BioTech
WEALTH SERVICES

LIQUIDITY EVENT **CHECKLIST**

STOCK AWARDS

- ✓ **What type of stock options do you own? Incentive Stock Options (ISO) or Non-Qualified Stock Options (NQSO)?** ISOs may qualify for more favorable tax treatment.
- ✓ **If granted ISOs & NQSOs, has your employer complied with the $100K ISO rule?** This IRS rule is designed to limit the tax benefit of your option grants.
- ✓ **If granted NQSOs and/or Restricted Stock, were 83b elections filed within 30 days of grant?** Though not without its tradeoffs, election could allow more of your profit to be taxed at long-term rates.
- ✓ **If your company is bought for cash, stock, or a combination of each, how will that impact your stock options and/or your vesting schedule?** Will you have to meet specific earn out targets to keep a portion of your options?
- ✓ **If you decide to hold the net shares post-exercise, what are the potential risks/rewards?** Here's one risk: if the stock price drops, you'd pay tax on money you never received. Ouch.
- ✓ **Are any accelerated sale options available?** Example: ABC Biotech has a 6-month lockout period. However, if ABC meets certain performance criteria, i.e. stock closes 15% above IPO price for 10 of last 15 trading days, then lockout is waived and RSUs may be sold.
- ✓ **Do you have a plan to limit your company specific risk?** As you're granted more stock awards, which continually vest, a rising share price can increase this risk. Then again, added risk often brings added reward, so consider the pros and cons carefully.
- ✓ **Are you using a 10b5-1 to avoid blackout periods, further diversify, and protect against an option expiring worthless?**
- ✓ **Do you know which option grants have more/less leverage?** Grants with higher strike prices often have more leverage.

You fight for us. We fight for you.

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Personal. Practical. Precise.

Highly Personalized Family CFO Approach

Customized Stock Award Matrix

Tax Reduction Strategies

INCOME TAX

- ✓ **Is the liquidity event near the end of a tax year?** If so, you may be able take advantage of changes in your marginal tax rate by spreading your tax liability over two tax years.
- ✓ **If NQSO, can you adjust Federal & State withholdings?** Typically, the default withholding percentages are: Under $1M – 22% Federal, 10.23% CA. Over $1M – 37% Federal, 13.3% CA. Keep your CPA in the loop to avoid underpayment penalties (the tax man cometh!).
- ✓ **If you own low-basis long shares, could it make sense to transfer a portion of those shares to a trust in a state with no income tax?** Example: If a CA resident transfers shares with a $10M gain to a Nevada Incomplete Gift Trust and sells them 12 months later, the CA state income tax savings could be ~$1.3M. Of course, there's no free lunch, so consider all trade-offs.
- ✓ **If you're charitably inclined, have you explored 'front-loading' your charitable contributions with a Donor-Advised Fund (DAF)?** Example: Transfer $20K stock with a $10K gain to DAF, get a $20K tax deduction that year, avoid paying tax on the $10K gain, and make donations from your DAF to charity over any time period you choose (e.g. 5 years).
- ✓ **Have you considered other tax-advantaged charitable options that can provide an income stream to you, e.g. Charitable Remainder Trust (CRT)?** Example: Transfer $1M stock with a $900K gain to CRT, get a large upfront tax deduction, sell the stock/diversify, pay no tax on the $900K gain, pay yourself 5% per year ($50K) on the $1M diversified portfolio in the CRT. At your passing, the value of the CRT goes to charity. Just an example, NOT a recommendation.

INVESTMENTS

- ✓ **Have you thought about how much of your wealth to invest the stable/steady bucket (safe) and how much to invest in the long-term growth bucket (growth)?** How might you best manage this safety/growth split over time? Have you spoken with your CPA/financial advisor about how to do this most tax efficiently?
- ✓ **Have you opened a 529 plan for your children and begun funding it?** In the year of a liquidity event, you can front-load 5 years' worth of gifts for a maximum contribution of $75K per child.
- ✓ **When was the last time you updated/verified your beneficiaries were accurate on your Life Insurance, 401(k), Traditional IRA, Roth IRA and bank accounts?**

ESTATE PLANNING

- ✓ **When was the last time you updated your Trust, Wills, POAs and Living Wills?**
- ✓ **Are the assets that should be held in your family trust titled that way?** If not, those assets will be subject to probate. In CA, every $1M that should be held in your family trust but is not, could cost your heirs 3%-5% ($30K-$50K) in probate related fees. Those assets will also be public record.
- ✓ **Are the net proceeds from this event needed to maintain current lifestyle?** If not, have you considered trust/partnership structures to shelter future growth from estate tax? With the estate tax exemption set to drop from $11.7M per person/$23.4M per couple in 2021 to $5.25M per person/$10.5M per couple in 2025, funding these types of trusts now can make sense for the right fit.
- ✓ **If you have stock options, are they transferable?** If so, they could be a candidate for a Grantor Retained Annuity Trust (GRAT). Oversimplified Example: you transfer $1M vested stock options to GRAT, exercise in GRAT, then all the future growth inside the GRAT is outside your taxable estate.

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