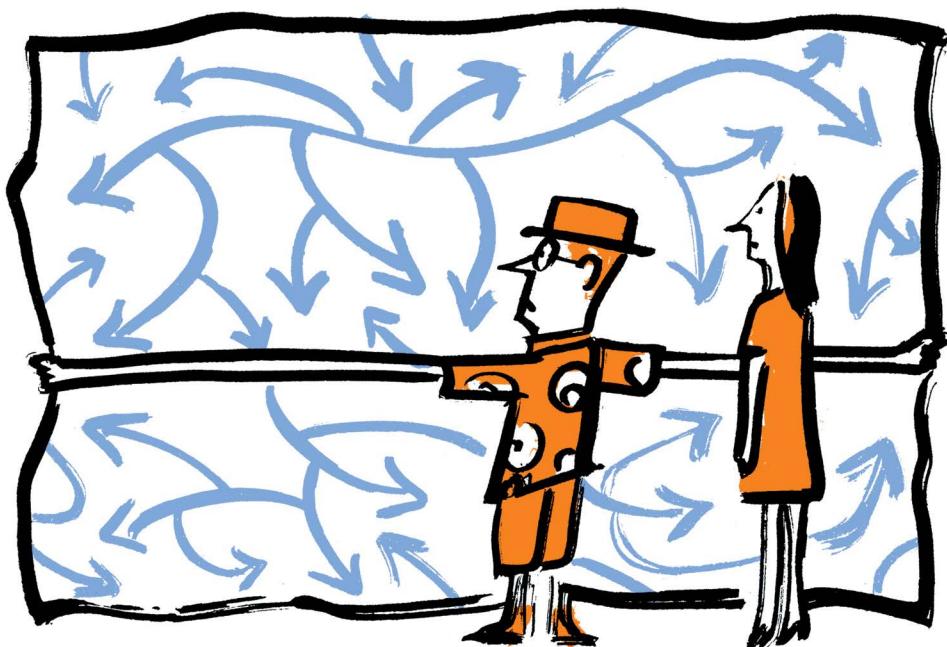


Smart Money Moves: Managing QSBS, Equity Compensation & Liquidity Event Planning

Straight talk on complex financial planning



ASPIRIANT

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Congratulations on your upcoming liquidity event. Your current shareholdings and equity compensation – ISOs, NQSOs or RSUs – open the door to exciting financial possibilities. Whether it is a tender offer, acquisition or an IPO on the horizon, the Aspiriant team is equipped with deep insights from our experience to help you minimize taxes, manage cash flow and maximize wealth.

Award-winning know-how

Whether fine-tuning your financial strategy or just beginning to explore your possibilities, Aspiriant's **award-winning** wealth managers make financial planning clear and actionable, cutting through the jargon to deliver the guidance you need.

Helping employees manage equity at:

cruise

 **databricks**

 **Palantir**

 **ServiceTitan**®

 **snowflake**

 **stripe**

Three steps to navigate different liquidity events

Step One: Know when to exercise or sell shares to minimize taxes

You may be eligible to avoid taxes completely if the shares you hold qualify as QSBS (Qualified Small Business Stock):

If the shares of stock you hold are for a domestic C corporation, are within a certain category of industry and the stock was issued at a point when the corporation's assets were below \$50 million, the shares may qualify for **QSBS treatment**. This means that, depending on when you received your shares, you may be able to exclude 100% of federal capital gains on the sale of up to \$10 million of the stock. Importantly, the rules around which companies qualify for QSBS and how much capital gains can be excluded are complicated and it is best to work with a financial advisor to ensure you are not missing out on this opportunity.

If you have ISOs (Incentive Stock Options):

If you are past the two-year mark from the grant date of your ISOs and one-year post-exercise, you are eligible for the lower long-term capital gains tax rate, which is substantially lower than

the ordinary income tax rate, potentially saving you a significant amount in taxes. However, it's essential to verify your specific grant and exercise dates to confirm eligibility. Additionally, consider the current market conditions to maximize your returns by selling when stock prices are favorable.

- **Tactical tip: Exercise ISOs on an annual basis.** It may be advantageous to exercise your ISOs in limited amounts each year, up to the Alternative Minimum Tax (AMT) threshold. You can initiate the long-term capital gains holding period for your shares while avoiding or minimizing the AMT impact and reducing your total tax burden substantially.
- **Tactical tip: Assess the impact of AMT on your finances.** While exercising ISOs could trigger AMT, this strategy might still be beneficial based on your personal financial situation. Future tax liabilities may be potentially offset with an AMT credit. Moreover, if the stock's future value is expected to rise significantly, it may justify the immediate AMT cost. Consulting with a financial advisor is recommended to help you navigate these considerations effectively.

If you have RSUs (Restricted Stock Units):

RSUs are taxed as ordinary income based on their market value at the time they vest, rather than when they are granted. This means the value of the RSUs is added to your income, similar to your salary, and taxed accordingly. It's crucial to plan for this tax event since it can significantly increase your taxable income for the year and companies often do not automatically withhold enough taxes. Once your RSUs vest and you acquire the shares, selling them strategically during favorable market conditions can help maximize your returns. However, any profit from the sale will be subject to capital gains tax.

- **Tactical Tip: Deferred compensation option.** You may have the option to defer receiving your RSUs to a later date. By doing so, you postpone the tax liability, which might better align with your overall tax planning strategy. Deferring is especially beneficial if you anticipate being in a lower tax bracket in future years.
- **Tactical tip: Understand your RSU vesting criteria and their tax implications.** There are two common types of RSUs: Single-trigger and double-trigger. Single-trigger RSUs typically vest based on a time schedule, while double-trigger RSUs include a liquidity or other event as a second condition. As single-trigger RSUs vest, employers may withhold taxes by selling some of the shares. However, this withholding might not cover your full tax liability. Depending on your tax bracket, you could potentially owe extra taxes. If you hold double-trigger RSUs, a company IPO could result in a notable rise in your income for that year. It's crucial to ensure you have sufficient cash flow to cover any tax liabilities, especially if you are subject to a lock-up period and unable to sell the shares before your taxes are due.

Step Two: Map out your financial goals to understand your cash needs and risk tolerance.

Fear of missing out on future stock gains and avoidance of taxes are the most common roadblocks to concentrated stock diversification. On the flip side, you may be putting your short and long-term financial goals at the mercy of a single stock's performance.

- **Tactical Tip: Develop a diversified investment strategy:** Mitigate risks associated with single-stock concentration by diversifying your investments across various asset classes (such as large cap, domestic, international and emerging markets), sectors (such as consumer discretionary and healthcare) and geographies. This not only spreads risk but also positions you for balanced growth.
- **Tactical Tip: Estate Planning Updates.** As your financial circumstances change, so should your estate plans. Review and update your wills, trusts and beneficiary designations to ensure they align with your current situation and objectives.
- **Tactical tip: Consider wealth transfer and gifting strategies.** Depending on your estate tax planning needs and wealth transfer goals, you might consider strategies as straight forward as gifting shares directly to family members and taking advantage of the annual gift exclusion. Sophisticated estate plan structures can reduce your estate tax burden substantially by utilizing irrevocable trusts to benefit your family or other beneficiaries, reducing tax by allowing shares to appreciate outside your taxable estate (as well as theirs). You may also benefit from more advance planning using investment vehicles like Family Limited Partnerships (FLP) or annuity trusts.

Step Three: Build your financial team to plan ahead of a liquidity event

Navigating confusing financial matters requires a robust team skilled in wealth management, tax and estate planning.

- **Tactical Tip: Stay true to your values while putting a price tag on your vision.** Identify or reconfirm your personal values so that you can manage emotions and avoid becoming distracted by things that don't matter to you. Think about what you want your life to look like post-transaction and work with a financial advisor to determine how much after-tax wealth you need to achieve your long-term goals.
- **Tactical Tip: Maximize tax strategies.** Taxes can hugely impact the ultimate amount of wealth generated by a liquidity event. High-net-worth individuals are subject to layers of taxation and a professional can help you develop smart tax strategies and understand current income and estate tax laws.

Managing significant proceeds from equity compensation or planning for an IPO can seem overwhelming, but we strive to simplify the process by focusing on your financial goals and providing personalized advice. Start by scheduling a complimentary **strategic consultation** to transform your equity into long-term wealth.



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