



# Five tips for protecting your wealth during an acquisition

Prepared by Alina Lloyd, Wealth Advisor, Wells Fargo Private Bank

Based on our experience guiding entrepreneurs through the acquisition process, we've identified the following planning steps to protect and maximize your hard-earned wealth.

## Step one: Establish a basic estate plan

Regardless of your business's current status, we recommend establishing an estate plan to protect your personal wealth and ensure it's distributed according to your wishes.

Your state of residence will have a significant bearing on your plan. In some states, for example, it's important to create a revocable living trust, which acts like a will, but will also avoid probate and address incapacity planning.

## Step two: Outline your financial goals and state of affairs

This step requires that you ask yourself important questions about your goals, aspirations, family, and legacy:

### **What are your professional goals after the acquisition?**

Do you plan to work for the acquirer, join another company, start a new venture, or retire? What will your income look like going forward? What's your ultimate retirement age?

## **What are your and your family's personal goals and lifestyle needs?**

How much income will you need to support your lifestyle? Do you plan to buy a new home, pay for children's education, or fund a new company?

## **What are your legacy goals?**

If you have family members you plan to support financially, how much support are you willing to provide? Do you have charitable goals, and what do they look like?

## **What do your balance sheet, liquidity, and estate plans look like now?**

What's your approach to investing? Are you comfortable with market fluctuations? What's your view on your company stock performance prior to and after acquisition?

# **Step three: Pre-transition planning**

Depending on your answers in step two, take the following steps, preferably at least one to two years prior your company's acquisition:

1. Develop a road map for accomplishing your professional, personal, and legacy goals; determine the liquidity and income amounts you'll need and investment risk you're comfortable with to support your lifestyle.
2. Analyze your equity ownership. Different forms of ownership have different tax implications. Vesting provisions are key in determining tax treatment. Consult with your tax and wealth advisors.
3. If you expect significant future appreciation in your company ownership, consider transferring a portion of your private stock to your future beneficiaries through either an outright gift or by placing it into a trust.

# **Step four: Minimize tax impact**

While most tax-saving opportunities exist prior to the acquisition, there are two main ways to minimize tax impact after the exit in a taxable acquisition:

1. Charitable giving is most effective in a high-tax year, particularly with low-basis stock. Several options could reduce your tax liability:

- Donor Advised Fund
- Private Foundation
- Charitable Remainder Trust
- Charitable Lead Trust

The strategy you choose will depend on your goals, philanthropic involvement, and business's acquisition structure. Your team at Wells Fargo Private Bank, your accountant, and/or an estate attorney can advise you regarding the suitability of each option.

2. If your stock ownership meets the criteria for qualified small business stock (QSB)<sup>1</sup>, you may be eligible to:

- Benefit from a reduced capital gains tax rate upon sale, if you meet certain holding period requirements and the company meets the requirements for a qualified small business.
- Roll your acquisition proceeds into other QSB stock within 60 days of the sale.

If your sale proceeds come in the form of stock in the acquiring company, you may be eligible to defer tax on the transaction until you sell the acquirer's stock.

As a result, effective planning opportunities may exist after the acquisition, particularly if the acquirer's stock has high appreciation potential. Refer to step two ("Outline your financial goals and state of affairs") to prepare for the ultimate stock liquidation scenario.

## Step five: Activate your plan

Develop an investment plan for liquid assets. Consider your short- and long-term goals, risk tolerance, and balance sheet concentrations; periodically adjust your portfolio to match changing needs and rebalance for optimal asset allocation.

1. Set aside sufficient liquidity to cover your anticipated tax liabilities and other cash needs.
2. Consider life, long-term care, and liability insurance to protect your wealth.

## Where do I start?

Your company's acquisition may be the most important financial event of your life. We recommend establishing trusted relationships with key advisors: an estate attorney, accountant, and wealth advisor. Finally, develop a relationship with a financial institution that has deep expertise in working with entrepreneurs and broad capabilities to meet your diverse needs.

If Wells Fargo & Company can be of service with guidance on estate planning and protecting your personal wealth, please contact your Commercial Auto Relationship Manager who will introduce you to an experienced Private Bank partner who specializes in these areas.

<sup>1</sup>Qualified small business stock is defined in Internal Revenue Code Section 1202 as any stock in a qualified small business issued to a taxpayer after August 10, 1993.

### Securities Products:

Not Insured by FDIC or any Federal Government Agency

May Lose Value

Not a Deposit of or Guaranteed by a Bank or Any Bank Affiliate

Wells Fargo Securities is the trade name for the capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including but not limited to Wells Fargo Securities, LLC, a member of NYSE, FINRA, NFA and SIPC, Wells Fargo Prime Services, LLC, a member of FINRA, NFA and SIPC, and Wells Fargo Bank, N.A. Wells Fargo Securities, LLC and Wells Fargo Prime Services, LLC are distinct entities from affiliated banks and thrifts.

© 2018 Wells Fargo Capital Finance. All rights reserved. Products and services require credit approval.

Wells Fargo Capital Finance is the trade name for certain asset-based lending services, senior secured lending services, accounts receivable and purchase order finance services, and channel finance services of Wells Fargo & Company and its subsidiaries. Wells Fargo Capital Finance Corporation Canada (also doing business in Quebec as Société de financement Wells Fargo Capital Canada) is an affiliate of Wells Fargo & Company, a company that is not regulated in Canada as a financial institution, a bank holding company or an insurance holding company. Wells Fargo Commercial Distribution Finance is the trade name for certain inventory financing (floor planning) services of Wells Fargo & Company and its subsidiaries.

Wells Fargo & Company conducts business outside the U.S. through various companies, including duly authorized and regulated subsidiaries and affiliates in Asia, Canada, and Latin America. In Europe, banking services are provided through Wells Fargo Bank International (WFBI), directly regulated by the Central Bank of Ireland, and Wells Fargo Bank, N.A. London Branch, authorized by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the PRA. All products and services may not be available in all countries. Each situation needs to be evaluated individually and is subject to local regulatory requirements.

The opinions expressed in this document are general in nature and not intended to provide specific advice or recommendations for any individual or association. Contact your banker, attorney, accountant or tax advisor with regard to your individual situation. The opinions of the author do not necessarily reflect those of Wells Fargo Capital Finance or any other Wells Fargo entity.

The information in this report is for educational purposes only and should not be used or construed as financial advice or a recommendation to participate any strategy mentioned herein. Wells Fargo does not guarantee that the information supplied is complete, undertake to advise you of any change in its opinion, or make any guarantees of future results obtained from its use. The concepts discussed in the paper require the assistance of qualified legal counsel and tax advisors, and investors should consult their own attorneys and tax advisors with respect to their own situations.