

# Wealthspire FOS Wealth Strategy Team in Action: Client Stories

## BACKGROUND

Louise and Johnny are in their 50s and have a blended family with 3 children (2 of whom are adults from Johnny's first marriage). Johnny is a successful entrepreneur, having sold start-up businesses in the past with huge gains upon each exit. They continue to build wealth since Johnny remains an active entrepreneur and is setting up another new start-up business with investors already in place. When they joined Wealthspire Advisors as clients, they had relatively simple Wills in place and had not focused much on estate planning. They also live in a high-income tax state. At this stage of their lives, they are concerned with not only transferring wealth to their children in a tax-efficient manner, but also income tax planning, as they have paid large income tax bills in the past resulting from Johnny's prior entrepreneurial exits.

## HOW WE HELPED

There were several goals to achieve in this case. The Wealthspire FOS team joined their advisor team and attorneys to address each goal, and the FOS team continues to assist in maintaining the plan and monitoring its progress:



**Creation of New Trusts for Income Tax Planning:** First, we suggested that Louise and Johnny consider creating separate non-grantor trusts for each of the 3 children. Because Johnny's new start-up could potentially qualify for Qualified Small Business Stock (QSBS) treatment, each QSBS shareholder could benefit from a \$10M capital gains exclusion upon sale. In order to maximize the QSBS exclusion available in the event of a future sale, we suggested Johnny gift some of his QSBS shares into 3 separate non-grantor dynasty trusts, one for each child. This would not only accomplish Louise and Johnny's goal of transferring the potential appreciation in the start-up to the next generation, but the 3 trusts would also be treated as 3 separate taxpayers. Instead of Johnny holding the QSBS shares in his own name and just being eligible for a single \$10M QSBS capital gains exclusion, the QSBS shares would now be divided amongst 4 separate taxpayers (Johnny and the 3 new trusts) each eligible for its own \$10M QSBS capital gains exclusion, quadrupling the potential QSBS capital gains exclusion from \$10M to \$40M. Louise and Johnny engaged a local estate planning attorney, who worked on drafting the new trusts and incorporating our suggestions. We managed calls with both the corporate and estate planning attorneys to make sure everyone was on the same page and to work through a timeline from execution of the new trusts to memorializing the gifting of Johnny's QSBS shares to the new trusts. Finally, we coordinated directly with Louise and Johnny's accountants to ensure proper gift tax reporting.

**Value to Client: Excluding an additional \$30M of capital gain from taxes and coordinating the work amongst the estate planning and corporate attorneys to ensure proper implementation.**



**Update of Existing Estate Plan:** After reviewing Louise and Johnny's existing estate plan, we worked with their estate planning attorney to account for changes in the family, as their old Wills were signed before their youngest child was born and when Johnny's children from his first marriage were still minors. We addressed potential issues and offered solutions regarding the inheritance for Johnny's children from his first marriage. Louise and Johnny had also acquired various real properties for both personal and rental use over the years which they owned jointly. We suggested forming LLCs to own the rental properties instead, in order to segregate liability on those properties from their other personal assets. We also worked with the estate planning attorney to create revocable trusts to help Louise and Johnny avoid probate, as well as maintain privacy and the ability to continue managing assets in their personal portfolio in event of incapacity.

**Value to Client: Reduce liability exposure and improve asset protection, avoid probate costs and delays, and reduce risk for potential estate litigation amongst their children.**