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Your Business Is Ready to Sell. But Have You Prepared Your Personal Balance Sheet?

Founder's Exit Series • Part I of III

Most founders spend years building enterprise value by optimizing EBITDA, reducing customer concentration and grooming management teams. Few spend the equivalent energy preparing the asset that will receive the proceeds: their personal balance sheet. That gap is where millions of dollars are permanently lost.

This paper is the first in a three-part series written for founders of businesses with enterprise values of $50 million or more, and for the attorneys and advisors who serve them. It covers the pre-transaction window: what should be implemented before a deal is in sight, and in some cases years before a founder is even certain they want to sell. The decisions made, or deferred, in this period determine how much of the purchase price the founder actually keeps.

I. The Pre-Transaction Window: Why It Matters More Than You Think

Preparing a company for sale is all-consuming. Executing the business plan, preparing a data room, and managing investment banking advisors leaves little room for personal financial structuring. The pre-transaction period, often 12 to 24 months beforehand, is when a founder can thoughtfully put their own balance sheet in order and is the period when the most powerful tax and estate planning strategies are still available. Once a deal is signed, many of these opportunities close permanently.

The Practitioner's Rule

A founder who waits until the sales process to call their wealth advisor is very late. The strategies that create the most after-tax value require time, entity structure, and low valuations to work. All three are in abundance before a deal, and largely unavailable after.

II. Pre-Transaction Estate Planning: Freezing Value Before It Appreciates

The period before a company's value accelerates is the optimal time to transfer wealth to the next generation. Working closely with advisors to determine how much of their lifetime exemption to use and which vehicles to employ, founders can use several strategies to freeze value, shift future appreciation out of their taxable estate, and make use of a historically generous exemption before it is consumed by a high transaction valuation. Two of the most powerful are described here.

Intentionally Defective Grantor Trusts (IDGTs)

An Intentionally Defective Grantor Trust allows a founder to sell or gift business interests to an irrevocable trust at a discounted value (see Section V on valuation discounts). In either structure, the future appreciation is removed from the taxable estate while the grantor continues to pay income tax on trust earnings, which is itself a further tax-free wealth transfer. The One Big Beautiful Bill Act (OBBBA) of July 2025 permanently extended the gift and estate tax exemption to $15M per individual (indexed for inflation going forward). Founders who have not yet utilized their lifetime exemption are leaving a significant transfer mechanism unused. Contributions are most powerful when business values are still uncertain, typically before a sale.

Spousal Lifetime Access Trusts (SLATs)

A Spousal Lifetime Access Trust is a specific type of irrevocable trust whose beneficiary is the founder's spouse, which allows the couple to access trust assets indirectly while still removing them from the taxable estate. A SLAT is funded with a gift using the lifetime exemption, and the assets appreciate entirely outside the estate from that point forward. The vehicle is powerful but carries some risks that IDGTs do not. For example, divorce eliminates access entirely, and the so-called reciprocal trust doctrine can collapse the tax benefits if both spouses create mirror-image SLATs simultaneously. These considerations require careful planning with qualified estate counsel rather than a formulaic approach.

Sale of Assets to Either

A Founder can also sell shares directly to an IDGT or SLAT in exchange for a promissory note which pays interest at the applicable federal rate. The sale is not considered a taxable event because the IRS views the transaction as a sale to yourself, as you remain the "owner" of the trust's assets. The full economic value moves to the trust and future appreciation grows outside of the estate, while the founder receives interest payments over the note term. The amount that can be sold is not capped by the exemption, which makes this technique particularly useful for founders whose business interests exceed their exemption. Proper seeding of the trust and a qualified appraisal are required. There are other important considerations to review with estate counsel. Sales work best when business values and interest rates are low.

III. Pre-Transaction Estate Planning: Charitable Vehicles

Grantor Retained Annuity Trusts (GRATs)

A GRAT allows a founder to maintain ownership of the shares but transfer the future appreciation of business interests to heirs at minimal gift tax cost. The founder contributes shares to the trust and retains an annuity stream. Any appreciation above the IRS hurdle rate (the Section 7520 rate) passes to beneficiaries gift-tax free. While complex, GRATs can also work with private stock, not just public securities. For a founder whose business is growing rapidly, even a short-term GRAT can move substantial value out of the taxable estate with little or no gift tax cost.

Charitable Remainder Trusts (CRTs)

For a founder who is charitably inclined but also needs post-transaction income, the CRT delivers on both simultaneously. The founder contributes low-basis shares to a trust before a sale is announced. When the sale occurs, there is no capital gain, and the proceeds are reinvested inside the trust. The trust pays an income stream to the founder or spouse for life or a fixed term. The payout rate is set at funding and must be at least 5% annually and can be structured as high as 8%

or more depending on the founder's age and the trust term. That income stream is often higher than the interest payments generated by a promissory note from a sale to an IDGT, which are determined by the applicable IRS rate. The founder typically serves as trustee and controls how the proceeds are invested after the sale. The contribution also generates an upfront charitable income tax deduction equal to the present value of the remainder interest. At termination, the remaining assets pass to a designated charity.

CRT Paired with an Irrevocable Life Insurance Trust (ILIT)

The limitation of a CRT is that the remainder passes to charity, not heirs. Pairing the CRT with an ILIT addresses that directly. The founder uses a portion of the CRT income stream to fund premiums on a life insurance policy held inside the ILIT, which passes the death benefit to heirs free of estate tax.

The CRT, IDGT, and SLAT are not mutually exclusive. A founder can contribute a portion of shares to a CRT to generate income and satisfy charitable intent, while selling or gifting a separate tranche to an IDGT or SLAT to shift appreciation to heirs. The allocation across vehicles can be sized to the founder's specific income needs, estate planning objectives, and degree of philanthropic intent.

IV. QSBS Stacking: The Most Underutilized Tool in the Founder's Arsenal

Section 1202 of the Internal Revenue Code allows shareholders to exclude capital gains from the sale of Qualified Small Business Stock (QSBS). The benefits were substantially enhanced by the OBBBA. The amount of gain excluded from tax increased from $10M per taxpayer per issuer to $15M (or 10x adjusted basis, whichever is greater). In addition, the holding period to qualify was reduced from five years to a tiered holding period: 50% at three years, 75% at four years, and 100% at five. Finally, the gross asset eligibility threshold also increased from $50M to $75M, bringing more growth-stage companies into the QSBS universe. Not every business qualifies: professional services firms, financial businesses, and companies with assets above the threshold do not, and not every company structure is eligible. But for those who do qualify, the exclusion is among the most powerful tools in the tax code.

Stacking: Multiplying the Exclusion Across Taxpayers

The exclusion is calculated on a per-taxpayer, per-issuer basis. This means every separate taxpayer who holds QSBS in your company gets their own $15 million exclusion. QSBS stacking is the deliberate strategy of gifting shares to family members and irrevocable trusts before any transaction is contemplated so that each becomes an independent exclusion pool. This leverage is significant, but the gifting must occur well before a transaction is announced. Once a deal is in sight, the IRS scrutinizes transfers as anticipatory assignments of income.

Consider the math: a founder, a spouse, and three irrevocable trusts for their children are five separate taxpayers. At $15 million each, that is $75 million in potential gain sheltered entirely from federal capital gains tax. For a founder with a $5 million basis, the 10x alternative provides even more headroom, and each trust could exclude up to $50 million in gain.

The Trust Architecture: Which Vehicles Work

Not all trusts work for QSBS stacking purposes. To multiply the exclusion, each trust must be treated as a separate taxpayer under Section 1202. Irrevocable non-grantor trusts for children or other beneficiaries, properly drafted with independent trustee authority, generally satisfy this standard. Grantor trusts, where the grantor remains the owner for income tax purposes, typically do not create a separate taxpayer and therefore does not multiply the exclusion. A grantor trust can still hold QSBS and preserve the exclusion for beneficiaries upon the grantor's death but does not expand the pool. This distinction is frequently misunderstood. The trust that works best for stacking purposes may undermine broader estate planning goals, and vice versa. Coordination between tax counsel and estate planning counsel is essential.

The Section 1045 Rollover: Preserving QSBS Eligibility

If a founder needs to sell QSBS before the five-year holding period is reached and the OBBBA's tiered exclusion still leaves taxable gain on the table, Section 1045 provides a way out. A taxpayer who has held QSBS for at least six months can roll the proceeds into new QSBS within 60 days without recognizing gain. The holding period from the original shares tacks onto the new shares, preserving progress toward the full exclusion. This rollover provision is particularly relevant for founders who have received multiple rounds of equity, where the earliest shares may be near the threshold, while later-issued shares are not.

Key Eligibility Requirements

- Domestic C-Corporation at time of issuance; S-Corps, LLCs, and partnerships do not qualify.
- Original issuance only; secondary market purchases do not qualify.
- Gross assets at or below $75M (post-OBBBA) immediately before and after issuance.
- Qualifying industry; professional services, finance, and hospitality are excluded.
- State conformity matters; CA and PA and several others do not conform to the federal exclusion, although NJ now does conform.

Planning Note for S-Corp and LLC Owners

If the company is currently structured as an LLC or S-Corp and a sale is anticipated within a 3-to-5-year horizon, conversion to a C-Corporation and re-issuance of QSBS-eligible stock should be evaluated immediately. Under the OBBBA's tiered holding period, a 3-year clock starts generating meaningful exclusion. Gifting to stacking trusts at the moment of conversion, when share values are lowest, maximizes the economic benefit of each exclusion pool.

V. Valuation Discounts: A Valuable Arbitrage

Minority interests in privately held businesses can often be transferred to the next generation at a fraction of their pro-rata economic value, because a buyer of a non-controlling, illiquid interest would not pay full price for something they cannot sell and cannot control. Tax law recognizes this reality through two well-established discounts: the discount for lack of marketability, reflecting the absence of a ready market, and the discount for lack of control, reflecting the minority holder's inability to direct distributions, compel a sale, or influence management. With a valuation by an independent qualified appraiser, combined discounts of 25% to 40% off net asset value are regularly sustained.

The practical effect on a gifting strategy is significant. Transferring a $15 million block of business interest at a 33% combined discount consumes only $10 million of lifetime exemption, effectively moving $5 million more in economic value to the next generation than the gift tax cost would suggest. For a founder with a large balance sheet and meaningful exemption remaining, this multiplier effect

can extend the reach of the exemption considerably beyond what a direct transfer of cash or marketable securities could achieve.

The IRS scrutinizes discount positions carefully. These structures must be established with legitimate economic substance and supported by appraisals from qualified, independent professionals. Structures created immediately before an anticipated sale face heightened scrutiny and in some cases have been successfully challenged. Lead time is not optional here.

VI. Investment Portfolio Positioning: What to Do Before Proceeds Arrive

Most founders give little thought to their personal investment portfolio while running a business. There is simply not enough time. But the pre-transaction period is precisely when that portfolio should be working hardest, because capital losses generated before a sale can defer transaction gains at closing. A founder who enters a deal with $10 million in accumulated capital loss carry-forwards is in a meaningfully different tax position than one who does not.

Beyond Direct Indexing: Enhanced Tax-Loss Harvesting

Most advisors are familiar with direct indexing, which involves holding individual securities rather than a fund wrapper, to enable systematic tax-loss harvesting. But conventional direct indexing has a structural limitation: it only generates losses on the long side of a portfolio, and as markets rise over time, available loss opportunities diminish. Research from AQR Capital Management has shown that tax-aware long-short factor strategies can generate cumulative net capital losses exceeding 100% of initially invested capital within the first three years, far surpassing what long-only approaches can achieve. What drives these results is not simply harvesting more losing positions, but deferring capital gain realizations on the long side while simultaneously harvesting losses on short positions. By construction, short positions generate losses when markets rise.

The practical implication for a pre-transaction founder: deploying investable capital into an enhanced tax-loss harvesting strategy 18 to 36 months before a sale can systematically build a capital loss reserve sized to offset transaction gains. For example, a 200/100 structure, going 200% long and 100% short, maintains full market exposure while dramatically expanding the amount of harvestable losses at any point in the market cycle. Because both long and short positions are in play, losses can be harvested in rising or falling markets rather than only when prices decline.

Structuring the Loss Reserve Around the Transaction

The pre-transaction planning window creates a specific opportunity: the founder knows approximately when gains will be realized and approximately how large they will be. This makes it possible to target a loss reserve with reasonable precision. Working with a wealth advisor, a founder can size a direct long/short separately managed account to generate a target amount of losses in the window before closing. Short-term losses generated by these strategies are particularly valuable since they offset both short-term and long-term gains. This approach is systematic and quantifiable, not speculative. The strategy only defers taxes and does not eliminate them. It also carries risk, including tracking error versus the benchmark and the possibility that loss generation is lower than projected in unusual market conditions, but as a pre-transaction planning tool it is among the most effective.

The Bottom Line

If you are a founder who expects to sell your business in the next one to three years, the single most valuable conversation you can have right now is not with your investment banker. It is with a wealth advisor who understands how M&A transactions interact with estate planning, tax structure, and investment strategy. The strategies in this paper are not complicated. They are, however, time-sensitive, sequence-dependent, and nearly impossible to implement once a deal is underway. The window is open now. For many founders, it will not be open for long.

Part II of this series will address the steps a founder should take once they have decided to pursue a transaction: engaging the right advisors, preparing for due diligence, and structuring the deal itself to optimize outcomes. Part III will address post-transaction wealth management: how to invest, preserve, and deploy liquidity event proceeds over a multi-decade horizon.

About the Author

Perry Hoffmeister is the Co-Founder and Managing Partner of Colter Lewis Investment Partners. Over a nearly 30-year investment banking career before co-founding Colter Lewis, he ran European Investment Banking for Lehman Brothers and was the CEO of the Global Investment & Corporate Bank at BMO Capital Markets. In those roles, he advised senior executives and boards of directors on a variety of M&A and other strategic transactions. Perry served as a trusted advisor to public and private companies, private equity firms, and founders navigating liquidity events. He now brings that institutional perspective to bear on the personal financial lives of ultra-high-net-worth clients and their families.

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