Five tips for protecting your wealth during an acquisition

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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)[1], 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.

[1]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.