WELLS FARGO

The Private Bank

Pre-liquidity Planning—the why and how

June 16, 2021

Alexander V. Quest, Senior Wealth Planning Strategist
alexander.v.quest@wellsfargo.com
415-222-1938

The current transfer tax system

Overview

The current tax system is based on the Tax Cuts and Jobs Act ("TCJA"), which was made effective 1/1/18 and put in place temporary exclusion amounts that will expire on 12/31/2025. Following the expiration of that regime, exclusion amounts will revert back to those put in place by the American Taxpayer Relief Act ("ATRA"), made effective in 2013. The TCJA did not impact tax rates which will remain consistent and are governed by ATRA. Keep in mind:

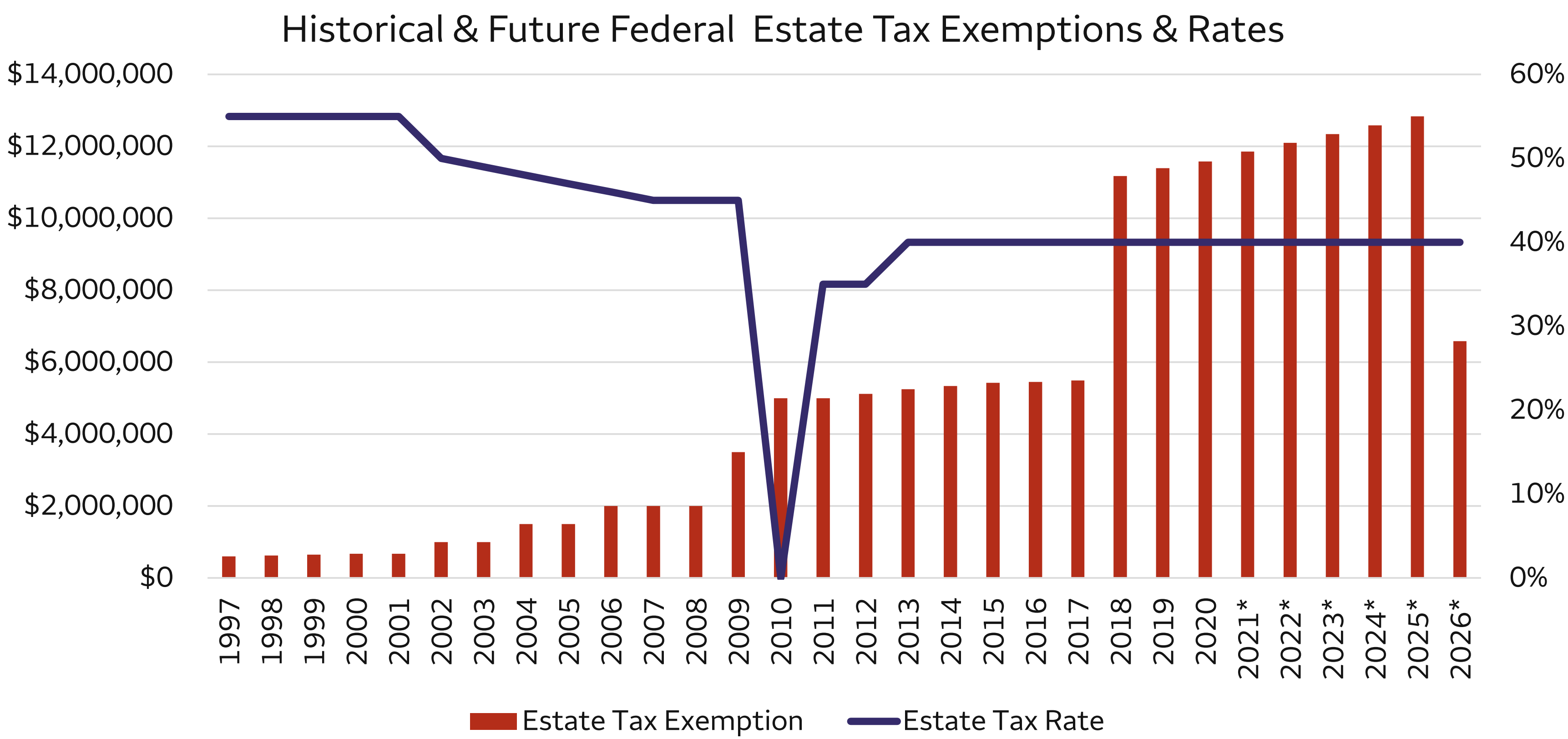
- The exclusion amounts will continue to increase with inflation in future years.
- Any estate or gift tax exclusion that is not used at the first spouse's death is portable and may be used by or at the surviving spouse's death

Tax year	Applicable credit amount (1)	Estate tax exclusion amount (2)(4)	GST exemption amount	Gift tax exclusion amount (2)	Marital deduction	Marginal estate and gift tax rates	GST tax rate	Annual exclusion gift amount (3)
2015	$2,117,800	$5,430,000	$5,430,000	$5,430,000	Unlimited	40%	40%	$14,000
2016	$2,125,800	$5,450,000	$5,450,000	$5,450,000	Unlimited	40%	40%	$14,000
2017	$2,141,800	$5,490,000	$5,490,000	$5,490,000	Unlimited	40%	40%	$14,000
2018	$4,417,800	$11,180,000	$11,180,000	$11,180,000	Unlimited	40%	40%	$15,000
2019	$4,505,800	$11,400,000	$11,400,000	$11,400,000	Unlimited	40%	40%	$15,000
2020	$4,577,800	$11,580,000	$11,580,000	$11,580,000	Unlimited	40%	40%	$15,000
2021	$4,625,800	$11,700,000	$11,700,000	$11,700,000	Unlimited	40%	40%	$15,000

Footnotes

1. Estate tax credit taken on the estate tax return corresponding to the estate tax exclusion amount.
2. Represents the basic exclusion amount. Under the portability rules, if the decedent is married, the applicable exclusion amount is the sum of the basic exclusion amount and the deceased spousal unused exclusion amount.
3. Annual exclusion gifts are adjusted for inflation in $1,000 increments.
4. Some states also have their own estate tax and estate tax exclusion amount. In California, there currently is no state estate tax.

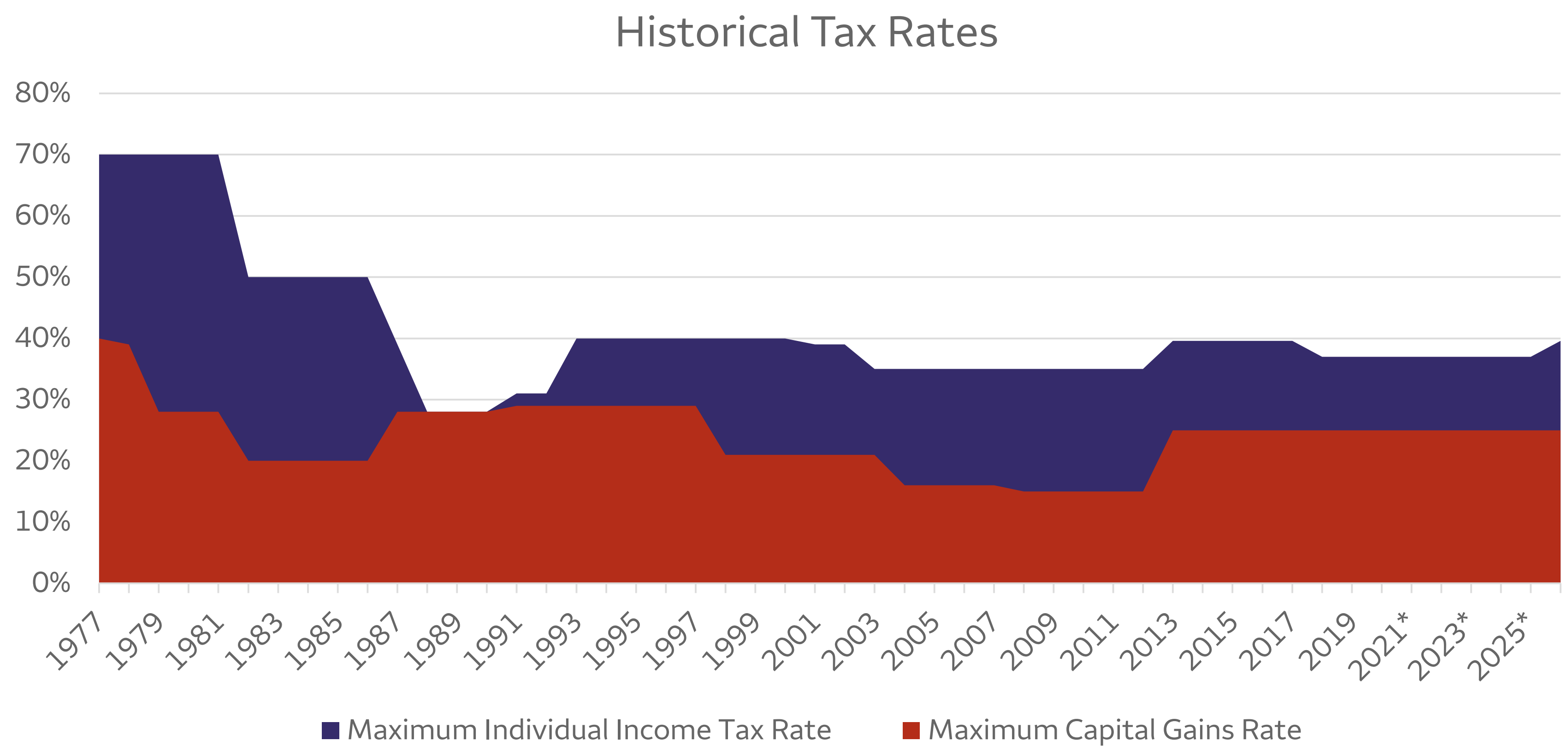
Historical tax rates - estate tax and exemption



*Projected exemption indexed for inflation

Sources: Tax Foundation; Brentmark Estate Planning Tools
https://taxfoundation.org/federal-estate-and-gift-tax-rates-exemptions-and-exclusions-1916-2014

Historical tax rates – capital gains and individual income tax



Notes: *Projected exemption indexed for inflation; the maximum rates include the 3.8% tax on net investment income (2013-2026).

Sources: US Department of Treasury, Office of Tax Analysis (2016); Tax Foundation
https://www.treasury.gov/resource-center/tax-policy/tax-analysis/Documents/Taxes-Paid-on-Long-Term-Capital-Gains.pdf
https://files.taxfoundation.org/legacy/docs/fed_individual_rate_history_nominal.pdf
https://taxfoundation.org/look-ahead-expiring-tax-provisions/

Estate tax minimization strategies

Consider the following strategies which may help to reduce your estate tax liability.

Spend - spend down your assets.

Sell - sell assets to family and friends.

- If you sell assets that are expected to appreciate, you have effectively transferred this future appreciation out of your estate. The value of this technique is compounded when the transferred asset can be sold at a discount (due to partial interest ownership, lack of buyers, etc.).

Gift - Gift assets out of your estate.

- Outright or in trust
  - Use annual exclusion
  - Use lifetime estate tax exclusion
  - Make educational or medical payments directly to an institution instead of an individual (unlimited)
  - Make taxable gifts - consider lifetime vs. Testamentary gifting costs
- 'Leveraged' gifting - compound the impact of the above outright/trust gifts in the following ways:
  - Gift discountable assets and entities (partial interests, unmarketable assets such as family business interests, etc.).
  - Gift assets to an irrevocable life insurance trust (ILIT) to purchase life insurance. With a properly structured plan, the proceeds can be used to pay your estate taxes.

Donate - donate assets to charity (some deduction limitations apply).

Use a trust - purchase investments and new business ventures in the name of a trust.

- Using a trust can keep assets out of your estate from the outset. If necessary, you can give or lend cash to the trust to get the business started or purchase the investment.

The power of gifting

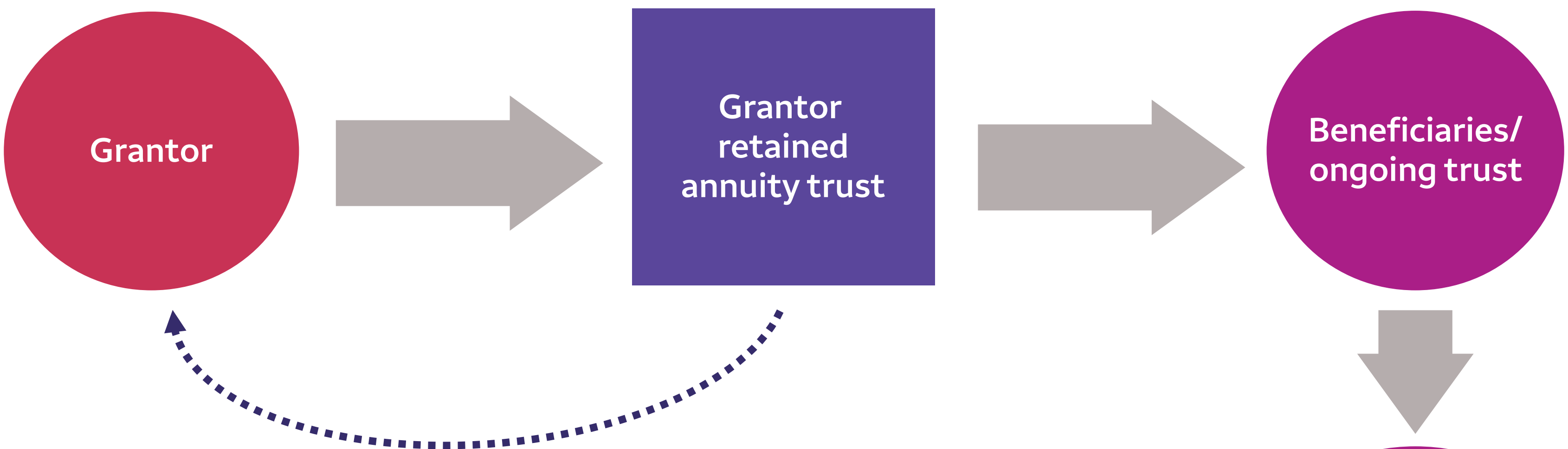
After tax (income) growth rate	Growth of $11,700,000 over 10 years	Transfer tax savings (before income taxes)[1]	Growth of $11,700,000 over 20 years	Transfer tax savings (before income taxes)[1]
3%	$15,723,822	$1,609,529	$21,131,501	$3,772,601
5%	$19,058,067	$2,943,227	$31,043,583	$7,737,433
7%	$23,015,671	$4,526,268	$45,275,308	$13,430,123
10%	$30,346,787	$7,458,715	$78,711,749	$26,804,700

1. Assumes a $11,700,000 estate exemption and 40% federal estate tax rate. State estate taxes are not factored into savings.

Grantor Retained Annuity Trust (GRAT) illustration

In the example below, a shareholder passes stock appreciation above the IRS hurdle rate out of his estate to his beneficiaries with no gift, income, or estate taxes.

1. Shareholder transfers $1mm worth of shares or high growth potential assets to a 5-year GRAT.



2. The trust distributes in-kind annuity payments to the grantor each year for the designated trust term. Cumulative annuity payments back to the grantor total $1,036,290 which zeros out the gift tax consequences of the trust.

3. At the end of the 5 year trust term, the trustee holds the remaining assets, now worth $210,600 in trust, or distributes them to beneficiaries.

Key assumptions

- GRAT trust term: 5 years
- Annuity payout rate: 20.73%
- Section 7520 rate: 1.2% (IRS hurdle rate, set monthly)
- Growth rate: 7%

Tax deferred exchange: the Charitable Remainder Trust (CRT)

A CRT set up in anticipation of a liquidity event defers the tax on the sale of those shares and can be used to satisfy a lifetime charitable goal.

Below you will see an example of a shareholder who is saving $1.35mm in income taxes and giving $2mm to charity.

- Shareholder with zero/low basis stock
- Assumed $25mm value (of holding post transaction)
- Assumed 35% tax consequences upon sale of stock (Federal and state)
- Immediate income tax deduction for charitable contribution of $250k
- Additional benefit: re-investment using full $2.5mm value to create diversified portfolio

In advance of transaction, Shareholder contributes shares worth $2,500,000

CRT

CRT sells shares into the M&A transaction (or into the public market post-IPO). No capital gains or income tax consequences at sale of the shares. Deferred tax savings of $875k.

Payout to charity at death of shareholder: $2,032,700

Payouts back to the shareholder over trust term: $3,847,400

This information is provided for illustration and education purposes only. Wells Fargo & Company and its affiliates cannot provide legal and tax advice. In order to determine the specific legal and tax effect to you of any planning technique presented, please consult your own legal and tax advisors. This illustration assumes Unitrust payout rate 10.88%, Section 7520 rate 0.6%, NIMCRUT growth rate 3.5% - 4.5%. NIMCRUT income rate: 1.5% - 2.5%, NIMCRUT term - 20 years, Flip year: 10.

Section 1202 stock gain exclusion: Allows for $10mm exclusion

Qualified Small Business Stock Requirements

In order to receive the Qualified Small Business Stock Exclusion, the following requirements must be met:

- The stock must be originally issued from a U.S. C corporation on or after August 10, 1993
- Before and immediately after issuance, the C corporation must have assets less than $50,000,000
- The stock must be held by the owner for more than five years
- The C corporation must be engaged in an “active business”
- There must be documentation that the stock in question meets qualified small business stock requirements

Stock options: consider an 83(b) election

Reasons to consider a section 83(b) election include:

- Starts the QSBS holding clock;
- Immediate establishment of the shares' cost basis;
- Control over the timing of income recognition rather than waiting until the restrictions lapse at vesting; and
- Capital gain tax treatment will be achieved sooner.

Potential risks to making the 83(b) election, include:

- If the stock price declines before vesting, the employee likely would have paid more taxes than necessary;
- Because the tax must be paid when the award is granted, not vested, the employee will have to raise other funds to cover the tax withholding since the shares cannot be liquidated; and
- If the stock option/share is forfeited, the employee may not take a tax loss with respect to the forfeited awards, and would not be entitled to any refunds on the tax that had already been paid.

Evolution of Private Company Holdings

Wells Fargo offers comprehensive advice based on your unique situation from early stage liquidity management solutions to long-term monetization and legacy planning.

Early Stage	Liquidity Transition	Liquidity Event
From incorporation through early stage and scale up of your business Initial idea validation and critical milestones identified	Company has or is about to reach a critical milestone Monetization of all or part of the company is visible over the 18-24 months	After monetization via Mergers & Acquisitions (M&A) or public transaction

Credit/Debt

- Mortgage
- Liquidity against private company stock
- Lending for stock options exercise
- Hedging and lending strategies
- Concentrated stock position analysis
- Lending against diversified portfolio

Financial Planning

- Risk management
- Stock option planning including early exercise
- Budgeting and lifestyle goals
- Asset protection
- Qualified Small Business Stock (QSBS) analysis (Section 1202)
- Rule 144 and Section 16
- 10b5-1 trading programs
- Diversification, investment and asset allocation strategies
- Liquidity management
- Retirement plans
- Insurance needs

Estate and Legacy Planning

- Establish revocable trust and review wills
- Tax-efficient strategies and planning
- Business succession and exit strategies
- Dynasty trusts
- Gifting strategies
- Philanthropy
- Charitable gifting/ foundations

The Wells Fargo Private Bank difference

More than
$190 billion**
IN TOTAL CLIENT ASSETS

#1 LARGEST WORKPLACE EMPLOYEE GIVING CAMPAIGN IN THE USA,
based on 2018 donations
United Way Worldwide 2019

Backed by the strength of **WELLS FARGO & COMPANY** with more than $1.9 trillion in assets and more than 165 years in business**

More than
1,000 PROFESSIONALS
fulfilling the needs of over
63,000 CLIENTS nationally**

Investment approach guided by the ***experience*** of the Wells Fargo Investment Institute

Decades-long tradition of serving individuals and families with complex financial needs

RECOGNIZED AS
"Best Wealth Planning Offering"
by *Family Wealth Report Awards* **2020**

A team of specialists. Dedicated to you.

Wells Fargo works closely with your trusted professional advisors, such as your CPA and attorney. This helps you get your financial plan implemented effectively and ensures it aligns with your lifestyle goals.

*Recognized as the country's leading wealth providers**

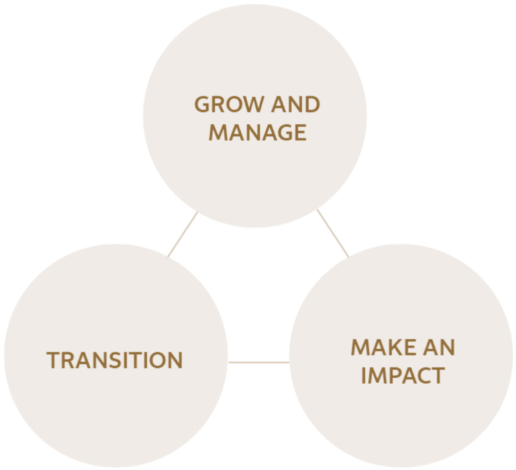
Your financial plan in action:

Capabilities to bring your custom plan to life, today and tomorrow.

- Wealth Planning
- Investment and Asset Management
- Private Banking
- Business Transition and Advisory Services
- Family Dynamics
- Philanthropic Services
- Fiduciary and Trust Services

Capabilities to bring your custom plan to life, today and tomorrow.

Providing strategies to help:



*Family Wealth Report | Clearview media 2019
**Company data as of January 14, 2020 Wells Fargo Investment Institute, Inc. is a registered investment adviser and wholly-owned subsidiary of Wells Fargo Bank, N.A., a bank affiliate of Wells Fargo & Company.

Disclosures