Navigating the Exit: Optimizing Your Personal Wealth

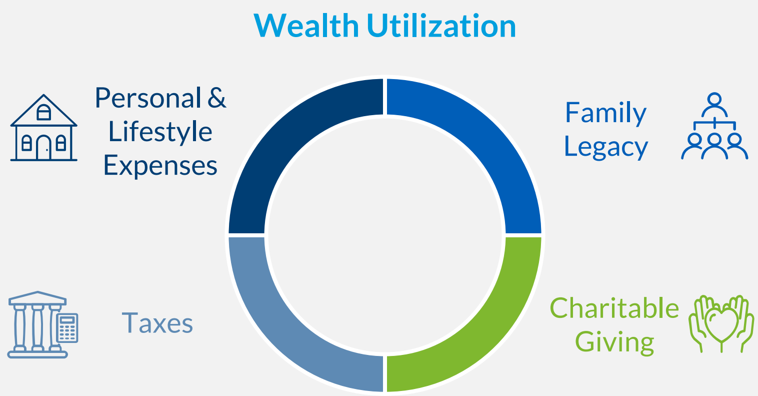
Exiting a business is a challenging endeavor which requires a diligently constructed exit plan. As part of that plan, many business owners prioritize business enhancements that serve to improve its readiness and attractiveness. While this is an important step in increasing a company's gross value, it may not yield the intended result of maximizing the net proceeds an owner receives from exiting their company.

A more holistic approach may be appropriate for those owners with aspirations of achieving financial independence, generating legacy wealth for their family, and/or enhancing philanthropic giving. Engaging in personal planning in advance of an exit, in tandem with business planning, offers owners a unique opportunity to optimize the utilization of their wealth.

Remember: "It's not what you get, but what you keep."

FOUR CATEGORIES OF WEALTH UTILIZATION

The personal planning process should begin with a thorough examination of how to best align potential planning strategies with the owner's goals for how the wealth generated from the sale of a business will ultimately be utilized.



Personal & Lifestyle Expenses

Planning on how much you intend to spend on personal and lifestyle expenses is a primary consideration in the overall planning process. This may mean that your immediate and future cash flow needs are met without compromising long-term financial security.

Taxes

Taxes may significantly erode the proceeds from the sale of a business. Not just in the short-term form of capital gains, but also in the long-term form of potential estate tax. Proactive planning may result in mitigating these types of taxes and may allow more of your wealth to be available for your intended beneficiaries rather than the tax authorities.

Family Legacy

Securing long-term wealth for your family can be accomplished in many ways, some of which are more efficient than others. Planning in advance of a sale may result in a more effective and accretive transfer of wealth to your heirs.

Charitable Giving

Philanthropy often plays an important role for many business owners, either before or after selling their company. Whether through direct contributions, establishing a foundation, or utilizing other charitable giving strategies, careful planning can maximize the impact of your giving while also providing potential tax benefits.

PERSONAL PLANNING IN ADVANCE OF AN EXIT

There are three main factors a business owner should consider when incorporating their personal plan with a potential exit: the asset, time, and planning strategies. Doing so in conjunction with business enhancements, along with the guidance of experienced professional advisors, may be crucial to help the maximization of both gross and net value received from a sale.

Unique Asset

Stock in a privately-owned company is a unique asset for personal planning. Whether the owner prioritizes tax mitigation, charitable giving, or legacy wealth, the ability to transfer company stock well in advance of a sale may provide business owners with an opportunity to:

- Transfer stock at a lower value relative to the ultimate sale price
- Potentially discount the value of company stock transferred

To accomplish this, a certified business valuation may be necessary prior to implementation of any planning strategies. This is a report compiled by a credentialed professional appraiser or firm that may:

- Help determine the current fair market value of the company using traditional valuation methods
- Provide valuation discounts for (1) a minority interest, (2) non-controlling interests, (3) an asset that does not have a readily available market

Time

Allotting sufficient time between implementation of planning strategies and closing of the sale may allow for more efficient wealth utilization.

It may also be essential to begin this process well in advance of an exit to ensure there is ample time for tax and legal professionals to draft and effectuate all necessary documentation.

WHAT ARE VALUATION DISCOUNTS?

Valuation discounts refer to the reduction in value of business ownership due to certain factors or circumstances. If appropriately used, they may afford business owners an immense benefit for gift and estate tax planning. In applying valuation discounts, business owners may transfer company stock out of their taxable estate at a value less than the appraised fair market value.

Planning Strategies

The two areas of focus for most selling owners are capital gain tax mitigation and estate and legacy planning. The most popular planning strategies that fall under these categories are:

Capital Gain Tax Mitigation

- Charitable Planning
  - Donor Advised Fund
  - Charitable Remainder Unitrust
- Statutory Options
  - Qualified Small Business Stock
  - Qualified Opportunity Zones

Estate and Legacy Planning

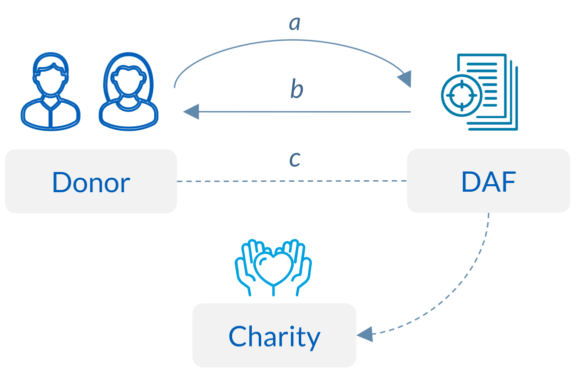
- Irrevocable Trust Planning & Wealth Transfer Methods
  - Gift of Assets
  - Sale or Loan of Assets

CAPITAL GAIN TAX MITIGATION: CHARITABLE PLANNING

Donor Advised Fund

A Donor Advised Fund (DAF) is an account established through a sponsoring organization (typically a public charity) where the individual donor retains advisory privileges regarding the investment and distribution of funds contributed.

Design & Overview



The Individual Donor

a) Makes an irrevocable contribution to the DAF

b) Receives an income tax deduction for the amount contributed [1]

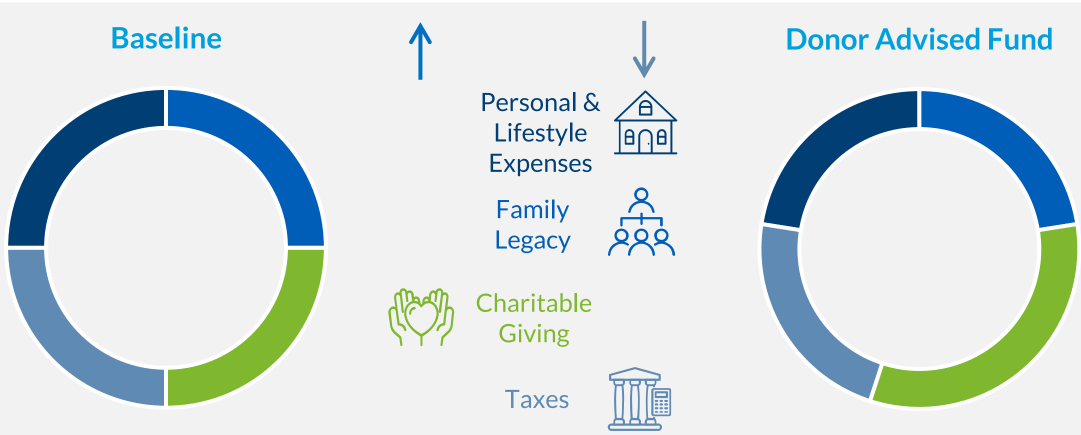
c) Recommends grants from the DAF to charitable organizations of their choice

Planning Considerations

Contributing company stock to a DAF in advance of a sale may be advantageous from a charitable planning and capital gain tax mitigation perspective

- ◊ The donor receives an income tax deduction equal to the fair market value of company stock contributed to the DAF [1]
- ◊ The portion of company stock sold from DAF is not subject to taxation [2]
- ◊ Post-sale proceeds may be subsequently granted to a public charity(ies) at any time and amount the donor chooses

Impact on Wealth

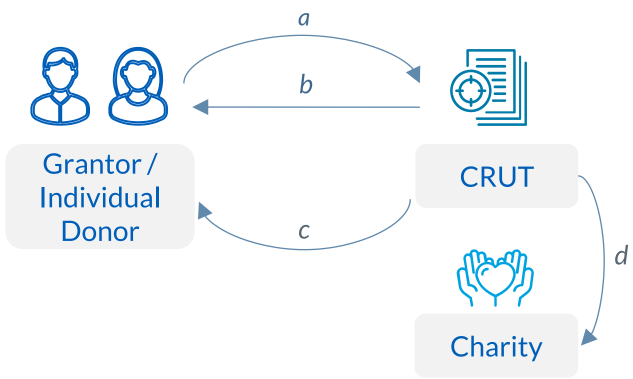


CAPITAL GAIN TAX MITIGATION: CHARITABLE PLANNING

Charitable Remainder Unitrust

A Charitable Remainder Unitrust (CRUT) is an irrevocable trust designed to create an income stream for the grantor / individual donor, with the remainder going to charity at the end of the trust term.

Design & Overview



The Grantor / Individual Donor

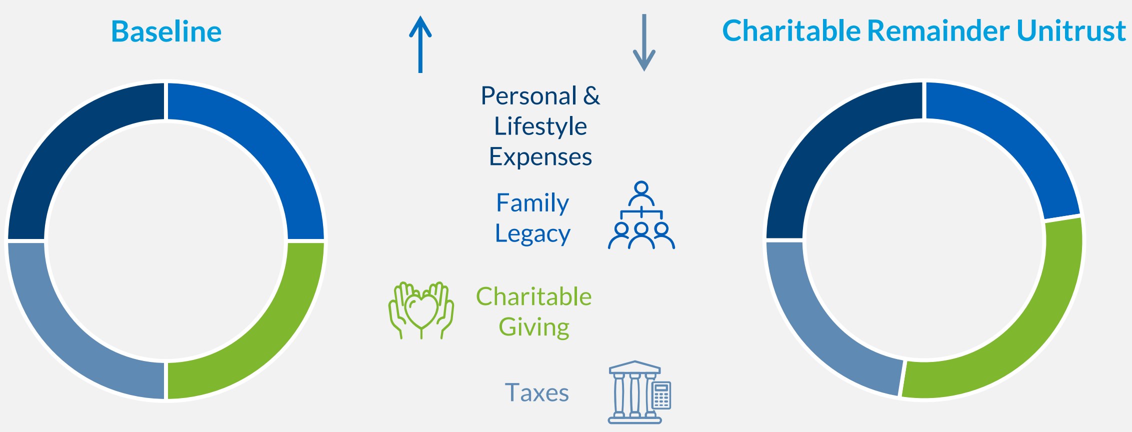
a) Makes an irrevocable contribution to the CRUT
b) Receives a partial income tax deduction for the amount contributed [1, 3]
c) Receives annual distributions from the CRUT for a term of years (not to exceed 20 years) or their lifetime
   - o Annual distribution is a fixed percentage [4] of trust principal and may be subject to income tax [5]
d) Upon termination of the trust, any assets remaining are distributed to the designated charitable beneficiary(ies)

Planning Considerations

Contributing company stock [6] in advance of a sale may be advantageous from a capital gain tax mitigation perspective and may accommodate future cash flow needs of the business owner while also benefitting charity at a future point in time

- ◊ The grantor/individual donor receives a partial income tax deduction for the amount contributed to the CRUT [1, 3]
- ◊ The portion of company stock sold from CRUT is not subject to taxation at the time of sale [7]
- ◊ Tax recognition is, instead, deferred over the trust's term as the grantor/individual receives annual distributions from the CRUT [5]

Impact on Wealth

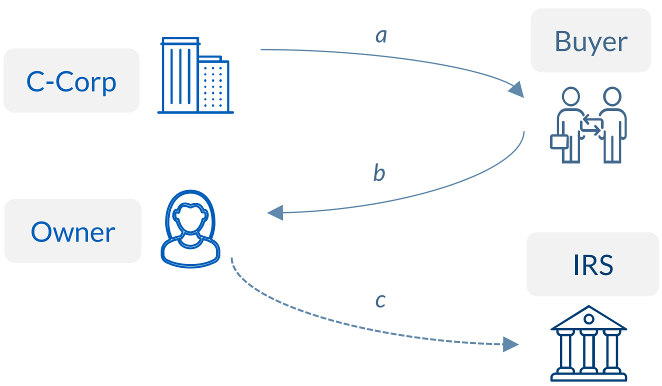


CAPITAL GAIN TAX MITIGATION: STATUTORY OPTIONS

Qualified Small Business Stock

Qualified Small Business Stock (QSBS) is regulated by IRC Section 1202.

Design & Overview



a) C-Corporation stock sold to the Buyer
b) Proceeds distributed to the Owner
c) Resulting Tax liability?
* Does Business qualify for QSBS treatment? *

Planning Considerations

QSBS applies to stock sales of C-Corporations only
(*does not apply to asset sales or other business entities*)

Other criteria to qualify [8]

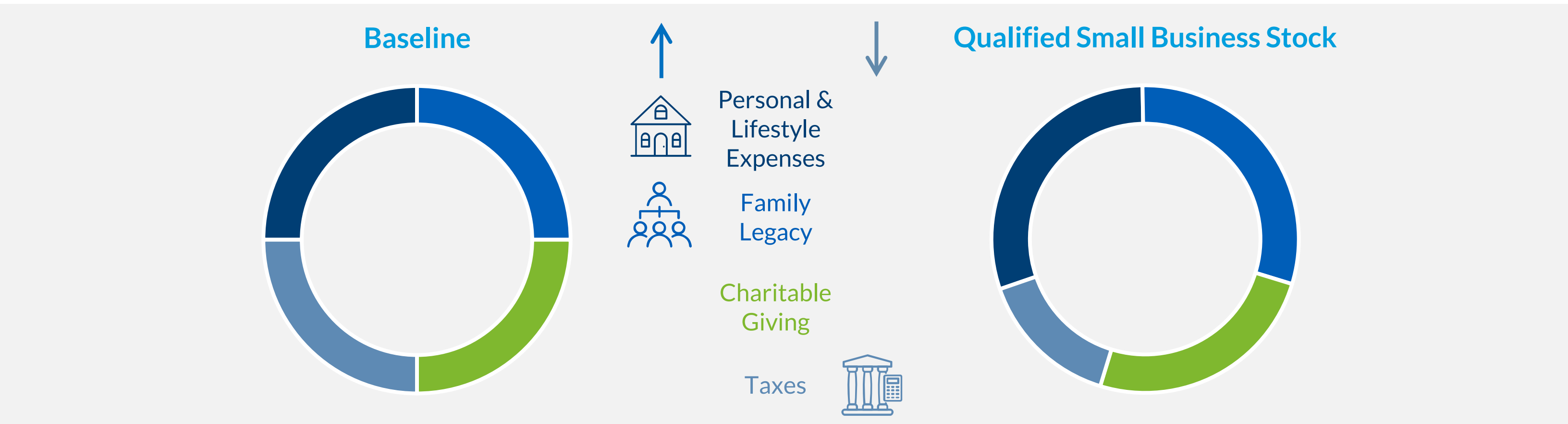
If all qualifications are met, taxpayer may exclude from capital gain tax the greater of

- **$10,000,000**
  Ten times the adjusted basis in company

Any qualifying QSBS gain exclusion is applied on a per-taxpayer basis

- Business owners may be able to multiply the number of available gain exclusions by transferring shares of QSBS to:
  - Family members (other than a spouse), or
  - Irrevocable Non-Grantor Trusts [12]
- While these transfers may mitigate income or capital gain tax, they may be subject to gift taxes

Impact on Wealth

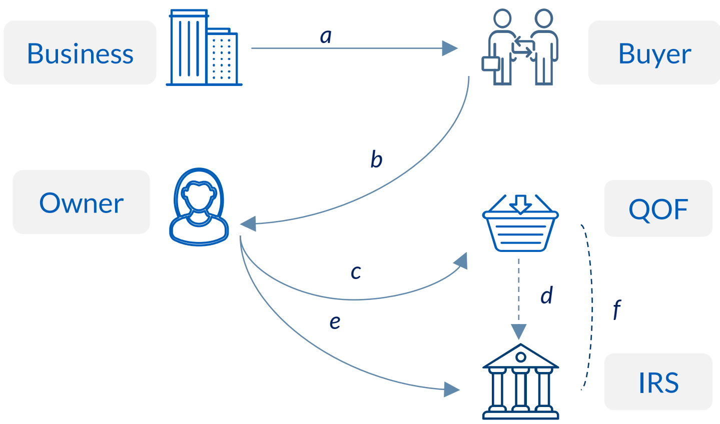


CAPITAL GAIN TAX MITIGATION: STATUTORY OPTIONS

Qualified Opportunity Zones

Qualified Opportunity Zones (QOZ) are regulated by IRC Section 1400Z.

Design & Overview



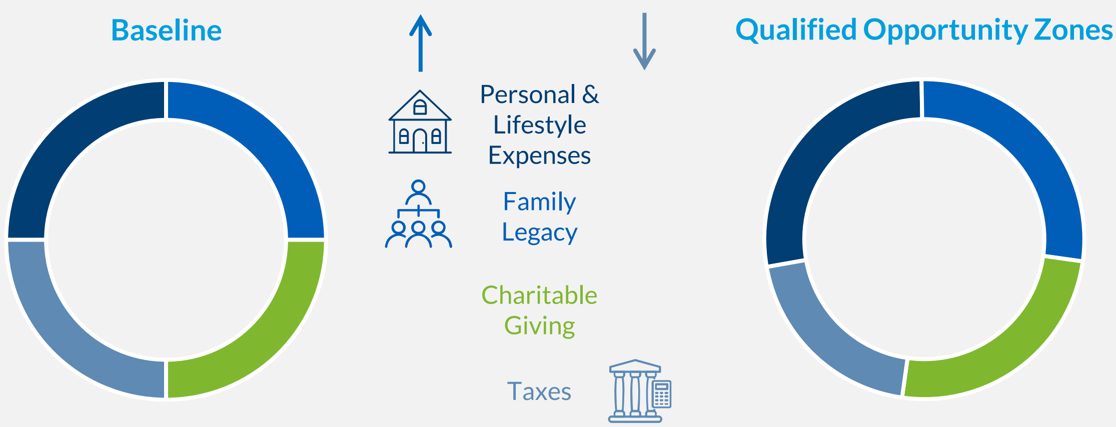
a) Business sold to the Buyer
b) Proceeds distributed to the Owner
c) Portion of proceeds (gain) reinvested in QOF
d) Tax liability on portion reinvested in QOF is deferred until 2026
e) Tax liability on remaining proceeds due to tax authorities
f) If held for at least ten years, appreciation on QOF not subject to tax when sold

Planning Considerations

Taxpayers have 180 days from closing to reinvest any capital gain into a QOZ through a Qualified Opportunity Fund (QOF)

- ◊ QOF may be active (self-funded), or passive (private or public offering)
- ◊ Tax liability on the portion of gain reinvested in a QOF is deferred until 12/31/2026 or inclusion event [9]
- ◊ If the QOF is held for at least ten years and subsequently sold, any appreciation on the QOF will not be subject to Federal taxation (if sold prior to year 2047)

Impact on Wealth

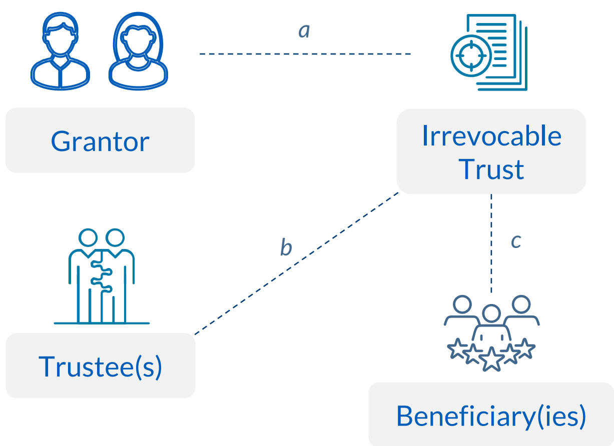


ESTATE AND LEGACY PLANNING: IRREVOCABLE TRUST PLANNING

Irrevocable Trusts

An irrevocable trust is a legal agreement created by an individual (grantor) for the benefit of one or more individuals (beneficiaries) and may only be modified, amended, or terminated under specific circumstances.

Design & Overview



a) The Grantor is the individual who establish a trust
b) The Trustee is a person or firm that holds and administers the trust and its assets for the benefit of a third party
c) The Beneficiary(ies) is the individual(s) for whom a trust is created

Planning Considerations

There are many variations of irrevocable trusts that may be suitable depending on the business owner's financial situation and legacy goals

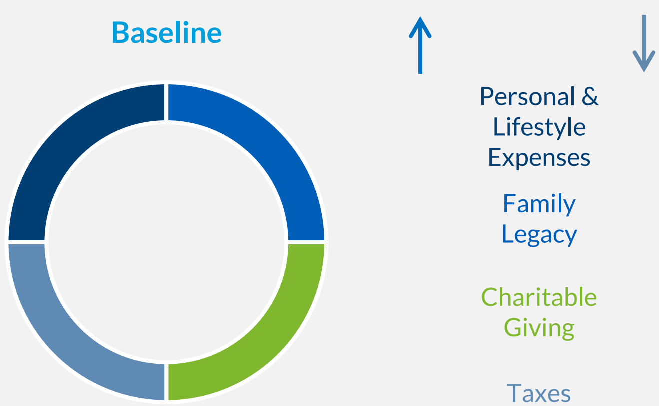
- For married couples, a Spousal Lifetime Access Trust (SLAT) [10] may be appropriate for consideration
- For passing wealth to heirs during life, an Intentionally Defective Grantor Trust (IDGT) [11], Irrevocable Non-Grantor Trust (INGT) [12], or a Grantor Retained Annuity Trust (GRAT) [13] may be appropriate for consideration

Other critical considerations for irrevocable trust planning

- Impact of the transfer on the future financial need and independence of the grantor
- Will the Grantor or Irrevocable Trust be responsible for the potential tax liability incurred from the portion of the company sold by the trust, as well as any future potential income earned by trust assets?
- Who should be selected as trustee?

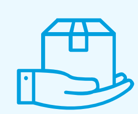
Impact on Wealth

Baseline



Irrevocable Trust Planning

The impact irrevocable trust planning may have on your wealth depends on the planning considerations above, as well as the method by which wealth is transferred to an irrevocable trust



ESTATE AND LEGACY PLANNING: WEALTH TRANSFER METHODS

Gift of Assets

A gift occurs when an individual irrevocably gives cash, property, or other assets to, or for the use of another individual, entity, or trust without expecting to receive something of equal value in return.

Design & Overview

The Grantor
a) Irrevocably gifts asset(s) to an irrevocable trust

Planning Considerations

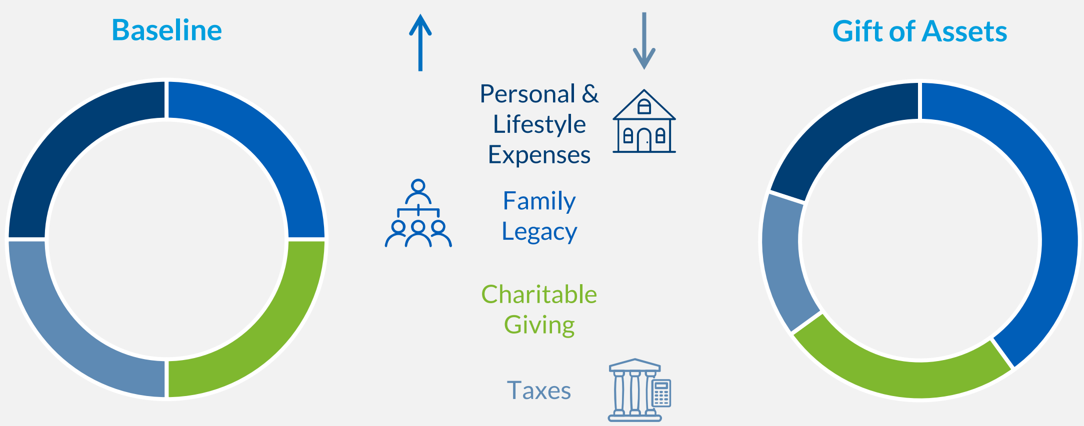
Gifting company stock to an irrevocable trust in advance of a sale may significantly enhance the amount of wealth transferred to heirs potentially free of gift & estate taxes

A gift of assets during life may be subject to gift taxes

If appropriately executed, the business owner may have an opportunity to:

- Remove the current value plus any future growth on the portion of the business gifted from their taxable estate
- Gift company stock at a lower value (at the time of transfer) relative to the future exit price
- "Discount" the value of company stock gifted for gift and estate tax purposes [14]

Impact on Wealth

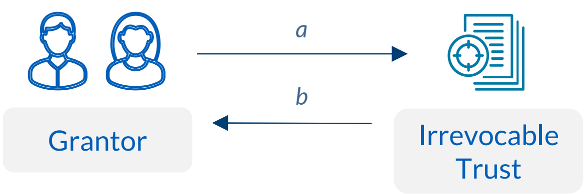


ESTATE AND LEGACY PLANNING: WEALTH TRANSFER METHODS

Sale or Loan of Assets

A sale or loan occurs when an individual gives cash, property, or other assets to, or for the use of another individual, entity, or trust in exchange for a promise to repay the amount given, plus interest, at some point in the future.

Design & Overview



The Grantor

a) Sells or loans assets to an irrevocable trust
b) Receives a promissory note equal to the value sold or loaned, plus interest

Planning Considerations

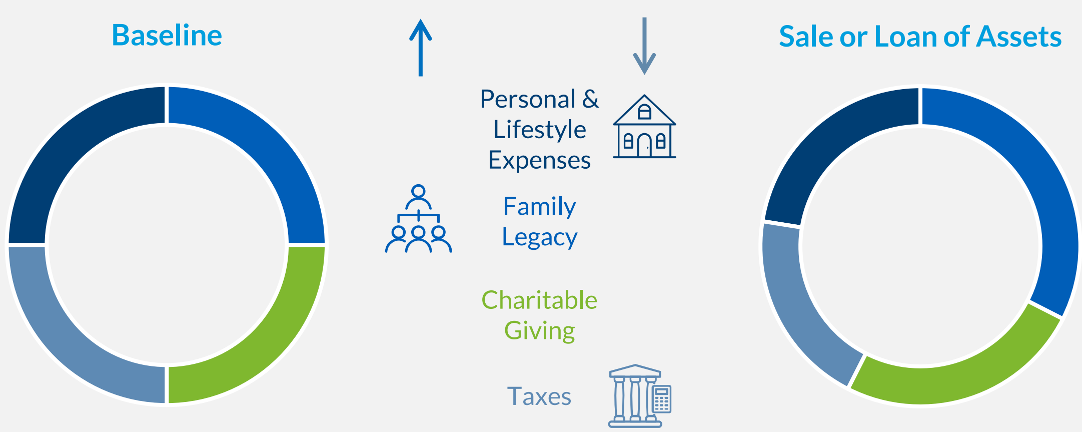
Selling or loaning [15] company stock to an irrevocable trust in advance of a sale may enhance the amount of wealth transferred to heirs potentially free of gift & estate taxes

Selling or loaning assets to an irrevocable trust does not trigger a gift tax. Future transactions (such as forgiveness of interest or principal) may be subject to gift taxes

If appropriately executed, the business owner may have an opportunity to:

- ◊ Remove future growth on the portion of the business sold or loaned from their taxable estate
- ◊ Sell or loan company stock at a lower value (at the time of transfer) relative to the future exit price
- ◊ “Discount” the value of company stock sold or loaned for gift and estate tax purposes [14]

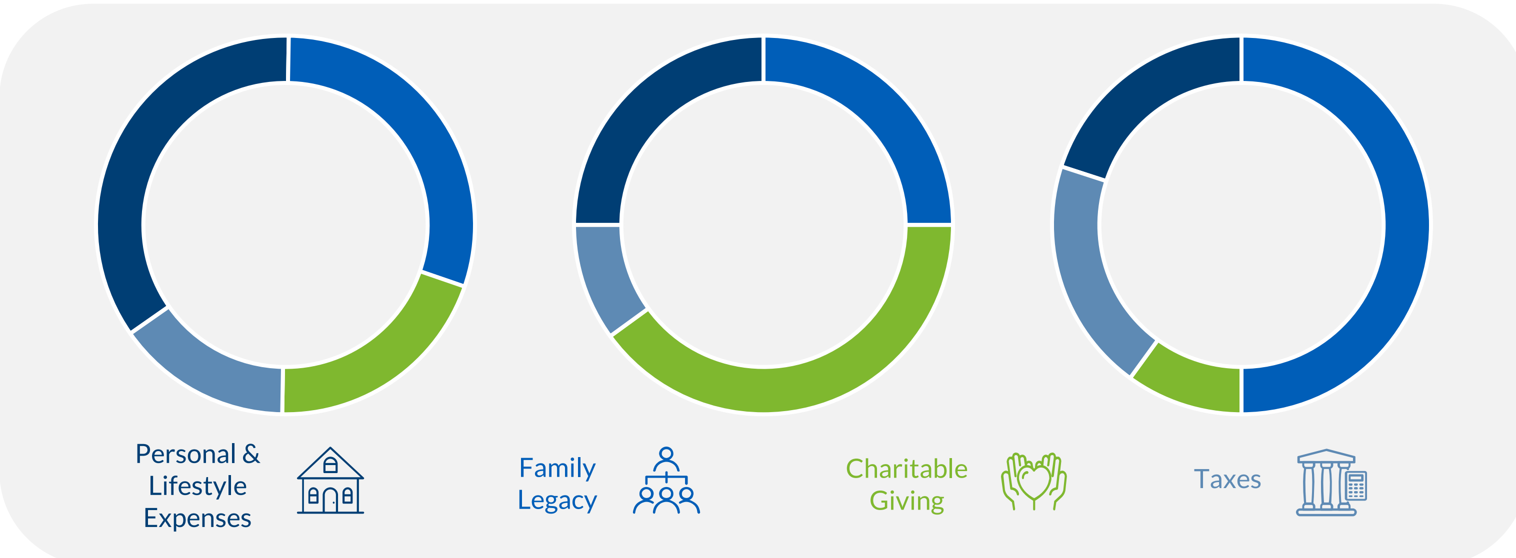
Impact on Wealth



A PLAN TAILORED TO YOU

When it comes to personal planning in advance of a business sale, there is no "one size fits all" approach. To truly optimize wealth, every plan should be meticulously designed and tailored to meet the goals and objectives of the business owner and their families.

How Would You Optimize Your Wealth?



City National Rochdale and City National Bank have dedicated specialists who can help advise you in collaboration with your professional advisors on all aspects of your business transition, from the sale itself to personal financial planning and your wealth transfer plans. We pair sophisticated financial tools and modelling techniques with a personal approach to illustrate for you the financial benefits advance planning can help deliver. We recognize the connection between your business and personal finances, and understand that each decision you make affects your entire wealth picture today and in the future.

To learn more, contact your Financial Advisor. You can also visit us at www.cnr.com, or email us at citynationalrochdale@cnr.com.

[1] Income tax deductions for charitable gifts may be limited to 60% of Adjusted Gross Income (AGI) for gifts of cash and 30% of AGI for gifts of appreciated property. 20% of AGI limitations may also apply in certain circumstances.

[2] Donor Advised Funds are maintained and operated by a Section 501(c)(3) organization and are exempt from income tax.

[3] The charitable deduction for a contribution to a CRUT is limited to the present value of the charitable organization's remainder interest; calculated as the value of the donated property minus the present value of the annuity – see Treas. Reg. 1.664-2(c) for additional information.

[4] Fixed percentage is valued annually and determined when the trust is established. It may not be less than 5% nor greater than 50% - the maximum allowable percentage is calculated based on the grantor(s) life expectancy and current IRC Section 7520 rate.

[5] Amounts distributed by a CRUT are considered taxable to the beneficiary to the extent the trust has accumulated and undistributed income characterized as (in order of priority): 1) ordinary income, 2) capital gain, 3) other income, 4) return of capital.

[6] Other than stock of an S-Corporation.

[7] A Charitable Remainder Trust must meet the qualifications under IRC Section 664(d)(2) to be exempt from income tax.

[8] Additional qualifications per IRC Section 1202.

[9] An Inclusion Event is a transaction that reduces or terminates the QOF investor's direct or indirect qualifying investment or a distribution that constitutes "cashing out" of the investor's qualifying investment.

[10] A Spousal Lifetime Access Trust is an irrevocable trust where one spouse (grantor) makes a gift into a trust to benefit the other spouse (income beneficiary) and other family members (remainder beneficiaries) while removing the assets from their taxable estate.

[11] An Intentionally Defective Grantor Trust is an irrevocable trust set up by an individual (grantor) to benefit another person(s) (beneficiaries). Any assets gifted to the trust are removed from the individual's taxable estate for gift and estate tax purposes, but the grantor assumes any income tax liability on all income generated by assets held in the trust.

[12] An Irrevocable Non-Grantor Trust is an irrevocable trust set up by an individual (grantor) to benefit another person(s) (beneficiaries). Any assets gifted to the trust are removed from the individual's taxable estate for gift and estate tax purposes and the trust and/or its beneficiary(ies) assumes any income tax liability on all income generated by assets held in the trust.

[13] A Grantor Retained Annuity Trust is an irrevocable trust that provides for annual payments to the grantor for a fixed term of years. At the end of the term, the remainder of the trust can be transferred to named beneficiaries. The payout rate is chosen by the grantor and the amount of the gift is based on the term of the trust and the Section 7520 Rate for that month. The value of the remainder, which can be zero, is reported as a taxable gift to the beneficiaries.

[14] Valuation discounts may be applied for gift & estate tax purposes for reasons such as lack of marketability, minority interests, or lack of control.

[15] Selling or loaning an asset to a Grantor Trust will not trigger a realization event since any transactions between the Grantor and a Grantor Trust are ignored for income tax purposes.