

THE SMART EXIT: MINIMIZE TAXES AND MAXIMIZE LEGACY WITH YOUR BUSINESS



As a business owner, achieving a successful liquidity event—whether through a sale, merger, or public offering—is a major milestone. But many entrepreneurs underestimate the value of comprehensive transaction planning, particularly as it relates to trust, charitable and estate planning. Done strategically, this planning can help minimize taxes, facilitate smooth succession, and even support philanthropic goals—all while preserving wealth across generations.

Why Pre-Liquidity Planning Matters

When business owners wait until after a liquidity event to begin estate or tax planning, they often miss key opportunities to optimize outcomes. The time before a transaction presents unique advantages:

- Asset values may be lower (on a relative basis), making gifting or other transfer strategies more efficient.
- Certain planning structures require implementation before a definitive deal is on the table to achieve tax benefits.
- Post-sale planning is reactive and more limited due to the realization of capital gains and increased estate values.

Integrating Trusts into Pre-Liquidity Strategy

Trusts are central tools in any well-rounded estate plan, especially when planning around a business-owning family. Several common trust strategies include:

SPOUSAL LIFETIME ACCESS TRUSTS (SLATS) - SLATs allow one spouse to make a gift to an irrevocable trust for the benefit of the other spouse (and potentially children), effectively removing assets from the gifting spouse's taxable estate and without inclusion in the beneficiary spouse's estate.

INTENTIONALLY DEFECTIVE GRANTOR TRUSTS (IDGTs) - IDGTs are a form of irrevocable trust that can facilitate gifting of assets, including business interests, to a trust for the benefit of descendants. The future appreciation and income earned on the gifted assets is excluded from the donor's estate. An additional tax benefit, unique to the IDGT, is that the trust grantor pays income taxes on the trust's income, further reducing their taxable estate and increasing the trust's value over time. Oftentimes, this structure is paired

with an installment sale of the business shares to further leverage the strategy and create a “freeze” of the value of the assets sold to the trust.

GRANTOR RETAINED ANNUITY TRUSTS (GRATS) - GRATs are another option for transferring the future appreciation of a business equity out of one’s estate with little to no gift tax, as a result of the grantor’s retained annuity interest (which typically is equal to the value of the transferred asset plus an interest component). Before a sale of the business, placing pre-appreciation shares in a GRAT allow post-transfer growth to pass to beneficiaries tax-efficiently. A good advisor can explain when a GRAT might be more advantageous than an IDGT.

These structures often work best when implemented before a liquidity event. Once an LOI or sale agreement is in place, tax benefits may be impacted.

Succession Planning: Aligning Family, Business, and Legacy Goals

A liquidity event often changes the dynamic of a business owner’s relationship to their company. Whether the owner plans to remain involved post-sale or fully exit, succession planning ensures continuity of vision and values. Succession planning is not a one-time event, but rather an ongoing process that all owners could benefit from.

Implementing formal governance structures by clarifying roles, responsibilities, and long-term goals for family members can prevent discord and encourage stewardship. This may include formal family councils, mission statements, or multigenerational meetings.

Tax Optimization Opportunities

Failing to plan before liquidity can lead to significant tax consequences. Examples of tax strategies that could be considered upon the advice of an attorney and/or CPA are:

USE OF LIFETIME GIFT AND ESTATE EXEMPTIONS - Currently, the federal lifetime gift and estate tax exemption is \$13.99 million per person, and under the recent Big Beautiful Bill (BBB), the lifetime exemption will increase to \$15 million (indexed for inflation) per person in 2026, or \$30 million (indexed for inflation) per couple. Transferring assets during lifetime can both lock in use of the exemption amount and remove appreciation on the gifted assets from the donor’s estate.- Additionally, applicable discounts and pre-sale valuations may not apply in estate tax valuations.

CAPITAL GAINS MINIMIZATION - Transferring ownership interests to tax-advantaged structures before a sale could shift future gains to lower-tax entities (such as a charitable trust or family foundation) or to beneficiaries in lower tax brackets.

STATE TAX CONSIDERATIONS - Depending on the location of a business and residence, state-level estate or income taxes may apply. Strategies like establishing non-grantor trusts in a no-tax state, such as Tennessee, may reduce exposure.

Charitable Planning: Leave a Legacy While Reducing Taxes

Charitable strategies not only serve philanthropic aims but can dramatically reduce income and estate taxes. Certain charitable vehicles, such as those as described below, could help accomplish the joint goal of reducing applicable taxes while also benefiting the philanthropic endeavors close to the family's heart.

CHARITABLE REMAINDER TRUSTS (CRTS) - CRTs allow you to contribute business interests before a sale, receive annual distributions over a term or lifetime, and generate a charitable deduction—all while avoiding immediate capital gains taxes.

PRIVATE FOUNDATIONS - For those seeking greater control and a lasting charitable legacy, private foundations can be established pre-liquidity. They can also serve as a family philanthropy hub for generations and the building blocks to perpetuate values among descendants.

DONOR-ADVISED FUNDS (DAFS) - DAFs allow business owners to make a charitable gift (often of appreciated shares) before liquidity, generating an immediate income tax deduction while retaining control over grantmaking decisions over time.

Key Takeaways for Business Owners

- **START EARLY:** Pre-liquidity planning takes time—begin well before a potential sale to capture the full value of available strategies.
- **WORK WITH A TEAM:** Coordinate with your CPA, estate planning attorney, M&A advisor, trustee, and financial advisor to ensure alignment.
- **CUSTOMIZE YOUR PLAN:** No two businesses or families are alike. Design a plan that reflects your values, tax situation, and legacy goals.

A well-executed pre-liquidity strategy isn't just about minimizing taxes. It's about maximizing impact—for your family, your business, and the causes you care about most.

If you're considering a liquidity event in the next 1–5 years, now is the time to begin conversations with your advisory team, including the team at Pendleton Square. Thoughtful trust and estate planning integrated with your overall business and tax strategy can turn a one-time transaction into a multi-generational legacy. Pendleton Square is well equipped to coordinate the efforts of your advisory team to accomplish your specific goals in preparation for a liquidity event in the future.

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