains in the account, leaving the principal intact
  - Like an endowment
- Income producing asset is out of the Estate
  - Provides asset protection
  - Avoidance of Estate Tax
- Teach philanthropy to future generations by having the charitable beneficiary be your Donor Advised Fund



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## WHEN IS A POOLED INCOME FUND MORE ATTRACTIVE THAN A CHARITABLE REMAINDER TRUST?

- When rates (AFR) have been low for 3 three or more years
- To provide income to up to 4 generations – 10 living people
- For tax-efficient income
- If drafted in Delaware, basis of the internal investment may be pulled out of PIF
  - And taxed

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## EATON VANCE POOLED INCOME FUND – LEGACY INCOME TRUST

Brining Pooled Income Funds to the masses

- Eaton Vance is owned by Morgan Stanley and has a reputation of integrity
- The income in the PIF is created by using a Dividend Capture Strategy
  - Purchasing securities prior to a Dividend payment, then selling the security to capture other Dividends
- The Eaton Vance PIF began in 2017, however the Dividend Capture Strategy has been successfully used with documented performance history since the early 2000s in other funds
- The income from the PIF is taxed at Capital Gains Tax Rates and no residual tax from contributing an appreciated asset is assessed on the income
- The current Eaton Vance Income Performance is at depends if an advisor is used or if self directed and the investment amount
- If the current income rate were to fluctuate, the combined income and tax savings may still be very attractive
- <https://www.uscharitablegifttrust.org/us-legacy-income-trusts-introduction.php>

# OPPORTUNITY ZONE

LIMITED TIME FRAME  
FOR THE  
OPPORTUNITY

BETTER THAN A 1031

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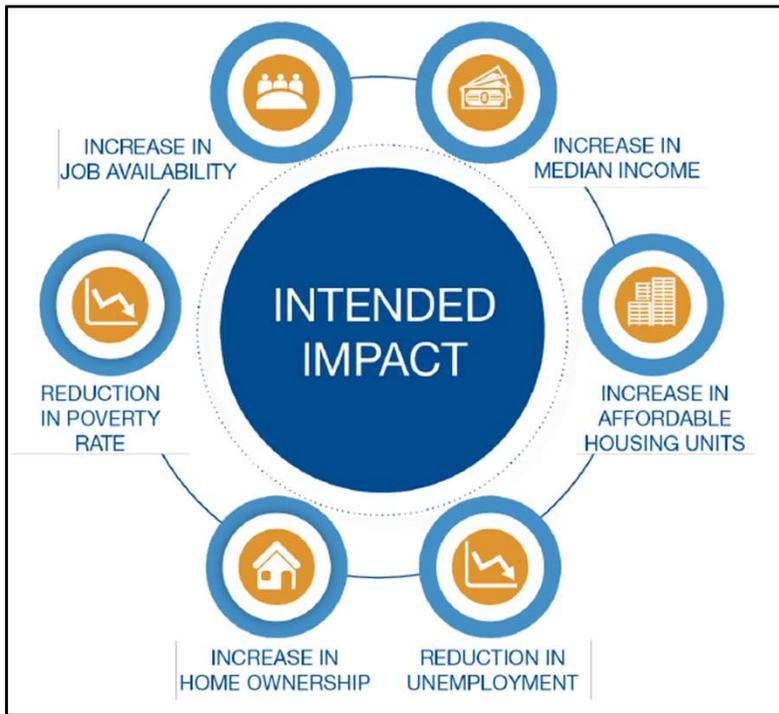
## OPPORTUNITY ZONES

- Part of the 2017 Tax Cuts & Jobs Act
- Intended to Encourage Development in Low Income & Rural Communities
- Provides Tax Benefits
  - Deferral of Reinvested Capital Gains until 2026 Tax Year
  - Future Tax Exclusion on Growth over Ten Years if Requirements are Satisfied
- Only the Gain must be used, and the basis can be pulled out for other investment
  - Unlike a 1031
- Can be used for all Asset Types (S-Corp, C-Corp, LLC, Assets)
- Governed by US Rules and Regulations

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## OBBA ENHANCEMENTS TO OPPORTUNITY ZONES

- Now permanent in the tax code (no 2026 Sunset)
- New Zones are designated every 10 years
- Rolling 5-year Capital Gains Tax Deferral
  - Original Asset Capital Gains Assessment will be 5 years after investment
    - Getting rid of the single date for all investors, regardless of investment terms
  - 10% Basis Step Up of Original Asset if held for 5 years
- Still provides 100% Tax Free Appreciation if the Investment is Held 10 Years and Complies with all the Rules
- Emphasis on Qualified Rural Opportunity Funds (QROF)
  - 30% Basis Step Up of Original Asset if held for 5 years (versus 10% for a Standard OZ)
  - Lower “Substantial Improvement” Thresholds



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## INTENDED IMPACT OF OPPORTUNITY ZONES

Source: Cantor Fitzgerald

## OPPORTUNITY ZONE FEATURES AND BENEFITS

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Tax Deferral	Defer taxes on the sale until 2026 tax year (payable in April 2027)
Tax Free Gains	If you Stay Invested 10 years and Meet Requirements; there is No Tax on Those Gains
Gains Only	Only Gains need to be invested; basis can be pulled out and used for other Investments

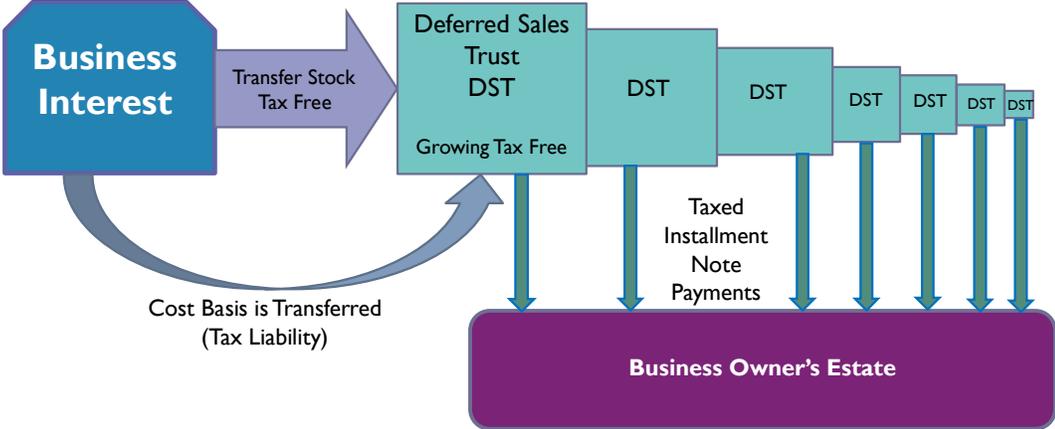
# DEFERRED SALES TRUST

OR INTERMEDIATED  
INSTALLMENT SALE  
TRUST

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Is there a better solution?

# DEFERRED SALES TRUST



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## FEATURES AND OBSTACLES OF DEFERRED SALES TRUST

- Has NOT had a Tax Court Ruling
  - The IRS could scrutinize a DST since there is no precedent ruling
- The owner CANNOT act as Trustee or have a say over the Trust
- Assets Transfer Tax Free but Maintain their Original Cost Basis
- Trust Grows Tax Free Compounding
- DST Provides Installment Note Payments to the Owner that are Taxed as they are Distributed with the Original Basis

# EMPLOYEE STOCK OWNERSHIP PLANS

ESOPS REQUIRE  
EXTENSIVE  
PLANNING AND A  
TEAM OF ADVISORS

---

## EMPLOYEE STOCK OWNERSHIP PLANS

### **Benefits of an ESOP**



Sell (and grow?)  
Tax-Free



Unlock Wealth



Give Back to  
Your Team



Create Your  
Legacy

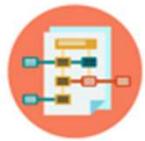


Operational  
Excellence

### **Considerations of an ESOP**



Time to  
Implement



Complexity and  
Education of  
Employees



Reporting, Audits  
and Valuations  
Every Year



Advisory Team  
Necessary



Cost of  
Implementation

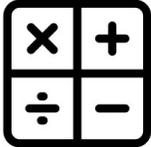
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## FEATURES AND OBSTACLES OF ESOP

- Is an alternative to selling to an outsider
- Provides tax benefits to the seller, company, and the employees
- Energizes employees to think like an owner, which can improve the bottom line
- Has unique structure and benefits for a C-Corp versus an S-Corp
  - 100% S-ESOP can be a tax-exempt entity
- Takes a lot of time and expertise to set up properly
- Is regulated by ERISA and is considered a retirement plan
  - Audited Financial, yearly valuations, and extensive reporting
- Has many moving parts and complexities
- A team of advisors is required
  - ESOP advisors should have documented experience
- Employees must be educated about the ESOP often

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## MATH OF AN ESOP TRANSACTION



### **Seller:**

- FMV purchase price
- After tax net amount usually 50%
- Synthetic equity, interest payments, earnouts may be available

### **Business:**

- ESOP buy-outs are tax efficient, requiring 30% less cash
- An S-corporation owned 100% by an ESOP pays no current income tax on company-retained profits
- Creates positive culture

### **Employees:**

- Double or triple the size of your retirement accounts
- Typically higher wages in the long-run
- Zero out of pocket cost and no liability



A QUALIFIED  
SMALL  
BUSINESS  
STOCK COULD  
RECEIVE UP TO  
A **\$10,000,000,**  
**OR 10 TIMES**  
**BASIS, TAX**  
**EXCLUSION**

**QSBS 1202**

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## QUALIFIED SMALL BUSINESS STOCK

- **Active Domestic C-Corporation**
- Original Issue Stock (purchased or as payment of services) owned by an Individual (not a corporation)
- **Corporate Value at time of Inception is less than \$50 million**
- ***Investor holds the stock for over 5 years***
- Stock acquired after August 10, 1993
- At Least 80% of Corporate Assets must be used in the Business
- **A Qualified Trade or Business - Non-Service Business**
  - Not Eligible = hospitality, personal service, financial, farming and mining
- Internal Revenue Code Section 1202

## POSSIBLE EXCLUSION 1202

- Total excluded gain amount shall not exceed the greater of:
  - **\$10,000,000 per shareholder, or**
  - **10 times the aggregate adjusted bases of qualified small business stock**
  - **For each QSBS Business**
- For example, a QSBS eligible company that started with \$20,000,000 of aggregate adjusted bases may be eligible to exclude up to \$200,000,000 from gain for the shareholder(s)



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## **OBBBA ENHANCEMENTS TO QSBS – PURCHASED AFTER 7/4/2025**

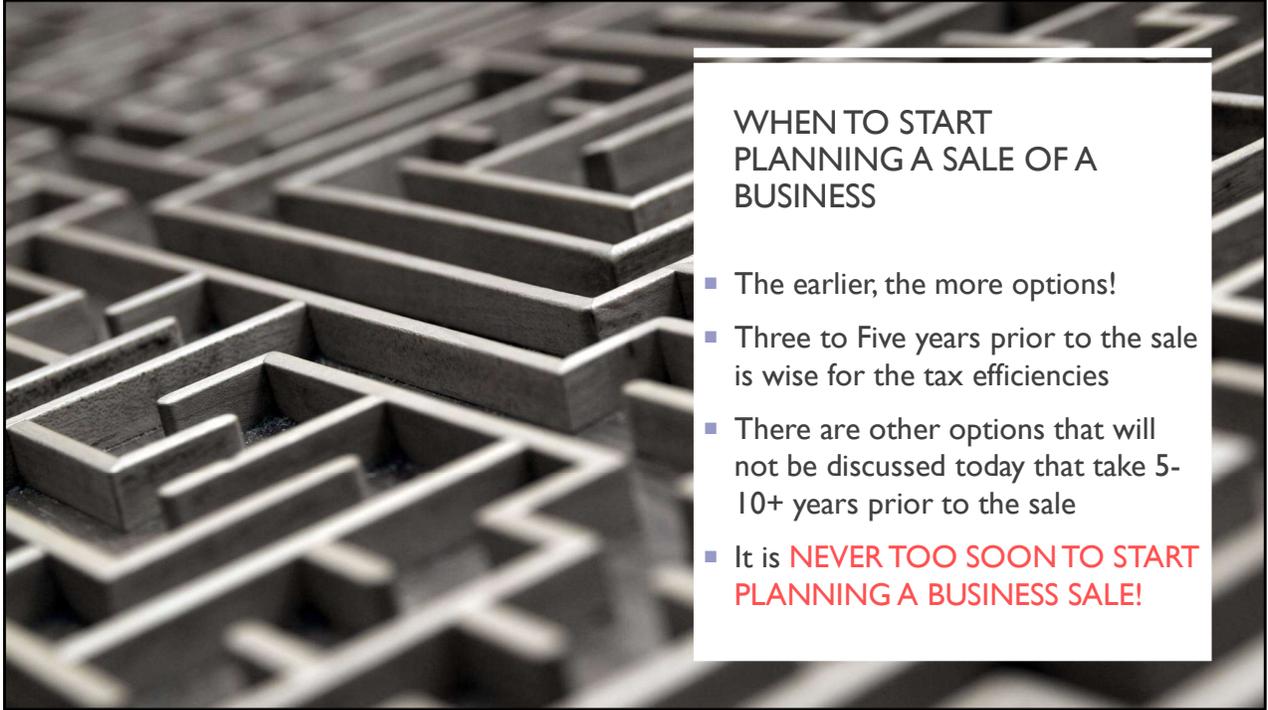
- Expanded Tiered Holding Requirements for Stock acquired after July 4, 2025
  - **Stock held for 3 years receives a 50% Exclusion**
  - **Stock held for 4 years receives a 75% Exclusion**
  - **Stock held for 5 years or more receives a 100% tax exclusion**
- Stock purchased after July 4, 2025, will have up to a **\$15,000,000 Federal Tax Exclusion or 10x Basis**
  - Increased from \$10M
  - Adjusted for Inflation
- After July 4, 2025, the Qualified Small Business **Gross Asset Limitation is \$75,000,000**
  - Increased from \$50M
  - Adjusted for Inflation
- Motivation: Enhance funding of startup and venture capital

## PLANNING WITH 1202



- 5+ year horizon
- Willing to operate as a C-Corp and follow certain restrictions such as stock redemptions
- No IRS form to complete at inception; a look-back test
- Federal capital gains and many states' tax on gains are excluded
- Can **gift shares to children and use their exclusion with a non-grantor trust**
- Can 1045 Exchange QSBS into other QSBS Business
  - Replicates look back for each new QSBS company creating potential for multiple exclusions
    - Like splitting you hand in Blackjack
  - If you have not hit the 5 year threshold, can 1045 into another company to extend your hold to qualify for the exclusion

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## WHEN TO START PLANNING A SALE OF A BUSINESS

- The earlier, the more options!
- Three to Five years prior to the sale is wise for the tax efficiencies
- There are other options that will not be discussed today that take 5-10+ years prior to the sale
- It is **NEVER TOO SOON TO START PLANNING A BUSINESS SALE!**

## TAX ADVANTAGE PLANNING TOOL TIMING

### Prior to the Sale

- Donor Advised Fund (DAF)
- Supporting Organization (SO)
- Charitable Remainder Trust (CRT)
- Charitable Stock Bailout
- Deferred Sales Trust / Installment Sale Trust
- Employee Stock Ownership Program (ESOP)
- Qualified Small Business Stock – 1202 Election
- Other Opportunities (not discussed today and take years (1-10) of planning):
  - Retitling or separating assets
  - Stock Options
  - Family Gifting
  - Estate Tax Exclusion Optimization

### After the Sale

1. Charitable Lead Trust (CLT)
  - Must be done by December 31<sup>st</sup> of the year of sale
2. Grantor-Charitable Lead Trust (G-CLT)
  - Must be done by December 31<sup>st</sup> of the year of sale
3. Opportunity Zone (OZ)
  - 180 days or due date of tax return without extension





## Why should advisors have charitable conversations?

- ❑ Connect
  - Connect with clients on a deeper level
- ❑ Retain
  - Clients will have more loyalty if they feel their advisor understands what is important to them
- ❑ Referrals
  - There is greater opportunity that clients will think of their advisor and make a referral when chatting with friends
- ❑ Next Generation
  - Clients are more willing to include heirs in philanthropic discussions allowing advisors to create connections
- ❑ More Assets
  - Financial Advisors have an opportunity to acquire more assets under management using charitable tools





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## RESOURCES – YOU ARE NOT ON YOUR OWN!

When in doubt, seek guidance!

- Specialists
- Other advisors
- Members of planned giving council
- Planned giving professionals
- Consultants
- Third Party Nonprofits
  - Charitable Solutions
    - Complex Assets included business interests
  - Realty Gift Fund
    - Real Estate

**Most important thing is to START the conversation about gifts of assets!**

IT'S TIME TO CHANGE THE PERSPECTIVE



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## KEY TAKE AWAYS



There are great opportunities for all involved with business sales!



The tools available depend on how the business is structured!



Business owners are Cats not Dogs – point the laser pointer to make it their idea!



You are never alone; it takes a team for complicated asset gifts and business sales!



It is not as complex as it seems!

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## RESOURCES

Tiffany House, CAP®, CEPA, FCEP  
480-242-9956  
[Tiffany@Tax-Estate.com](mailto:Tiffany@Tax-Estate.com)  
Scottsdale, Arizona

- [www.Tax-Estate.com](http://www.Tax-Estate.com)
- [www.GiftPlanningInstitute.com](http://www.GiftPlanningInstitute.com)



### Third-Party Nonprofit Organizations for Complex Gifts:

- ❑ Local Community Foundation
- ❑ Your firm's Donor Advised Fund Provider
- ❑ Realty Gift Fund (Real Estate) - <https://realtygiftfund.org/>
- ❑ Sharing Connection (Real Estate) - <https://www.sharingconnexion.org/>
- ❑ American Endowment - <https://www.aefonline.org/>
- ❑ **Charitable Solutions, LLC** - <https://charitablesolutionsllc.com/>

### Research:

- Exit Planning Institute State of Owner Readiness Study: <https://exit-planning-institute.org/state-of-owner-readiness/>
- Fidelity Entrepreneurs as Philanthropists: <https://www.fidelitycharitable.org/articles/key-insights-into-entrepreneurs-as-philanthropists.html>
- Forbes Baby Boomers: <https://www.forbes.com/sites/markhall/2022/01/25/unsexy-but-thriving-businesses-the-hidden-opportunity-gifted-to-us-by-baby-boomers/?sh=142aa70e4620>
- Google: <https://www.google.com/>
- JP Morgan \$30 Trillion Opportunity: <https://www.openinvest.com/articles-insights/how-to-prepare-for-the-great-wealth-transfer-to-millennials>



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## DISCLOSURE

■ Mrs. House does not offer tax or legal advice and nothing in this presentation should be construed as such. Donors should consult with their own qualified financial, tax and legal advisors when and as appropriate, and prior to undertaking any of the tax planning or legal strategies discussed herein.

■ The purpose of this presentation is to illustrate a planning strategy, however, neither the illustrated results nor any particular results can be guaranteed. While all attempts have been made to provide accurate information, the information provided is not exhaustive, and its accuracy cannot be guaranteed.

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Please read over our disclosures and thank you so much for your time and attention. We would be more than happy to accomplish a no cost, no obligation introductory interview to discuss if a charitable remainder trust might be something that would benefit you and help you to create your legacy. Thank you.