

How Business Owners, Executives, and Investors Can Navigate Major Liquidity Events with Confidence

A liquidity event—the sale of a business, an IPO, a merger, or a secondary offering—can establish financial security for generations. But with that opportunity comes complexity: How do you preserve wealth, minimize taxes, and ensure long-term financial stability?

Too often, those in the midst of these transactions focus on closing the deal rather than the long-term impact of taxation, estate structuring, and investment planning, frequently realizing too late that effective solutions were available. The biggest mistake? Waiting too long to plan.

The most successful outcomes happen when planning starts early, before a deal is even in motion. While this playbook outlines proven strategies for navigating a liquidity event wisely, the most sophisticated planning often requires a customized approach, leveraging advanced techniques beyond traditional solutions.

Phase 1: Early-Stage Planning (Before a Transaction Is on the Horizon)

Why the most effective tax and estate planning happens years before a deal

For many business owners and executives, the idea of a liquidity event may seem distant—something to consider when an IPO is filed, or an acquisition offer is on the table. But waiting until a deal is imminent means losing out on key tax-planning opportunities that could save millions.

The reason? Valuations are lower before a transaction is public knowledge. And in tax planning, lower valuations mean greater opportunities.

While dynasty trusts and traditional estate planning tools are highly effective, more advanced structuring can take tax efficiency even further.

Key Strategies:

Transferring Interests to a Dynasty Trust

A dynasty trust allows wealth to compound tax-free for generations—if set up early. By transferring ownership of company shares into a trust before valuations rise, families can shift future appreciation out of their taxable estate and protect it from estate taxes down the line.

Choosing the Right Trust Structure

Trusts can be structured as grantor or non-grantor trusts, depending on tax and control considerations. A grantor trust allows the original owner to pay income taxes on trust assets (allowing for tax-free growth), while a non-grantor trust can provide additional state tax benefits.

Alternative trust structures may offer unique advantages for clients looking for even more control and efficiency.

Selecting a Tax-Friendly Jurisdiction

Many of the most effective dynasty trusts are established in **South Dakota**, which offers:

- » No state income tax
- » Strong asset protection laws
- » Strong privacy laws
- » No rule against perpetuities (allowing wealth to stay in trust indefinitely)

Other jurisdictional strategies may provide even more significant tax advantages for families with highly complex financial structures, such as utilizing states with directed trust statutes, favorable decanting provisions, or enhanced

creditor protections. The right jurisdiction can play a critical role in preserving multi-generational wealth while maximizing flexibility and control.

Phase 2: Pre-Transaction Planning (When a Liquidity Event Is Approaching)

Key strategies in the months leading up to a sale or IPO

When a liquidity event is imminent, the focus shifts from structuring ownership to mitigating tax exposure and optimizing wealth preservation.

While this section highlights core tax strategies, the most forward-thinking planning often involves more dynamic, customized techniques based on the specifics of the transaction.

Structuring Trusts for Maximum Flexibility

At this stage, trusts can still be used to move assets out of the taxable estate. However, at higher valuations, planning must be more strategic. Some families opt for intentionally defective grantor trusts (IDGTs) to freeze estate values while shifting future growth outside their taxable estate.

Hybrid trust structures and alternative estate planning mechanisms may provide superior results for clients seeking even greater efficiency.

Tax-Efficient Charitable Giving

For those with philanthropic goals, donor-advised funds (DAFs) or charitable remainder trusts (CRTs) can provide significant tax advantages by eliminating capital gains tax on donated stock while generating an immediate tax deduction.

Some clients may benefit from more advanced philanthropic strategies that allow for even greater tax leverage while achieving long-term giving goals, such as Charitable Lead Trusts (CLTs) for intergenerational giving, private foundations for greater control, or structured charitable gifts that optimize both income tax and estate tax benefits.

Anticipating the Tax Bill

Many first-time liquidity event participants underestimate how much of their proceeds will go to taxes. Without proper planning, federal and state taxes can consume up to 40% of liquidity event proceeds.

While traditional deferral strategies exist, certain structures may allow for even more tax-efficient wealth deployment, such as installment sales to trusts, Qualified Opportunity Zone (OOZ) investments, or Private Placement Life Insurance (PPLI).

Pre-Transaction Checklist:

- ☒ Review and update your estate plan to reflect upcoming liquidity
- ☒ Implement trust structures to remove future appreciation from your taxable estate
- ☒ Explore charitable giving opportunities to minimize capital gains taxes
- ☒ Assess state tax exposure and consider relocation or trust planning

Phase 3: Post-Liquidity Planning (Managing Wealth and Taxes After the Event)

Structuring wealth for long-term financial security

After a liquidity event, the focus shifts from tax planning to structuring assets in a way that balances lifestyle needs, investment growth, and legacy goals.

For many, a conventional approach to wealth management works well, but for others, more tailored, creative solutions may yield significantly better outcomes.

Key Strategies:

Using a Bucket Approach for Wealth Allocation

The most effective way to allocate liquidity event proceeds is through a structured bucket approach:

- » **Liquidity Bucket** – Ensuring sufficient cash for immediate needs and expenses.
- » **Income Bucket** – Investing in assets that provide stable income streams.
- » **Growth Bucket** – Allocating excess wealth into diversified, long-term investments.

For clients with more complex needs, alternative allocation methods can further enhance tax efficiency and asset protection. This framework can be optimized with trusts for estate efficiency, tax-aware investment strategies, and structures that protect and sustain long-term wealth.

Offsetting Gains Through Tax Loss Strategies

Specific investment strategies can generate tax losses that offset gains, reduce overall tax liability, and enhance financial flexibility.

Deferring Taxes on Liquidity Event Proceeds

For those looking to minimize immediate tax impact, certain investment structures allow for tax deferral while repositioning assets for long-term growth. These strategies can provide both capital gains tax relief and portfolio diversification, making them an attractive option for post-liquidity wealth planning.

Common Pitfalls and How to Avoid Them

Pitfall: *“I Didn’t Realize My Tax Bill Would Be That High”*

Avoidance Strategy: Plan ahead with trusts, charitable giving, and tax-efficient asset sales to minimize tax exposure.

Pitfall: *“I Wish I Had Moved More Assets into a Trust”*

Avoidance Strategy: Start estate planning early. Lower valuations mean more tax-efficient wealth transfers.

Pitfall: *“I Didn’t Have a Clear Plan for My Liquidity”*

Avoidance Strategy: Define a post-liquidity strategy early, allocating cash for lifestyle needs, structuring investments for growth, and ensuring wealth aligns with long-term goals.

Next Steps: How to Get Started

Where to Begin:

- » Assess personal and business financial goals
- » Identify key tax and estate planning strategies
- » Assemble a trusted team of advisors

How We Help:

At Cerity Partners Family Office, we specialize in guiding ultra-high-net-worth individuals through every phase of a liquidity event, helping them preserve wealth, minimize taxes, and structure financial security for future generations.

Take the Next Step

Please contact us to schedule a private consultation and discuss how Certy Partners can support your family.



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