NEXT CHAPTER WEALTH

The Pre-Sale Tax Playbook

Six strategies that can reduce the federal and state tax bite on the sale of a $5M to $250M business, with worked examples and the LOI cutoffs that close the window.

A practitioner guide for owners 24 to 6 months ahead of LOI

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Why tax planning is exit planning

> *A $30 million business sale, taxed at the default federal-plus-state combined rate of roughly 35 percent, produces $19.5 million of after-tax proceeds. The same sale, structured to use the strategies in this playbook, can produce $24 million to $28 million of after-tax proceeds. The difference is not a function of dishonesty. The difference is a function of whether the planning happened before the LOI was signed or after.*

This playbook walks the six structural strategies that move the most after-tax wealth in the typical owner exit. Each strategy has a window. Most close at the LOI rung. Some require 12 to 24 months of seasoning before they work. Read the timing rows carefully.

Strategy 1: QSBS (Section 1202)

TAX EXCLUSION · C-CORP OWNERS ONLY

Qualified Small Business Stock exclusion

Section 1202 of the Internal Revenue Code allows owners of qualifying C-corporation stock to exclude up to $15 million of capital gains from federal tax. If the stock has been held more than 5 years, the gain is excluded at 100 percent (for stock acquired after September 27, 2010). The state of residence matters: most states follow the federal exclusion, but California and a handful of others do not.

Maximum exclusion per taxpayer	**$15M or 10x basis**
Required holding period	**5 years minimum**
Entity required	**C-corporation**
Federal tax saved on $15M gain	**~$3.6M**

WHEN THE WINDOW CLOSES

The 5-year holding period must be satisfied at the time of sale. If you are an S-corp or LLC today, an F-reorganization or C-corp election needs to happen at least 5 years before the sale. The window for new QSBS planning effectively closes 5 years before LOI.

Strategy 2: Pre-sale gifting to family trusts

ESTATE TAX · FEDERAL ESTATE EXEMPTION IS $13.99M PER INDIVIDUAL IN 2026

Gifting company equity before the LOI

Gifting company stock to an irrevocable trust (typically a grantor trust, IDGT, or SLAT) before the sale moves both the underlying value and all future appreciation outside the estate. The value gifted is the pre-sale fair market value, which is often substantially discounted from the post-sale enterprise value due to minority and marketability discounts.

Discount on minority gifted interest	**25 to 40 percent**
Estate tax avoided per $10M moved out	**~$4M**
Federal exemption (2026 individual)	**$13.99M**
Required lead time	**9 to 12 months pre-LOI**

WHEN THE WINDOW CLOSES

Gifts after the LOI are valued at the LOI price with no discount. The IRS will collapse the discounts because the sale is contractually certain. Gifts must happen, with an independent qualified appraisal, well before the M&A process formally begins.

Strategy 3: Charitable structures (CRT, DAF, foundation)

INCOME TAX + CAPITAL GAINS · FOR OWNERS WITH CHARITABLE INTENT

Donating appreciated company stock pre-LOI

Contributing appreciated company stock to a Charitable Remainder Trust, Donor-Advised Fund, or private foundation before the LOI eliminates the capital gains tax on the contributed slice and produces an income tax deduction at fair market value. The CRT can additionally pay an income stream back to the owner during retirement.

Federal cap gains avoided per $1M donated	**~$238K**
Charitable deduction (AGI-limited)	**30% AGI for public charity, 20% for PF**
CRT lifetime income to donor	**5 to 50 percent annual payout**
Required lead time	**3 to 6 months pre-LOI**

WHEN THE WINDOW CLOSES

The assignment of income doctrine collapses the strategy if the sale is contractually committed at the time of contribution. Move the stock before the M&A process begins. After signed binding LOI, the risk goes up sharply.

Strategy 4: Installment sale

CAPITAL GAINS DEFERRAL · SECTION 453

Taking a portion of consideration as a seller note

Section 453 of the Internal Revenue Code allows capital gains tax on the portion of proceeds received as a seller note to be recognized only as the note is collected. A 5-year seller note for 15 percent of consideration spreads the tax on that 15 percent across the 5 years of collection. The cash flow benefit is real, but the credit risk on the buyer is also real, and the strategy does not work for stock sales of publicly traded acquirer stock.

Typical seller note share	**10 to 20 percent of proceeds**
Effective deferral period	**3 to 7 years**
Tax saved (time value, 5%/yr)	**~10 to 18 percent of tax on note**
Critical risk	**Buyer credit, subordination**

WHEN THE WINDOW CLOSES

Must be negotiated into the LOI as part of consideration structure. Cannot be retrofitted to an all-cash deal after closing.

Strategy 5: Asset sale vs stock sale structure

CAPITAL VS ORDINARY CHARACTER · SECTION 338(H)(10) AND SIMILAR

Choosing the right deal structure for your entity

Buyers prefer asset sales because they get a stepped-up basis in the assets and can amortize the goodwill. Sellers usually prefer stock sales because the gain is purely capital. The asset-vs-stock decision can swing the after-tax outcome by 10 to 20 percent. A 338(h)(10) election can let buyer and seller treat a stock sale as an asset sale for tax purposes, often paid for via a gross-up.

Typical seller-friendly structure	**Stock sale (S-corp / C-corp)**
Typical buyer-friendly structure	**Asset sale or 338(h)(10)**
Owner gross-up for 338(h)(10)	**5 to 12 percent of price typical**
Required lead time	**Negotiated at LOI**

WHEN THE WINDOW CLOSES

Locked in at the LOI. Once exclusivity is signed and the structure is committed, the choice is made for the rest of the deal.

Strategy 6: Opportunity Zone investment

CAPITAL GAINS DEFERRAL AND BASIS STEP-UP · SECTION 1400Z-2

Reinvesting sale proceeds in a Qualified Opportunity Fund

Within 180 days of recognizing the capital gain from the sale, the owner can reinvest the gain amount (not the principal) in a Qualified Opportunity Fund. The gain is deferred until 2026 or sale of the QOF investment. If the QOF investment is held 10 years, the appreciation on the QOF itself is excluded from tax. The strategy is most efficient for owners who would otherwise invest the after-tax proceeds in long-duration assets.

Gain eligible for reinvestment	**All capital gain from sale**
Reinvestment deadline	**180 days from sale**
Hold period for full benefit	**10 years**
QOF appreciation tax treatment	**Excluded after 10-year hold**

WHEN THE WINDOW CLOSES

180 days post-close. Owners often miss the window because the strategy is unfamiliar and the diligence on QOFs takes weeks. Begin QOF selection 90 days before closing.

Stacking the strategies

The strategies above are not mutually exclusive. The most after-tax-efficient outcomes come from layered combinations. A typical high-value combination for a $50M C-corp sale:

QSBS shields the first $15M of gain. **Pre-sale gifting** moves $10M of post-discount value to a dynasty trust. **Charitable contribution** of $5M of stock to a DAF eliminates capital gains on that slice and produces a $5M deduction. **Seller note** for $5M defers tax on that portion across 5 years. **338(h)(10) election** with a 9 percent gross-up captures buyer-side basis step-up value. **QOF reinvestment** of remaining recognized gain defers and ultimately excludes appreciation on the reinvested portion.

The owner who does none of these pays roughly $17.5M in tax on the $50M sale. The owner who layers them carefully can pay $4M to $8M. The difference is the planning window.

The cutoff calendar

The single most important rule of pre-sale tax planning: the IRS will not save your spot. The strategies above have specific cutoffs that close as the sale moves through its stages.

- **5 years before LOI:** QSBS planning (entity conversions to C-corp).
- **9 to 12 months before LOI:** Estate gifting with discounts.
- **3 to 6 months before LOI:** Charitable structure funding.
- **At LOI:** Asset vs stock structure, 338(h)(10) election, seller note.
- **Within 180 days of closing:** Opportunity Zone reinvestment.

The earlier you start, the more strategies you can stack. The closer you are to the LOI, the more the available strategies are limited to those that work at the LOI rung itself.

Want to see which strategies fit your situation?

Two free 5-minute tools to size the planning conversation. The Valuation Calculator gives you a working enterprise value to model against. The Personal Readiness Scorecard surfaces the lifestyle and charitable goals that point to the right combination. At **nextchapterwealthadvisors.com**.