REDWOOD EMPIRE
ESTATE PLANNING COUNCIL

REEPC.ORG

FEBRUARY 2026 DINNER MEETING

Presented by:

Ryan J. Szczepanik

BNY | WEALTH

REEPC.org


REEPC.org

BNY | WEALTH

FEBRUARY 2026

Trust and Tax Planning for Business Owners

Ryan Szczepanik

Senior Wealth Strategist

Introduction

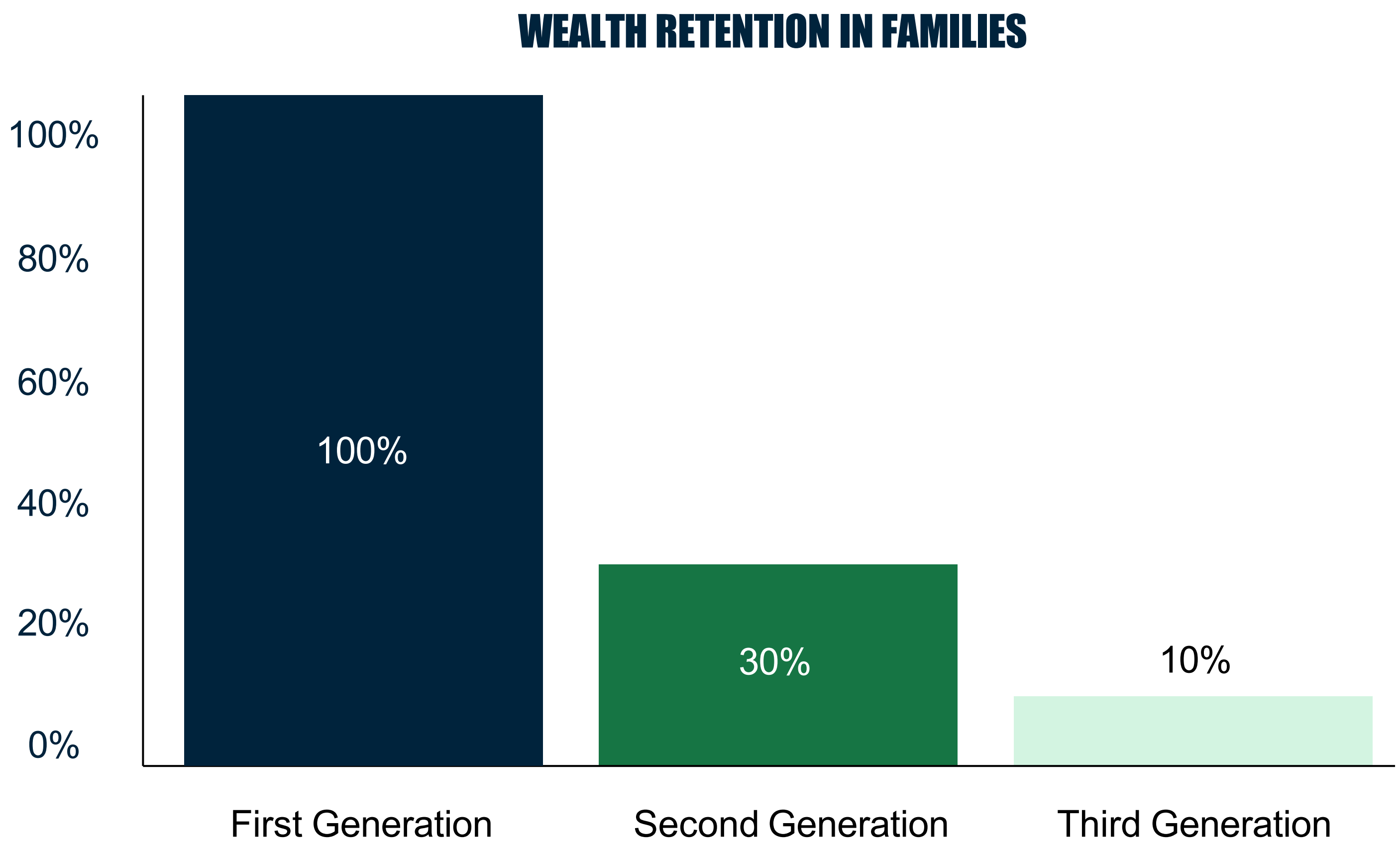
The Economic and Market Environment

- Interest rates
- Regulations
- Tariffs
- Valuations
- Debt/Deficit

The Tax Environment

- One Big Beautiful Bill Act (OBBBA)
  - Federal individual income tax
  - Federal wealth transfer tax (estate, gift, and GST tax)
  - Bonus Depreciation, QBI, SALT
- Federal corporate tax rate
- Proposed State Wealth Tax
- IRS enforcement/compliance
- Planning strategies that may not be available in the future

Multigenerational Wealth Transfer: History's Caution



BNY | WEALTH

The Three Big Questions for the Business Owner Preparing their Family for a Business Exit

1. How much is enough?

2. When do we tell them?

3. How do we break the paradigm, “Shirtsleeves to Shirtsleeves in three generations”?

Stages to a Successful Exit

START AND GROW

- Corporate entity and governance structure, liability protection
- Cash flow and investment projections
- Defined benefit plan management
- Lending strategies
- Succession planning including buy-sell agreements

PRE-TRANSACTION

- Forming a deal team
- Wealth transfer and tax mitigation strategies
- Trust and estate planning
- Business exit strategies
- Asset protection

TRANSACTION

- Escrow services, custody and lending solutions
- Bid comparison and pro forma net worth statements
- Stakeholder communication plan
- Post-sale cash flow
- Tax optimization

POST-TRANSACTION

- Investment, insurance, tax management strategies
- Family governance plan
- Family office services
- Strategic giving advice

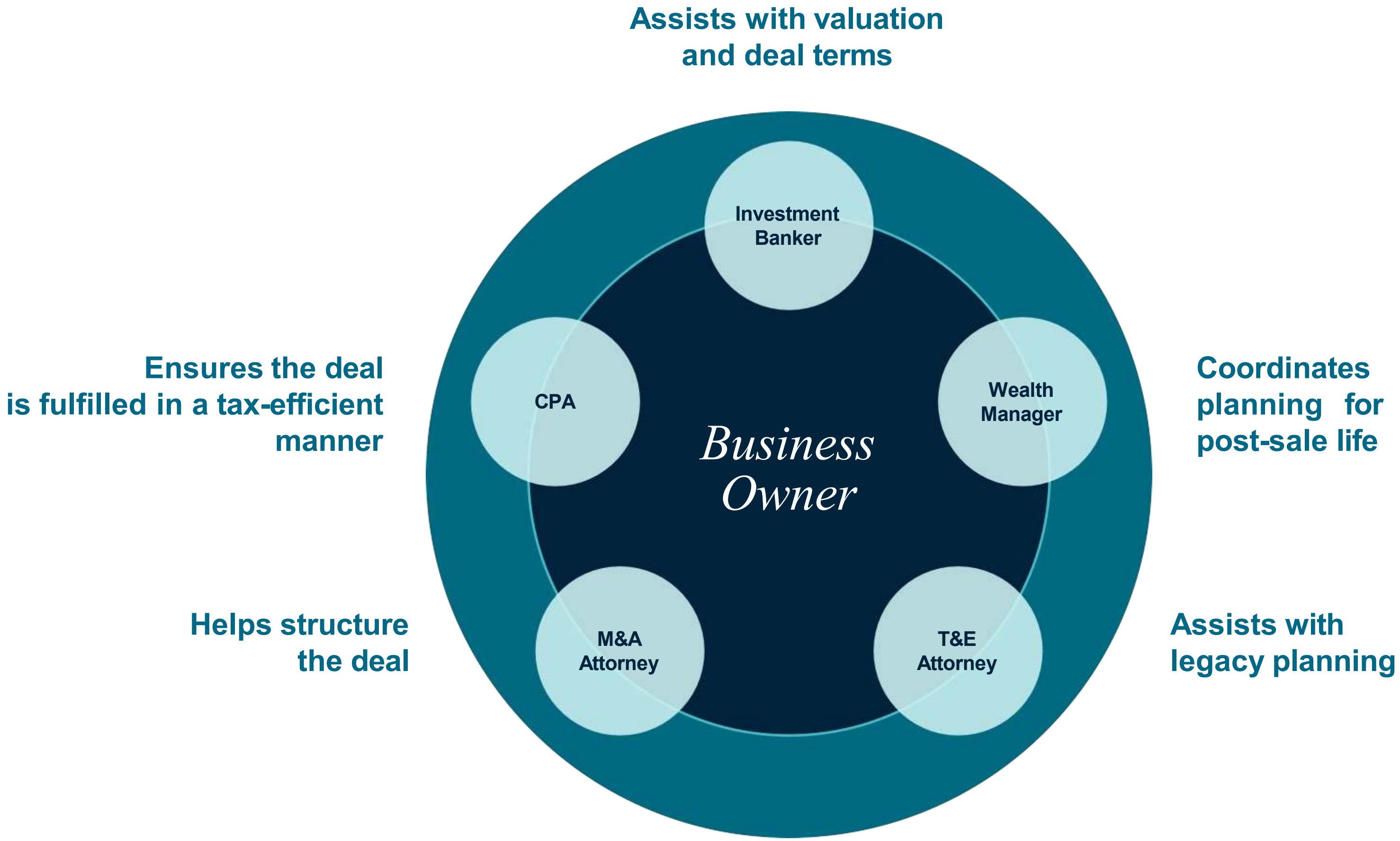
A Successful Business Sale Starts With Early Planning

KEY PRE-SALE PLANNING CONSIDERATIONS

	3+ years in advance	1+ year in advance
Business	• Assess market conditions • Build a deal team • Appraise company and enhance valuation • Identify potential buyers	• Update corporate structure and key documents • Conduct bid comparisons • Define your future role and mandatory terms of sale • Assemble due diligence documents
Personal	• Assemble team of advisors • Explore sale structures / wealth transfer strategies • Prepare for family / stakeholder impact and post-sale cash flow • Determine target sale price and tax strategies	• Review employment contracts and restrictive covenants • Develop an asset and investment management plan

Building the Right Deal Team

What advisors will you engage during the sale process?



Selecting Your Business Entity

C Corporation

- Eligible for QSBS exclusion
- Federal corporate tax rate is historically low at 21% (down from 35% pre-2018)
- Profits taxed twice: first, at entity level and second, at shareholder level when dividends declared
- 3.8% surtax applies to sale of C corp. shares, whereas it does not apply to sale of S corp. shares or LLC interests

S Corporation

- Strict requirements: entity must be a domestic business, have only one stock class, have a maximum of 100 shareholders each of whom is US citizen or legal resident and not a partnership or corporation
- Profits taxed only once, at shareholder level
- Eligible for the SALT federal deduction limitation state workaround
- Not eligible for QSBS exclusion

Limited Liability Company (LLC)

- Easiest entity to maintain with the least amount of formal reporting and recordkeeping requirements
- Profits taxed only once, at shareholder level
- Eligible for the SALT federal deduction limitation state workaround
- Not eligible for QSBS exclusion

Why Select a C Corp? QSBS!!!

- QSBS = Qualified Small Business Stock
- Federal law allows $10 million exclusion (or 10x the adjusted cost basis in the stock, if greater) per taxpayer per issuer on QSBS capital gain (IRC s. 1202)
- Requirements:
  - Issuer is a C corp.
  - $50 million value of assets before and at time shares issued
  - Shares held for 5 years (but rollover option under IRC s. 1045)
  - 80% of value of assets actively used in company operations
  - Qualified industry – excludes professional services, financial companies, energy, farming, hospitality
  - Shares issued after September 2010 receive 100% exemption

*Under OBBBA, for shares issued after July 4, 2025, the $10 million exclusion increased to $15 million; the $50 million value of asset threshold increased to $75 million; and the hold period is tiered, with a 50% exclusion for shares held for 3 years, 75% exclusion for shares held for 4 years, and 100% exclusion for shares held for 5 years.

Stack Your QSBS

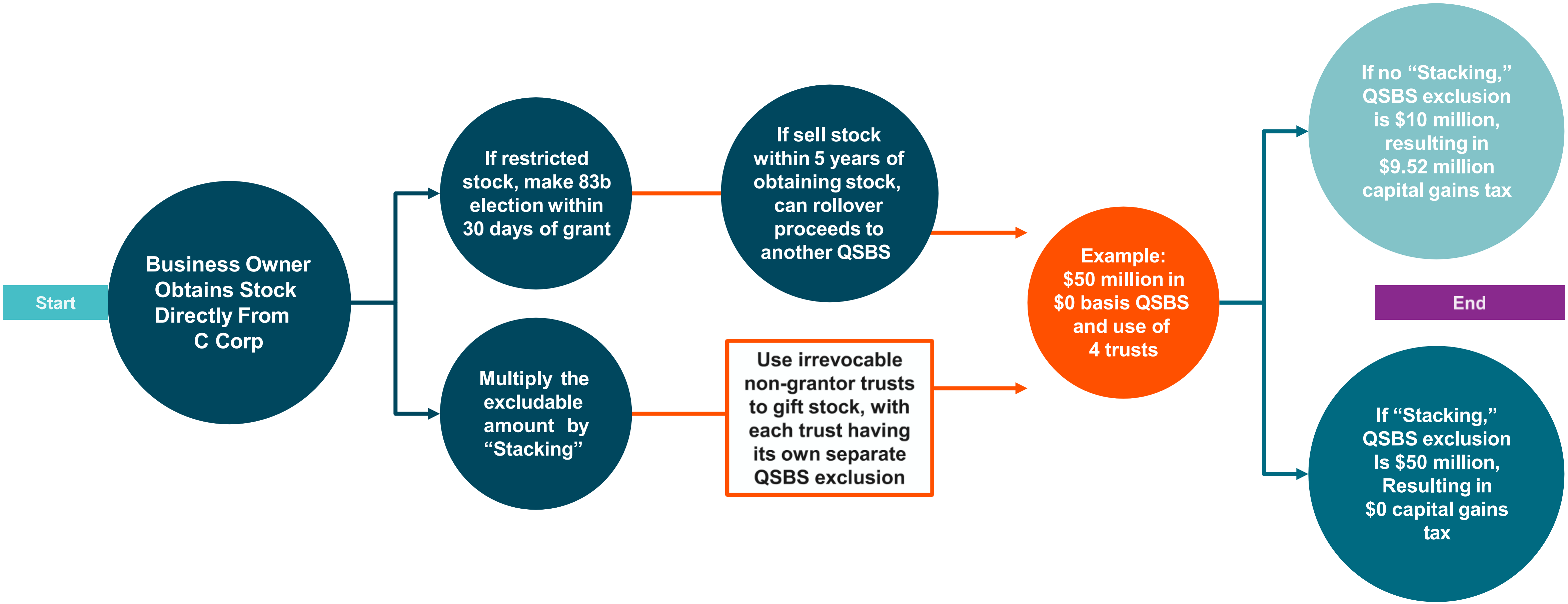
- Stock maintains its QSBS nature when gifted:
  - If gift QSBS to another taxpayer, that taxpayer gets their own QSBS exclusion
  - "Stack QSBS" -- increase the number of taxpayers (e.g., children, non-grantor irrevocable trusts) that can take advantage of the QSBS exclusion
  - Limitation: IRS treats multiple trusts as one trust if such trusts have substantially the same grantor and beneficiaries, and a principal purpose of such trusts is the avoidance of tax (IRC s. 643(f))

Stack Your QSBS

Example: Taxpayer has $50 million in capital gain from QSBS and four children

- Establish 4 irrevocable non-grantor trusts (1 per child) and gift $10 million QSBS to each trust
  - All $50 million in QSBS capital gain excluded from federal income tax
- If taxpayer did not "Stack" the QSBS:
  - The $40 million remaining after taxpayer's own $10 million QSBS exclusion would incur 23.8 % tax (20% federal long term capital gain + 3.8% NIIT), for a total tax of $9.52 million
  - Taxpayer left with $40.48 million

Stack Your QSBS



ISOs, NSOs, and the AMT

- Types of Stock Options:
  - NSO = Non-Qualified Stock Option
  - ISO = Incentive Stock Option
- Strike Price = Price at which the option holder has the right (but not the obligation) to buy the stock
- Vesting Date = When option holder has the right to exercise option (i.e., buy the stock at the Strike Price)
- AMT = Alternative Minimum Tax

- NSO is taxed as ordinary income at exercise, based on the difference between the Strike Price and the price of the stock at the time of exercise (the “Spread”)

- ISO is not taxed as ordinary income at exercise; instead, the Spread is included as income in AMT
  - If AMT is higher than ordinary income tax, pay ordinary income tax plus the AMT on the amount exceeding ordinary income tax amount, but earn an AMT credit for use in later years
  - “Qualifying Disposition” of the stock is taxed as capital gain if stock held for two years from date ISO was granted, and one year after exercise

Remember to Make the 83b Election

What is an 83b Election?

- For ***restricted stock*** -- a person who is issued restricted stock may elect, within 30 days from issuance of that restricted stock, to be taxed on that stock, instead of taxed when the stock vests.
  - That election starts the running of the 5-year hold period for QSBS.
  - Person avoids the ordinary income tax on the appreciation of the stock between the date of issuance and date of vesting.
  - If the person sells the stock after it vests, the tax treatment for the period between the 83b election and date of vesting is treated as capital gain, instead of ordinary income tax.

- For stock options – a person may elect, within 30 days from exercise of option, to be taxed on option at difference between what person pays to exercise option (“strike price”) and FMV at exercise, instead of taxed after the option vests.
  - Company plan must allow person to exercise option before that option vests.
  - Person making 83b election will have to pay the strike price for the option at time of election.

Apply GST Tax Exemption

- GST Tax? Generational Skipping Transfer Tax
  - Additional layer of tax that was enacted in 1986 because Congress perceived abuse by clever taxpayers (and their attorneys) who were leaving substantial portions of their estate directly to their grandchildren.
- Tax on asset transfers to "skip persons"
  - If transferee is related to transferor, transferee must be two or more generations below transferor.
  - If transferee is unrelated, transferee must be more than 37.5 years younger than the donor.
- In 2026, each person has a $15 million GST tax exemption.
  - The value of asset transfers that exceed the GST tax exemption amount incur the GST tax, which is generally 40%.

Apply GST Tax Exemption

- To optimize tax efficiency, allocate GST tax exemption to the trust in which the QSBS is gifted.

- What is the process?
  - Establish an irrevocable non-grantor trust in a state with no income tax, which laws allow a trust to last for a long or unlimited period with strong asset protection (e.g., Delaware).
  - Payments to beneficiaries are based on an ascertainable standard, e.g., for their health, education, maintenance, or support only (HEMS), or made at the trustee's discretion.

- Benefits:
  - Assets that remain in the trust avoid estate tax (40%) at each generation.
  - Income accumulating in the trust avoids the income tax of the state in which the grantor resides.
  - The trust can be drafted as a "silent trust."
  - The trust can be drafted as a "directed trust."
  - Several options exist to modify the trust notwithstanding that it is irrevocable.

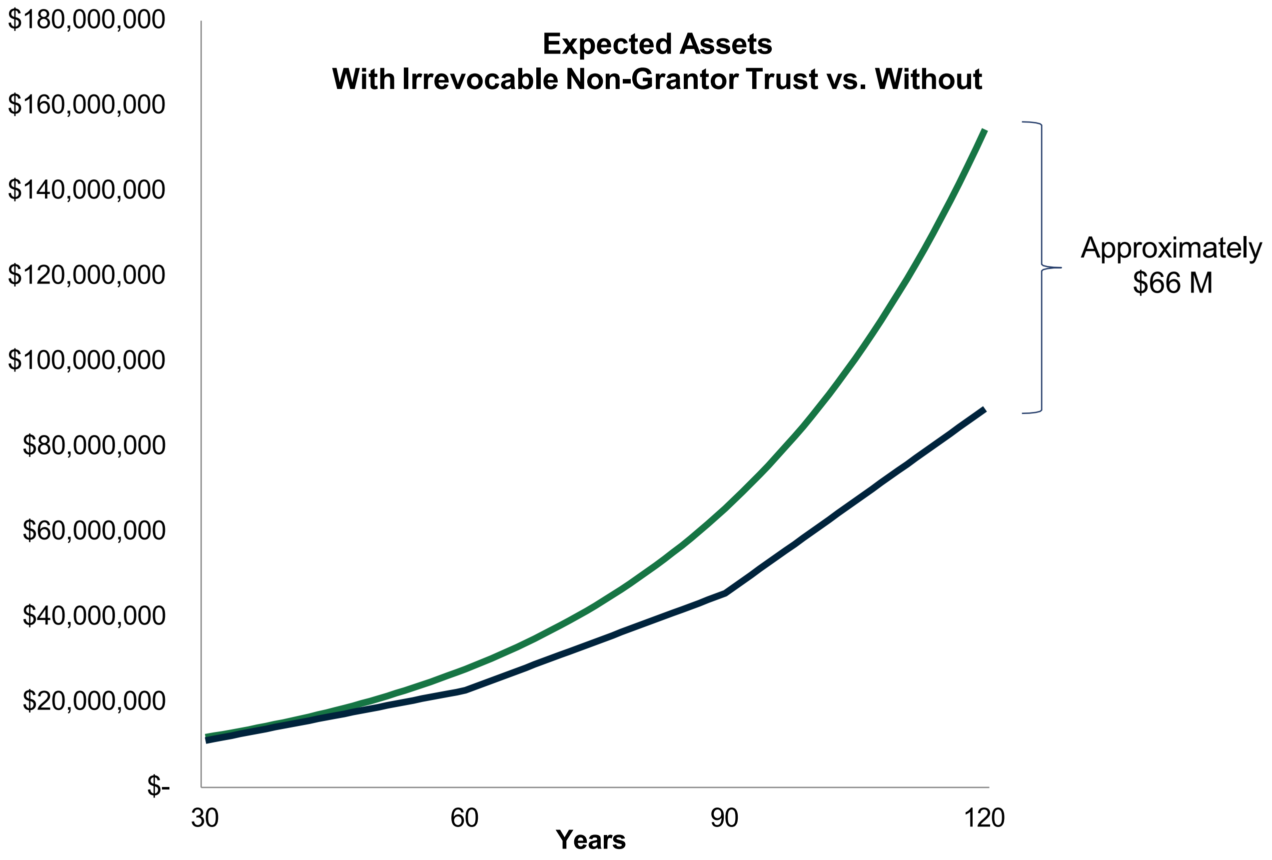
Apply GST Tax Exemption

SCENARIO

- A client aged 60.
- Contributes $5 million of assets into an Irrevocable Non-Grantor Trust.
- Trust continues for three generations without the imposition of any estate tax, compared to gifting $5 million of assets outright and passing the assets from generation to generation.

ASSUMPTIONS

- Income distribution 2% annually;
- Federal Estate Tax 40% applied in years 30, 60, 90 and 120, to outright gift;
- Inflation increase of 2% annually;
- Annual Investment Return of 5%.



Advantages of Siting the Trust in Delaware

CONFIDENTIALITY

With a history of protecting the privacy of trusts, Delaware trusts may be drafted to delay disclosure of a trust to its beneficiaries for a period of time

MODIFICATION

Delaware law offers a variety of methods to non-judicially modify irrevocable trusts. For example:
(i) decanting of trusts
(ii) merging trusts
(iii) using non-judicial settlement agreements

HISTORY

Delaware's Court of Chancery has longstanding history and specialized experience presiding over both trust and corporate matters, making Delaware a particularly attractive jurisdiction given its trust-friendly state legislature and experienced judiciary.

INCOME TAX BENEFITS

Delaware trusts are not subject to state income tax when there are no Delaware resident beneficiaries. This state tax savings can create a meaningful benefit, particularly for long-term trusts.

DYNASTY TRUSTS

Delaware allows for perpetual trusts. Delaware Dynasty Trusts can enable multigenerational planning, free from transfer taxes, offering significant opportunities for growth and wealth preservation.

DIRECTED TRUSTS

Delaware law permits a third-party to direct investments and/or distributions. This allows a family member or family advisor to retain more control over investments and/or distributions.

ASSET PROTECTION TRUSTS

Delaware law allows grantors to establish domestic asset protection trusts. Asset protection trusts can be a helpful strategy for professionals who may have a higher risk of personal liability

UNIQUE ASSETS

Delaware law allows for a wide variety of assets to be held in Delaware trusts, which can be desirable for concentrated, unique or closely-held assets with significant potential for appreciation.

Another Option to Minimize Income Tax

The Charitable Remainder Trust (CRT)

DEFINITION

Irrevocable trust that allows donor or other non-charitable beneficiary to receive annual payments with the remainder interest passing to Charity

PROCESS

- Trust is drafted in the form of an annuity trust (fixed dollar amount distributed annually) or a unitrust (fixed percentage of trust assets distributed annually). Charitable organization(s) are designated as the remainder beneficiary.
- CRTs are typically funded with highly appreciated assets
- Income tax deduction is determined based upon choice of term and payout percentage.
- Donor or designated non-charitable beneficiary receives payment stream for designated term or life

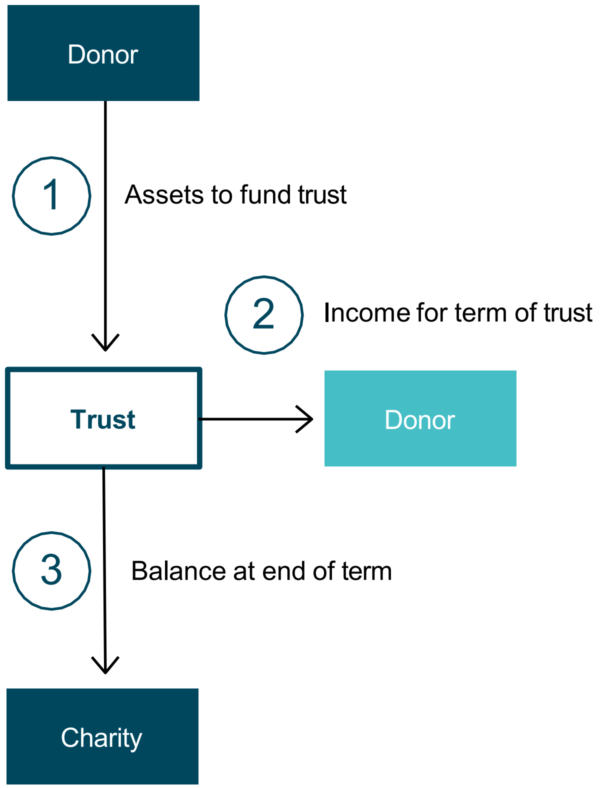
ADVANTAGES

- Ability to diversify highly appreciated assets while deferring income taxation
- Allows designation of private foundation as charitable beneficiary
- Increases cash flow for donor or other non-charitable beneficiary
- Permits current-period income tax charitable deduction
- Removes assets from taxable estate

CONSIDERATIONS

- Underperforming assets may deplete the trust
- Participation in upside price appreciation of contributed assets is limited
- If a non-spouse is named as the non-charitable beneficiary, the present value of that beneficiary's interest will be considered a gift for gift tax purposes

ASSET FLOW OF A CRT



Another Option to Minimize Income Tax

The CRT – 10 Year Charitable Remainder Annuity Trust (CRAT) with Initial $2M Funding

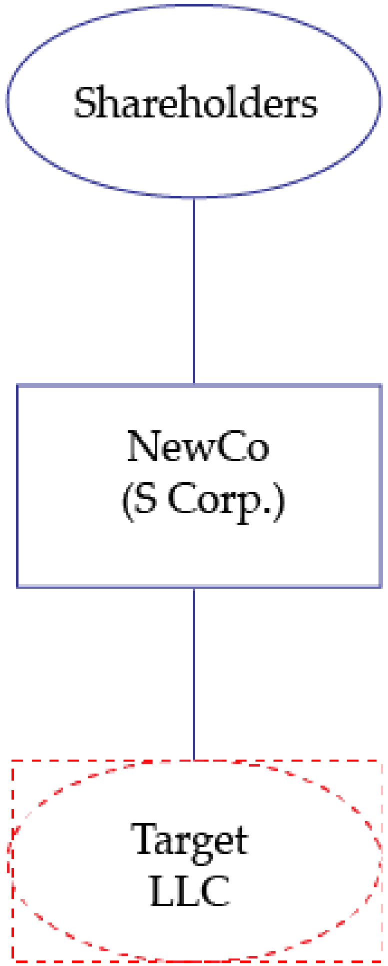
Assumptions	
Initial Gift Amount	$2,000,000
Transfer Date	1/2025
Growth Rate	6.0%
Applicable Federal §7520 Rate	5.20% (Jan 2025)
Term	10 year
Annual Payments	8%

Benefits	
Charitable Income Tax Deduction for Remainder Interest	$ 776,432
Total Payments to non-Charitable Beneficiary	$ 1,600,000
Remainder to Charity	$ 1,472,768

Year	Beginning Principal	Growth 6%	Required Payments	Remainder – To Charity
1	$ 2,000,000	$120,000	$160,000	$1,960,000
2	$1,960,000	$117,600	$160,000	$1,917,600
3	$1,917,600	$115,056	$160,000	$1,872,656
4	$1,872,656	$112,359	$160,000	$1,825,015
5	$1,825,015	$109,501	$160,000	$1,774,516
6	$1,774,516	$106,470	$160,000	$1,720,987
7	$1,720,987	$103,259	$160,000	$1,664,247
8	$1,664,247	$99,855	$160,000	$1,604,101
9	$1,604,101	$96,246	$160,000	$1,540,347
10	$1,540,347	$92,421	$160,000	$1,472,768

The F-Reorganization

- An F-reorg under IRC s. 368(a)(1)(F) is a type of typically tax-free reorganizational structure used in M&A transactions, and which often involves a target company taxed as an S-corp. and an acquiring company as a partnership that cannot own S-corp shares.
- Why an F-reorg? Because of the limitations on an S-corp (e.g., max. of 100 shareholders; shareholders can only be U.S. citizen or resident individuals, SMLLCs, or certain trusts; only one class of stock).
- Seller can treat transaction as a stock sale, while buyer can treat sale as an asset purchase.



Answers to the Three Big Questions for the Business Owner Preparing their Family for a Business Exit

	Question	Answer
1	How much is enough?	The amount you prepare them for. Preparing them for nothing is as hard as preparing them for millions.
2	When do we tell them?	When they are ready to hear it.
3	How do we break the paradigm, "Shirtsleeves to Shirtsleeves in three generations"?	Build flexible family teams and empower them.

Multigenerational Wealth Transfer: History's Caution

"It requires a great deal of boldness and a great deal of caution to make a great fortune; and when you have got it, **it requires ten times as much wit to keep it.**"

–Nathan Rothschild

Disclosure Appendix

This material is provided for illustrative/educational purposes only. This material is not intended to constitute legal, tax, investment or financial advice. Effort has been made to ensure that the material presented herein is accurate at the time of publication. However, this material is not intended to be a full and exhaustive explanation of the law in any area or of all of the tax, investment or financial options available. The information discussed herein may not be applicable to or appropriate for every investor and should be used only after consultation with professionals who have reviewed your specific situation.

The Bank of New York Mellon, DIFC Branch ("DIFC") is communicating these materials on behalf of The Bank of New York Mellon. The Bank of New York Mellon is a wholly owned subsidiary of The Bank of New York Mellon Corporation. This material is intended for Professional Clients only and no other person should act upon it. The DIFC is regulated by the Dubai Financial Services Authority and is located at Dubai International Financial Centre, The Exchange Building 5 North, Level 6, Room 601, P.O. Box 506723, Dubai, UAE. The Bank of New York Mellon is supervised and regulated by the New York State Department of Financial Services and the Federal Reserve and authorized by the Prudential Regulation Authority. The Bank of New York Mellon London Branch is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request. The Bank of New York Mellon is incorporated with limited liability in the State of New York, USA. Head Office: 240 Greenwich Street, New York, NY, 10286, USA.

The Bank of New York Mellon, ADGM Branch ("ADGM") is communicating these materials on behalf of The Bank of New York Mellon. The Bank of New York Mellon is a wholly owned subsidiary of The Bank of New York Mellon Corporation. This material is intended for Professional Clients only and no other person should act upon it. ADGM is regulated by the Financial Services Regulatory Authority and is located at Abu Dhabi Global Markets, Al Maryah Tower, Level 4, Unit 404, P.O. Box 764645, Abu Dhabi, UAE.

In the U.K. a number of the services associated with BNY Wealth's Family Office Services– International are provided through The Bank of New York Mellon, London Branch, One Canada Square, London, E14 5AL. The London Branch is registered in England and Wales with FC No. 005522 and BR000818.

Investment management services are offered through BNY Mellon Investment Management EMEA Limited, BNY Mellon Centre, One Canada Square, London E14 5AL, which is registered in England No. 1118580 and is authorized and regulated by the Financial Conduct Authority. Offshore trust and administration services are through BNY Mellon Trust Company (Cayman) Ltd.

This document is issued in the U.K. by The Bank of New York Mellon. In the United States the information provided within this document is for use by professional investors.

This material is a financial promotion in the UK and EMEA. This material, and the statements contained herein, are not an offer or solicitation to buy or sell any products (including financial products) or services or to participate in any particular strategy mentioned and should not be construed as such.

BNY Mellon Fund Services (Ireland) Limited is regulated by the Central Bank of Ireland BNY Mellon Investment Servicing (International) Limited is regulated by the Central Bank of Ireland.

BNY Wealth conducts business through various operating subsidiaries of The Bank of New York Mellon Corporation. BNY, BNY Mellon and Bank of New York Mellon are corporate names of The Bank of New York Mellon Corporation and may be used to reference the corporation as a whole and/or its various subsidiaries generally.

REDWOOD EMPIRE
ESTATE PLANNING COUNCIL

REEPC.ORG

Ryan J. Szczepanik

BNY | WEALTH