THOUGHTS FOR THE WEEK

FOUNDER PROCRASTINATION & WHY THE EARLY BIRD GETS THE WORM

April 14, 2023

For over twenty-five years we've helped founders plan for success. But founders are human, and humans procrastinate, so sometimes we're the "hand at the small of the back", helping gently "push" founders to start their financial planning. We could devote another *Thoughts for the Week* to the reasons founders (and sometimes their investors and advisors) give for not for tackling planning:

"I don't need a wealth manager – my wealth is tied up in my business"

"I don't want to distract them from their growth opportunity, upcoming equity round, pending acquisition, sale process"

"I'll jinx it if I count my chickens before they hatch"

"I'm head down running the business. That's what's important right now"

"I've already done that (usually meaning "I created a will and revocable trust eight years ago")"

"I'm too young, I'm not married, I don't have kids"

"I'm not building the business to sell; I'm going to keep the business in the family"

So, what's the counter argument?

Occasionally a business rockets from founding to exit; most are ten-or twenty-year overnight success stories. Founders grind away, perfecting their business model, understanding their consumer, building their team, gaining distribution, and improving margins, for years before taking chips off the table, selling, or going public. And that growth - rocket ship or twenty-year overnight success - is why *NOW* is *ALWAYS* the best time to start planning. Let's look at the math:

The Rule of 72

The Rule of 72 is a formula for estimating how long it takes to double an investment at a given annual compounded growth rate. Divide 72 by the growth rate and it gives you an *approximation* of the number of years it takes to double.

Assuming the value of your business holds a constant multiple of revenue, if your business grows at 10% a year it's value doubles in about seven years; at 20% it doubles in just over three and a half years; and at 40% it doubles in less than 2 years.

Everyone Wants a Piece of That Growth

Founders want their valuation growth to benefit the people and causes they care about. Early planning can help minimize income, gift, and estate taxes, put more dollars in your pocket and the pockets of those you care about, and sew up outcomes such as, "what happens to the kids if something happens to us?"

Potential Savings

The potential savings from early planning can be immense, often measured in the millions of dollars. For example, California's top capital gains rate is 13.3%, South Dakota's 0.0%. Could early planning allow some of your stock be sold subject to SD taxes instead of CA? Maybe. Could early planning leverage the power of your $17,000 Annual Gift Tax Exclusion and $12.92 million Lifetime Gift and Estate Tax Exemption by moving stock in your business *before* it appreciates? Almost certainly. And, unless Congress enacts new legislation, the Lifetime Exemption will be reduced by almost one-half at year-end 2025. Getting started now gives you a window; waiting may shut that window for you.

A "few" things any founder should consider

- Choose an estate attorney and CPA you like, understand, and won't outgrow. Start building an understanding of the alphabet soup of planning strategies – QSBS, GRAT, IDGT, ILIT, BDIT, CLAT, ESOP, QPRT, GST, FLP, PPLI, Dynasty Trust.

- Position your equity <u>before</u> its value increases – knowing that every financing, 409a valuation, employee stock grant, and secondary sale creates a new valuation marker for your business.

- Understand the rules around "stacking" QSBS** exemptions for qualifying C Corp stock.

- Complete gifts of stock in a year prior to a liquidity event, for better optics with the IRS and state tax authority.

- Look at vehicles for managing your charitable giving by contributing private stock to a DAF or CRT* before a transaction.

Where To Start

If any of this convinces you, or a founder you know, to make planning a priority, you may wonder where to start? Our planning process starts with where the founder is today – your family, any planning that is already in place (a little or a lot), your current balance sheet, the value of your company equity today, and your vision for the business. With that in hand, gaps and opportunities start to round into focus, and we can start modeling future scenarios, building your advisory team, comparing strategies, and keeping our hand on your proverbial back, to ensure that the plan gets implemented.

The early bird gets the worm. If you or a founder you know are suffering from FPS (Founder Procrastination Syndrome) give us a call. Operators are standing by.

Enjoy your reading and your weekend,

Mike, Cate, Scott, Willis, Suzy, Oscar and Wes

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*DAF (Donor Advised Fund) or CRT (Charitable Remainder Trust)
** QSBS (Qualified Small Business Stock)

Sources:
The Rule of 72: Definition, Usefulness, and How to Use It, By Will Kenton, Updated March 09, 2023, https://www.investopedia.com/terms/r/ruleof72.asp

Gift Tax, Explained: 2022 and 2023 Exemptions and Rates, SmartAsset, by Patrick Villanova, CEPF® MAR 23, 2023, https://smartasset.com/estate-planning/gift-tax-explained-2021-exemption-and-rates#:~:text=Lifetime%20IRS%20Gift%20Tax%20Exemption,as%20part%20of%20their%20estate.

Mike Burbank's Awards:

2017-2022 **Barron's Top 1,200 Financial Advisors: State-by-State** (formerly referred to as Barron's Top 1,000 Financial Advisors: State-by-State)
Source: Barrons.com (Awarded 2017-2022). Data compiled by Barron's based on 12-month period concluding in Sept of the year prior to the issuance of the award.

2013-2020 **Financial Times 400 Top Financial Advisors**
Source: ft.com. Data compiled by the Financial Times based the following time periods:
Awarded 2013-2020; data 12/31/12 - 6/30/19

2019-2020 & 2022 **Forbes Best-In- State Wealth Advisors**
Source: Forbes.com (Awarded 2019-2020 & 2022). Data compiled by SHOOK Research LLC based 12-month time period concluding in June of year prior to the issuance of the award.
Awards Disclosures

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Bonds rated below investment grade may have speculative characteristics and present significant risks beyond those of other securities, including greater credit risk and price volatility in the secondary market. Investors should be careful to consider these risks alongside their individual circumstances, objectives, and risk tolerance before investing in high-yield bonds. High yield bonds should comprise only a limited portion of a balanced portfolio.

Bonds are subject to interest rate risk. When interest rates rise, bond prices fall; generally, the longer a bond's maturity, the more sensitive it is to this risk. Bonds may also be subject to call risk, which is the risk that the issuer will redeem the debt at its option, fully or partially, before the scheduled maturity date. The market value of debt instruments may fluctuate, and proceeds from sales prior to maturity may be more or less than the amount originally invested or the maturity value due to changes in market conditions or changes in the credit quality of the issuer.

Bonds are subject to the credit risk of the issuer. This is the risk that the issuer might be unable to make interest and/or principal payments on a timely basis. Bonds are also subject to reinvestment risk, which is the risk that principal and/or interest payments from a given investment may be reinvested at a lower interest rate.

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CRC 5622670 dtd 04/14/2023