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GUIDE 4

Can Advanced QSBS Planning Help Your Family Keep More of a Future Sale?

A Business Owner's Guide to Gifts, Trusts, GRATs, and QSBS Stacking



QSBS PLANNING DOES NOT HAVE TO STOP WITH THE FOUNDER

A founder may spend years building a company and eventually discover that a large portion of the business's value could qualify for favorable treatment under §1202.

But another question may become important as the company grows:

DOES ALL OF THE QUALIFYING STOCK NEED TO STAY WITH ONE OWNER?

Certain transfers of QSBS can potentially preserve important tax attributes rather than destroying them. That creates planning opportunities involving:

- CHILDREN AND FAMILY MEMBERS
- IRREVOCABLE TRUSTS
- ESTATE PLANNING
- GRATS
- MULTIPLE QSBS TAXPAYERS

WHY THIS MATTERS

- How much of the sale could potentially qualify for QSBS?
- How much of this wealth should remain in the founder's estate or pass to my family?

With enough lead time, those questions may sometimes be planned together.

WHAT THIS MEANS FOR YOU

Advanced QSBS planning is not simply about creating more trusts.

WHO SHOULD OWN THE STOCK BEFORE THE BUSINESS BECOMES A SALE TRANSACTION?

DECISION 1: A GIFT OF QSBS DOES NOT NECESSARILY RESTART THE CLOCK

One of the most important rules for advanced QSBS planning is that certain gifts can preserve the stock's history. Under the framework discussed in the webinar, a recipient of QSBS transferred by gift is generally treated as having acquired the stock in the same manner as the donor, and the donor's holding period can carry over.

SIMPLE EXAMPLE

FOUNDER
Has held qualifying stock for 4 years

4 Years

→

GIFTS QSBS
to an eligible recipient

→

RECIPIENT
may generally continue using the donor's holding period

4+ Years

THE CLOCK DOES NOT SIMPLY START OVER AT ZERO

POTENTIAL BENEFIT

A properly structured gift may allow the founder to move ownership to children, family members or certain trusts while potentially preserving the existing QSBS holding period.

POTENTIAL CONSEQUENCE

Not every transfer produces the same result. How the stock is transferred, who receives it, how the recipient is taxed, and whether the transfer is genuinely complete can matter.

RELATED ESTATE-PLANNING RULE

QSBS transferred at death can generally carry its QSBS status and holding period to the recipient, subject to the applicable rules.

WHAT THIS MEANS FOR YOU

Do not assume, "If I transfer the shares, I lose all the QSBS history." But also do not assume, "Any transfer will work." The transfer needs to be evaluated before it happens.

DECISION 2: A NON-GRANTOR TRUST CAN BE MORE THAN AN ESTATE-PLANNING TOOL

To understand QSBS stacking, first understand one distinction:

WHO IS THE TAXPAYER?

GRANTOR TRUST

Founder transfers stock

↓

Trust holds stock

↓

Founder generally remains the relevant income-tax taxpayer

NON-GRANTOR TRUST

Founder completes transfer

↓

Trust becomes a separate taxpayer

↓

Trust may potentially have its own §1202 limitation

POTENTIAL BENEFIT

A properly structured non-grantor trust can potentially combine family wealth transfer, estate planning, future appreciation planning, and independent QSBS taxpayer treatment.

POTENTIAL CONSEQUENCE

Creating a trust does not automatically create another exclusion. The trust must actually qualify as a separate taxpayer, and the stock itself must continue satisfying the applicable QSBS requirements.

WHAT THIS MEANS FOR YOU

The important question is not: "Did I put my QSBS into a trust?" It is:

WHO IS ACTUALLY TREATED AS THE TAXPAYER AFTER THE TRANSFER?

HOW QSBS "STACKING" CAN MULTIPLY THE POTENTIAL EXCLUSION

"Stacking" refers to a strategy in which qualifying stock is transferred to multiple taxpayers that may each have their own §1202 limitation. The webinar illustrates this using separate irrevocable non-grantor trusts for different children or family branches.

ILLUSTRATIVE EXAMPLE

For qualifying stock subject to a $15 million fixed-dollar limit:

FOUNDER	+	TRUST 1	+	TRUST 2	+	TRUST 3
Potential individual limit		Potential separate limit		Potential separate limit		Potential separate limit
$15M		**$15M**		**$15M**		**$15M**

= **POTENTIALLY $60 MILLION ACROSS FOUR TAXPAYERS**

This is an illustration, not an automatic result. The actual exclusion available to each taxpayer depends on the stock's acquisition date, basis, prior dispositions, trust structure, taxpayer status and other applicable rules.

POTENTIAL BENEFIT

When properly planned well in advance, separate taxpayers may potentially use separate QSBS limitations.

POTENTIAL CONSEQUENCE

A strategy that looks powerful mathematically can fail if the trusts are not genuinely separate taxpayers or if the transfers occur too late.

WHAT THIS MEANS FOR YOU

The potential value is not simply: "Create three trusts."

CAN OWNERSHIP BE TRANSFERRED EARLY ENOUGH AND CLEANLY ENOUGH FOR EACH TAXPAYER TO HAVE ITS OWN POSITION?

DECISION 3: TIMING MAY MATTER AS MUCH AS THE TRUST ITSELF

Advanced QSBS planning becomes much more difficult when a sale is already effectively underway. Transfers used for stacking should generally occur well before a sale becomes imminent.

STEP-TRANSACTION RISK

If several steps are effectively pieces of one predetermined sale, they may be analyzed together rather than independently.

ASSIGNMENT-OF-INCOME RISK

If the right to sale proceeds has effectively become fixed before the gift, transferring the stock may not necessarily transfer the associated income-tax consequence.

STRONGER PLANNING POSITION

Business is growing → Estate and QSBS planning begins → Transfer completed → Time passes → Possible future sale

WEAKER PLANNING POSITION

Buyer identified → Sale terms substantially developed → Transfer made → Transaction closes shortly afterward

POTENTIAL BENEFIT

Planning early gives the transfer more economic substance independent of the eventual sale.

POTENTIAL CONSEQUENCE

Waiting until the transaction is nearly complete can turn a sophisticated strategy into a difficult tax controversy.

WHAT THIS MEANS FOR YOU

Do not ask: "How late can I wait?"

WHEN IS THE BUSINESS VALUABLE ENOUGH TO PLAN FOR, BUT EARLY ENOUGH THAT THE SALE IS NOT ALREADY DRIVING THE PLAN?

DECISION 4: A GRAT CAN MOVE FUTURE APPRECIATION WITHOUT GIVING EVERYTHING AWAY TODAY

A Grantor Retained Annuity Trust (GRAT) is an estate-planning technique designed to transfer future appreciation while allowing the founder to retain an economic interest for a period of time.

HOW A GRAT WORKS



FOUNDER CONTRIBUTES STOCK

GRAT HOLDS THE ASSET

FOUNDER RETAINS A FIXED ANNUITY
for a stated term

APPRECIATION ABOVE THE APPLICABLE §7520 HURDLE
may pass to remainder beneficiaries

WHY A BUSINESS OWNER MIGHT CARE

Imagine stock in a business that is worth significantly more five years from now than it is today. The planning opportunity is not necessarily the current value. It may be:

WHO OWNS THE FUTURE APPRECIATION?

POTENTIAL BENEFIT

A GRAT may allow a founder to coordinate estate-tax planning, transfer of future business appreciation, continued economic benefits during the GRAT term, and potential longer-term QSBS planning.

POTENTIAL CONSEQUENCE

A GRAT is not the same as immediately creating another QSBS taxpayer. That distinction becomes critical on the next page.

A GRAT DOES NOT AUTOMATICALLY CREATE ANOTHER QSBS EXCLUSION

During the GRAT term, the GRAT is generally a grantor trust. That means the founder remains the §1202 taxpayer. So simply moving QSBS into a GRAT does not, by itself, create another exclusion limit.

DURING THE GRAT TERM



TAX RESULT

Founder remains the relevant taxpayer.
No automatic second QSBS cap.

AT THE END OF THE GRAT TERM



If the stock later passes to a non-grantor remainder trust, the remainder trust may become a genuinely separate QSBS taxpayer, while the holding period can potentially carry over.

WHY THIS CAN BE USEFUL

A GRAT can function as a potential bridge:
Estate-freeze planning now → Separate-taxpayer planning later.

WHAT THIS MEANS FOR YOU

Do not use the shorthand: "Put QSBS in a GRAT and double the exclusion." The real planning involves what happens during the GRAT term, what happens when the term ends, and who ultimately owns the stock.

WHICH ADVANCED STRATEGY ACTUALLY FITS YOUR GOALS?

These techniques solve different problems. They should not be treated as interchangeable.

Strategy	Primary planning objective	Key QSBS consideration
Direct lifetime gift	Move stock to family or another recipient	Holding period may carry over
Non-grantor trust	Family/estate planning with separate taxpayer treatment	May potentially have an independent §1202 limit
Multiple non-grantor trusts	Divide ownership among separate taxpayers/family branches	Potential "stacking," subject to each trust's facts
GRAT	Move future appreciation while retaining an annuity	Grantor remains taxpayer during GRAT term
GRAT → remainder trust	Combine estate freeze with later separate ownership	Remainder trust may later become separate taxpayer

BEFORE TRANSFERRING QSBS, ASK:

- ☑ Who should economically own this stock after the transfer?
- ☑ Do I still need access to the value or cash flow?
- ☑ Is estate-tax planning one of my goals?
- ☑ Is the recipient actually a separate taxpayer?
- ☑ Will the existing QSBS holding period carry over?
- ☑ Is a sale already being negotiated or becoming reasonably certain?
- ☑ What documentation will show that the transfer was genuine and complete?

WHAT THIS MEANS FOR YOU

The most aggressive-looking strategy is not necessarily the most useful one. The right structure should fit the family plan, estate plan, business plan and exit plan at the same time.

THE MOST VALUABLE QSBS PLANNING OFTEN HAPPENS BEFORE A SALE FEELS CLOSE

Advanced QSBS planning can become powerful because a successful company can create more wealth than one person intends to keep.

A SUCCESSFUL COMPANY CAN CREATE MORE WEALTH THAN ONE PERSON INTENDS TO KEEP

- Who should own that appreciation?
- How much should remain in the founder's estate?
- Should family trusts own part of the business?
- Could separate taxpayers eventually have separate QSBS opportunities?
- Should a GRAT be part of the wealth-transfer strategy?

EXECUTION AND TIMING MATTER

Gift recipients may inherit the donor's QSBS history. Non-grantor trusts may potentially become separate taxpayers. GRATs may move future appreciation. Stacking may potentially increase the amount of qualifying gain excluded across multiple taxpayers. But those outcomes depend on real transfers, real ownership changes, proper trust taxation and planning that begins before the sale itself dictates the transaction.

BEFORE YOU ACT, ASK:

- Do I actually have qualifying QSBS?
- Who owns it today?
- Who should own it several years from now?
- How much appreciation may still occur?
- Do my estate-planning and QSBS goals support the same structure?
- Is there enough time to implement the strategy before a sale becomes imminent?

BOOK YOUR STRATEGY SESSION

Dahl Law Group can help business owners evaluate how QSBS, ownership transfers, trusts, estate planning and future exit strategy fit together before implementing an advanced structure.

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THE GOAL IS NOT TO CREATE MORE STRUCTURES.
THE GOAL IS TO POSITION OWNERSHIP BEFORE THE VALUE AND THE EXIT ARE ALREADY LOCKED IN.

DISCLAIMER
This guide is provided for general educational purposes only and does not constitute legal, tax, accounting, investment or financial advice. IRC §1202, trust taxation, GRATs, gift-tax rules, estate-tax rules, assignment-of-income principles and related planning strategies are highly technical and fact-specific. Creating a trust or transferring QSBS does not guarantee an additional exclusion. Applicable law and tax treatment may change. Consult qualified legal and tax professionals before implementing any strategy.