



The Academy

Tax mitigation strategies

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Qualified small business stock (sect. 1202)

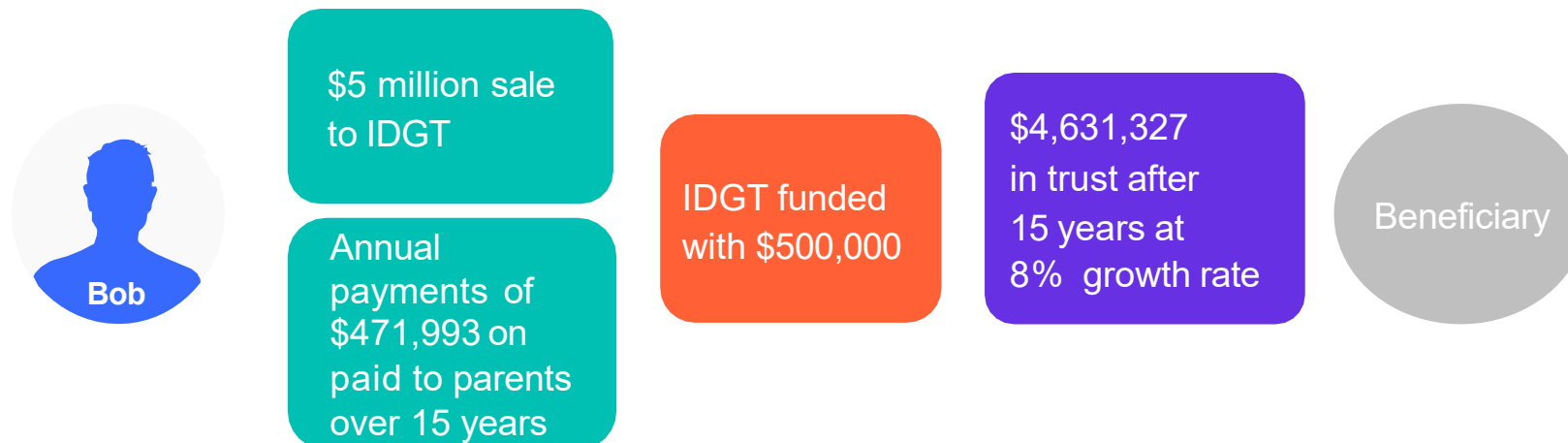
- Exclude 100% gain on sale of qualified small business stock if on sale held at least 5 years and stock issued after Sept. 28, 2010. The 5 years is no longer a cliff.
- Stock must be an original issue from C corporation and gross assets corporation can't exceed \$50M or \$75M for stock issued July 4, 2025 or after.
- Can exclude \$10,000,000 or 10 times the basis whichever is GREATER. For shares issued on or after July 4, 2025 the exclusion is \$15,000,000 or 10 times cost basis.
- Corporation must use 80% of its assets in a qualified trade or business; banking, insurance, finance, leasing, investing, farming, health, law, engineering, accounting, and hotel, motel or restaurant won't qualify.
- Can defer gain by rolling over into new QSBS within 60 days.

Qualified small business stock (sect. 1202) example

- Sally buys 500 shares of ABC corp., a C corp. for \$500,000.
- She holds the stock for 8 years and then sells it for \$11,000,000.
- The gain is \$10,500,000 out of which \$10,000,000 is excluded.
- The remaining gain of \$500,000 could be rolled over into new QSBS stock.

Sale of family business interest to an IDGT

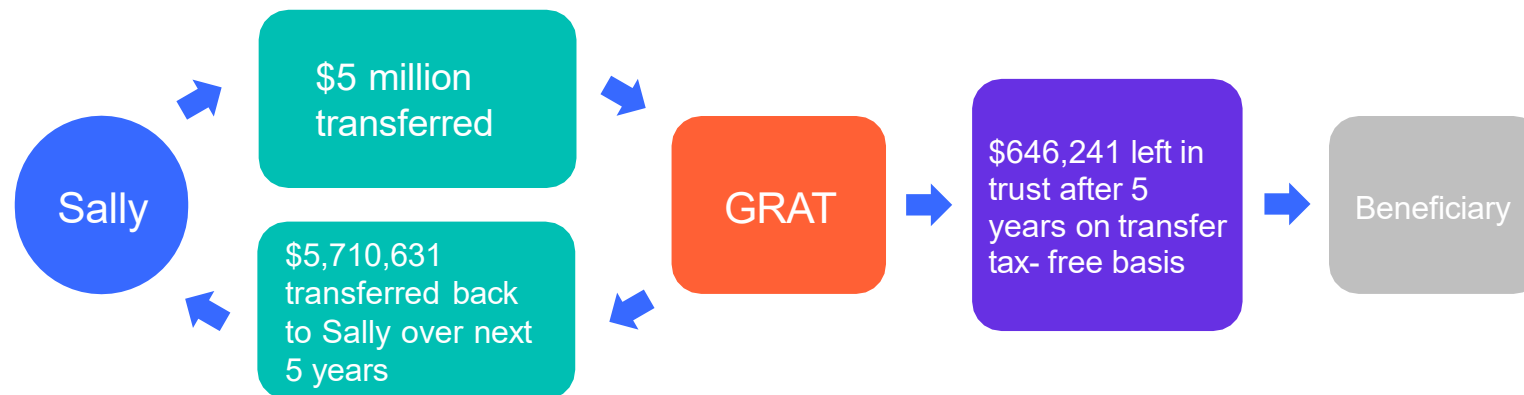
- Bob sells limited partnership interest to IDGT for \$5 million after valuation discounts; IDGT funded with seed capital of \$500,000 — no capital gain generated on sale to IDGT since it is a grantor trust.
- There is a 15-year note at 4.70% (AFR rate, Feb. 2026 *); IDGT pays back to Bob \$471,993 annually for the term of the note, and there is no completed gift (other than the initial seed gift).
- If trust assets grow at 8%, then \$4,631,327 at end of 15 years is transferred without any estate or gift taxes to trust beneficiaries.



* IRS Rev. Rul. 2019-03.

Using a GRAT to transfer wealth free of gift taxes

- Sally transfers \$5 million in property to an irrevocable trust.
- The trust transfers property back to Sally over the five-year term based on an annuity calculation.
 - Annuity factor is based on IRS 7520 rate of 4.6% as of Feb., 2026.
- If trust assets grow 8% annually, then \$646,241 remains in the trust free of gift and estate taxes for the benefit of Sally's beneficiaries.
 - Assumes Sally outlives the five-year term for the GRAT to be an effective strategy.



* IRS Rev. Rul. 2019-03.

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Consider going from S corporation to C corporation

With TCJA being extended the top ordinary income rate remains at 37.0% on active business income. The top C corporation rate is 21%. This is a spread of 16%. With qualified business income deduction of 20%, the spread is 29.6% minus 21% or 8.6%.

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A C corporation can use section 1202 qualified small business stock

Under current law, if you have held this stock for 5 years and acquired the stock after Sept. 27, 2010, you can exclude 100% of the gain on sale up to \$10 million or, if greater, ten times the cost basis. Shares issued on or after July 4, 2025 the \$10 million is \$15 million.

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The intentionally defective trust may also work

Consider other alternatives such as an intentionally defective trust. Thus the trust is defective for income tax purposes but not for estate and gift tax purposes. Also, gifting valuation discounts are still available for gifts of an active business interest.

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SALT limit was \$10,000 but is now \$40,000 if income is \$500,000 or less. Income between \$500,000 and \$600,000 the \$40,000 goes back to \$10,000. Business owners should consider the PTE (pass through deduction) for S corporations or partnerships.

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