Morgan Stanley

Fox, Penberthy & Dehn at Morgan Stanley

Case Study

A Successful Entrepreneur

Some clients regularly make business decisions worth tens of millions of dollars and build companies with many times more. Even with that kind of background, the knowledge of a dedicated financial advisor is invaluable at key moments.

Background
The client was a 50-year-old founder and CEO of a software company that improves how large companies interact with vendors and suppliers. Working with his management team and a venture capital investment firm, he built the company to over $25 million in sales. After eight years in business, he sold the company to Oracle, resulting in a $7 million liquidity event for the founder.

The Client's Goals and Our Solutions
This was a watershed event in the client's life and only one chance to do it right. We began strategic financial planning before the transaction closed, meeting with the client's CPA and estate attorney to determine an overall plan.

Client's Goals	Our Solutions
Financial Independence Though he would continue to work with Oracle for a couple of years, the client wanted to assure his financial independence when he retired after the integration.	We performed a **retirement income projection** that showed if he worked two more years, the client would have $185,000 per year after taxes – enough to maintain his lifestyle until age 90. Critical to the plan, we advised the client to establish his new employment status with Oracle as a 1099 subcontractor, not as a W-2 employee. This allowed for greater tax efficiency through writing off reimbursed expenses and setting up a **SEP IRA** to reduce taxable income.
Tax Minimization The tax repercussions of such a transaction cannot be ignored and the client wanted to minimize his liability.	We recommended the establishment of a **donor-advised fund**, to be funded within the transaction year. This allows several years of charitable giving in one year when the tax liability is greatest, but provides the client several years to move funds to the public charities of his choosing.
College Fund With two high-school aged children, the client wanted to have money for college handled effectively.	We took advantage of **a provision in the gift tax code for funding 529 plans** that allows five years of annual gifting ($16,000 per child per year) for a total of $160,000 into each child's 529 plan. The monies in such plans grow entirely tax-free if used for higher education and are not included in the client's gross estate for federal estate tax purposes.
Wealth Transfer and Estate Taxes Looking further down the road, the client wanted to manage the taxes that would be paid when his children inherited his wealth.	In working with his attorney, we established **revocable living trusts** which take advantage of the Unified Credit Provision to avoid federal estate taxes. The client also set up a **Grantor Retained Annuity Trust (GRAT)**, into which we moved shares of securities in which we expect to see appreciation. This will partially move to the client's children upon termination of the GRAT.

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CRC 3777728 8/2024