

Starting Soon....

18th ANNUAL
INTERGENERATIONAL
ESTATE PLANNING
CONFERENCE

November 2, 2023



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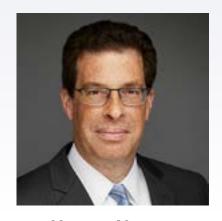
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#### **INTERGEN**

# Meet Kai and Jade

- Kai, 78, SuccessfulBusinessman, Founder:Cloud Dragon
- Jade, 67, CommunityVolunteer andPhilanthropist
- Both: New York Residents, 2<sup>nd</sup> generation Asian American

**INTERGEN** 



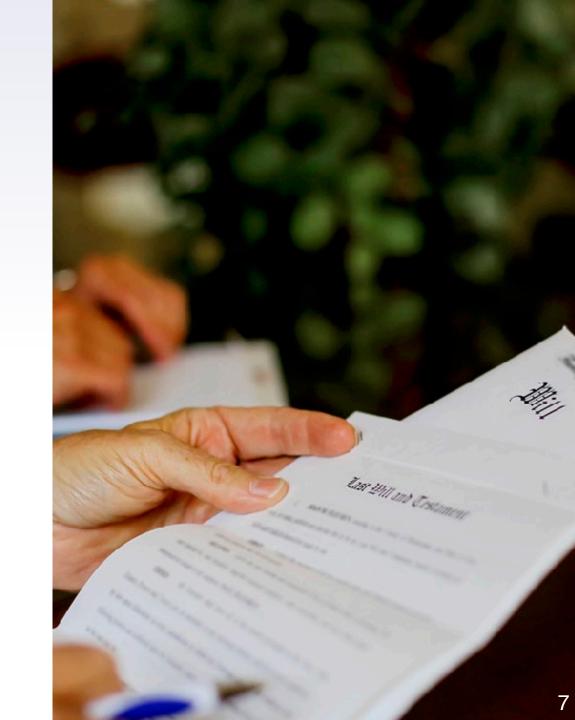
## Kai's Health Concerns

- Kai has been diagnosed with Alzheimer's and is considered incapacitated
- Kai's company is now in limbo
- Family is concerned about the business, taxes and estate planning
- Kai's long-term care is putting a strain on finances with out-of-pocket costs at \$305K/ yr.



# Previous Planning

- Prior to the illness, Kai was "too busy" to do estate planning
  - Currently has a simple will and power of attorney naming Jade without gifting powers
- Kai bought a term insurance policy at age 60
- Kai and Jade have not used their lifetime gift tax exemptions



## Kai and Jade's Income

### Kai

▶ \$1,200,000 million per year

### **Jade**

\$220,000 per year



## Kai and Jade's Assets

### **Jointly Held**

Williamsburg Brooklyn NY Home \$1 M

Three Rental Properties \$5 M

Liquid Assets (Investments, Cash) \$20 M

Retirement Accounts

Kai's Cloud Dragon 401(k) \$15 M

Jade's Cloud Dragon 401(k) \$5 M





## Kai and Jade's Insurance

#### Kai

20-yr. term insurance purchased at age 60; \$58K annual premium; \$10M death benefit

- Conversion option has expired.
- Now uninsurable

No insurance **Jade** 



## The Business – Cloud Dragon, Inc.



- Computer Software Company
- Kai owns 94% of the business
- Melvin and Maria (children) each own 3%
- Melvin and Maria are advocating for move into "A.I." that could rapidly accelerate growth



## The Kids

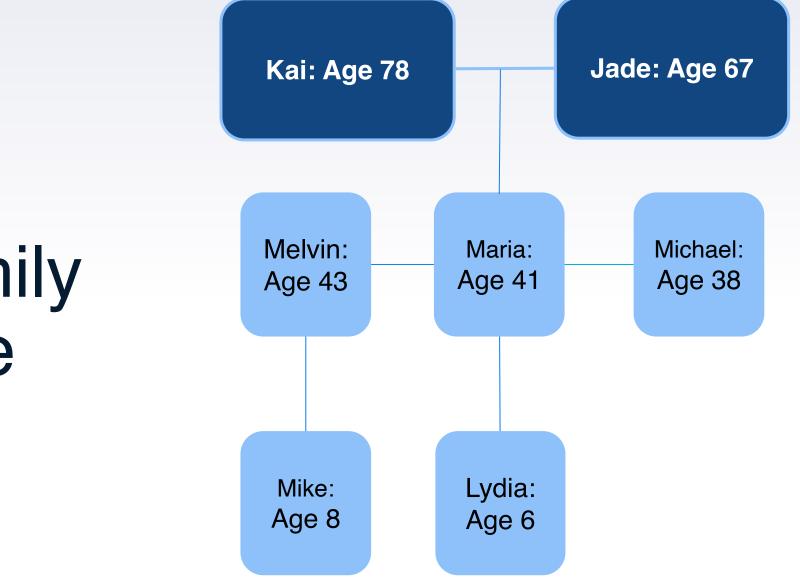
- Melvin, 43 married with one child works in the business
  - Spouse, Jane, 43 and Son, Mike, age 8
- Maria, 41 has a significant other works in the business
  - Significant Other, John Smith, age 41 and Daughter, Lydia, age 6
- Michael, 38 snowboarder, single, not in business
  - concerned that his interests are protected; brings a lawyer to the table to ensure estate equalization.



## The Grandchildren

- Mike, Melvin's Son, Age 8
- Lydia, Maria's Daughter, Age 6





# Family Tree

# **Current Challenges**

 Given Kai's dementia and without the proper legal planning in place, no one can make legal and financial decisions on his behalf

Jade and the children call a meeting with their team of advisors

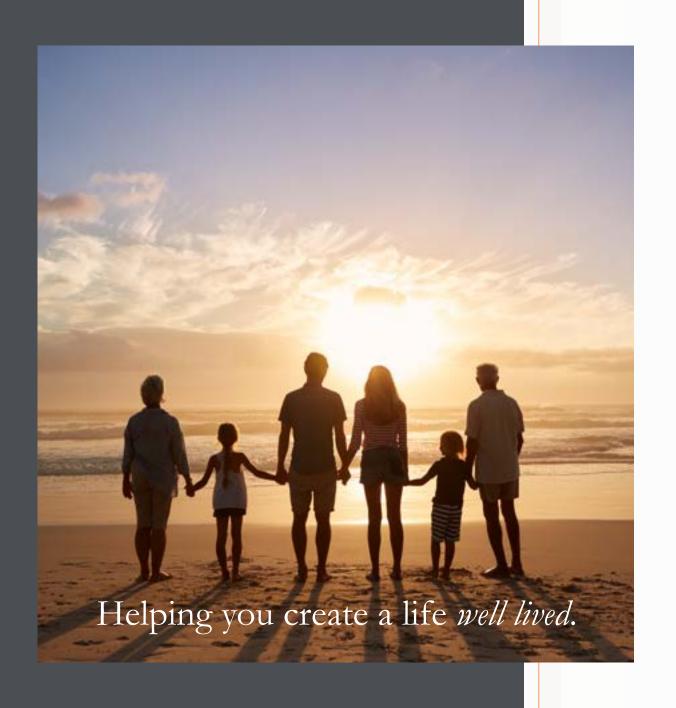
What steps are needed swiftly to fill the leadership gap and make moves to stabilize and modernize the company, maximize wealth, minimize tax and risk, and create a legacy for future generations?



# Wealth Management

Jeffrey Corliss and Ruth Gretz RDM Financial Group - Hightower







# Wealth Management Your Financial Future. Our Fiduciary Commitment.

18th Annual INTERGEN

November 2, 2023

**C** C It takes as much

# energy to wish as it does to plan.

ELEANOR ROOSE VELT, FORMER FIRST LAD



### Our Roadmap to Wealth Planning (aka Financial Planning)...the 5 Steps



- > Recognize the need to plan and get started
- ➤ Get organized/Know what you have
- ➤ Develop your wish list vs. what you need
- >Tie it all together & make a plan and coordinate with other advisors
- > Prioritize, execute & monitor & review our *Financial Well-th Checklist*





#### Our Process – Other Advisors









#### Disclaimer plan methodology, assumptions, and results



#### Disclaimer

The following report is a diagnostic tool intended to review your current financial situation and suggest potential planning ideas and concepts that may be of benefit. The purpose of the report is to illustrate how accepted financial and estate planning principles may improve your current situation.

This report is based upon information and assumptions provided by you (the Consumer). This report provides broad and general guidelines on the advantages of certain financial planning concepts and does not constitute a recommendation of any particular technique. We recommend that you review your plan annually, unless changes in your personal or financial circumstances require more frequent review.

The term "plan" or "planning," when used within this report, does not imply that a recommendation has been made to implement one or more financial plans or make a particular investment. Nor does the plan or report provide legal, accounting, financial, tax or other advice. Rather, the report and the illustrations therein provide a summary of certain potential financial strategies. The reports provide projections based on various assumptions and are therefore hypothetical in nature and not guarantees of investment returns. You should consult your tax and/or legal advisors before implementing any transactions and/or strategies concerning your finances.

Additionally, this report may not reflect all holdings or transactions, their costs, or proceeds received by you. Prices that may be indicated in this report are obtained from sources we consider reliable but are not guaranteed. Past performance is no guarantee of future performance and it is important to realize that actual results may differ from the projections contained in this report. The presentation of investment returns set forth in this report does not reflect the deduction of any commissions. They will reflect any fees or product charges when entered by the advisor/representative. Deduction of such charges will result in a lower rate of return.

It is important to compare the information on this report with the statements you receive from the custodian(s) for your account(s). Please note that there may be minor variations due to calculation methodologies. If you have any questions, please contact your financial advisor.

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Tools such as the Monte Carlo simulation, which may be included in this analysis, will yield different results depending on the variables inputted, and the assumptions underlying the calculation. The assumptions with respect to the simulation include the assumed rates of return and standard deviations of the portfolio model associated with each asset. The assumed rates of return are based on the historical rates of returns and standard deviations, for certain periods of time, for the benchmark indexes comprising the asset classes in the model portfolio. Since the market data used to generate these rates of return change over time your results will vary with each use over time.

Monte Carlo Analysis is a mathematical process used to implement complex statistical methods that chart the probability of certain financial outcomes at certain times in the future. This charting is accomplished by generating hundreds of possible economic scenarios that could affect the performance of your investments. The Monte Carlo simulation uses at most 500 scenarios to determine the probability of outcomes resulting from the asset allocation choices and underlying assumptions regarding rates of return and volatility of certain asset classes. Some of these scenarios will assume very favorable financial market returns, consistent with some of the best periods in investing history for investors. Some scenarios will conform to the worst periods in investing history. Most scenarios will fall somewhere in between. The outcomes presented using the Monte Carlo simulation represent only a few of the many possible outcomes. Since past performance and market conditions may not be repeated in the future, your investment goals may not be fulfilled by following advice that is based on the projections.

I/We have received and read this Disclaimer page and understand its contents and, therefore, the limitations of the report. Furthermore, I understand that none of the calculations and presentations of investment returns are guaranteed.



Source: eMoney

#### Goals for Kai & Jade

Fictional case study



#### **Living Goals**

Financial Independence - To maintain financial independence, Kai & Jade need approximately \$67,083 per month or \$805,000 (\$500,000 annual living expense and \$305,000 in LTC) per year after income taxes in today's dollars excluding certain contractual and non-reoccurring expenses (such life insurance premiums).

*Income Taxes - Minimize their income tax liabilities.* 

*Investments*-Maximize wealth while minimizing risk to the extent possible.

Family Business- Fill the leadership gap and ensure the company is stabilized and modernized.

#### **Postmortem Goals**

Estate Tax Reduction - Minimize their estate tax liability while creating a legacy for future generations.



## Wealth Plan Cash Flow Assumptions High-level facts about the Base Facts



Incomes			
Income	Starts	Ends	Annual Amount
Kai's Earnings 2023	Active	Year 2023	\$1,200,000
Net rental cashflow (before depreciation)	Active	At Second Death (2056)	\$100,000
Jade's Earnings 2023-2026	Active	Spouse's Retirement (age 70 in 2026)	\$220,000
Cloud Dragon Income 2024-2035 (assumes invested)	Year 2024	Client's Death (age 90 in 2035)	\$1,000,000
Kai's Social Security	At Age 70		\$54,660
Jade's Social Security	At Age 70		\$44,820

Savings, Contributions and Transfers			
Savings	Starts	Ends	Annual Amount
Jade's 401(k): Pre-Tax Contribution	Active	Spouse's Retirement (age 70 in 2028)	\$30,000 per year
Kai's 401(k): Pre-Tax Contribution	Active	Year 2023	\$30,000 per year

Insurance		
Insurance Type	Kai's Coverage	Jade's Coverage
Life Insurance	\$10,000,000	-
Long Term Care Insurance		-
Disability Insurance		-

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#### Wealth Plan Cash Flow Assumptions - Continued



- > Financial Independence: Base case vs Base case with 1% increase in Rate of return (linear projections)
  - ➤ Kai's earnings from business end after 12/31/2023 and that Jade retires fully at the end of 2027 (after she turns 70).
  - > Cloud Dragon Scorp-Assumes taxable capital payouts from business continue for Kai's life of \$1M taxed at ordinary income rates.
  - > Kai's Long-Term Care (LTC) qualified medical expenses of \$305,000 per year (in today's dollars) inflate at 5% annually until Kai's death at age 90 (2035).
  - > Annual living expenses of \$500,000 (in today's dollars) excluding life insurance premiums inflate at 4% per year.
  - > Return on Capital of 3% vs. 4% per year (net of fees). Assumes any positive cash inflow for a year is invested.
  - Qualified Assets grow 5.0% vs. 6.0% per year (net of fees).
  - > Income taxes calculated annually based on projected income under federal and state income tax laws currently in effect including 2026 federal sunset provisions.
  - > Social Security increases annually at 1% beginning in 2024 based on earnings. Kai already taking on his benefit. Jade will start her benefit at age 70.
  - > Real estate appreciates at 2% annually but is not included in cashflows.
- ➤ Risk Management: Base case except Jade needs Long Term Care at age 85 for 4 years and then passes away.
  - Assumes LTC costs for private nursing home care of \$435/day (in today's dollars) based on Genworth 2021 Cost of Care Report increasing at 5% per year.



Source: eMoney

#### Balance Sheet-By Owner



# | Cash Alternatives | 0.11% | | Taxable Investments | 21.63% | | Qualified Retirement | 21.63% | | Business Interests | 49.13% | | Real Estate | 6.55% | | Personal Property | 0.55%

Assets	Kai	Jade	Joint/ROS	Total
Checking/Savings	_	-	\$100,000	\$100,000
Liquid Investments	-		\$20,000,000	\$20,000,000
Jade's 401(k)	12	\$5,000,000	12	\$5,000,000
Kars 401(k)	\$15,000,000	-	-	\$15,000,000
Cloud Dragon Software S Corp. (Est Value 2023)	\$45.000,000	-	-	\$45,000,000
3 Rental Properties	_	-	\$5,000,000	\$5,000,000
Williamsburg Home	- <del>-</del>		\$1,000,000	\$1,000,000
Jewelry: Auto/Other Personal Property	_	-	\$500,000	\$500,000
Total Assets	\$60,000,000	\$5,000,000	\$26,600,000	\$91,600,000
Liabilities	Kai	Jade	Joint/ROS	Total
Total Liabilities	-	-	-	
Total Net Worth	\$60,000,000	\$5,000,000	\$26,600,000	\$91,600,000



#### Annual Living Expenses-subject to inflation (4%)



		Current
Description	Туре	Value
Housing	Basic Expenses	\$250,000
Healthcare	Medical Expenses	30,000
Food	Basic Expenses	75,000
Transportation	Basic Expenses	10,000
Entertainment	Discretionary Spending	25,000
Gifts	Discretionary Spending	100,000
Other	Discretionary Spending	10,000
Totals:		500,000



## 10-Year Cash Flow (partial first year) Base Facts from First Year to 2027 The 5-Year Cash Flow report illustrates your income, savings, expenses, and resulting net cash flow on an annual basis.



YEARS (AGES)	2023 (78/67)	2024 (79/68)	2025 (80/69)	2026 (81/70)	2027 (82/71)
CASHINFLOWS					
Salary					
Jade's Earnings 2023-2026	\$36,667	\$220,000	\$220,000	\$73,333	\$0
Kai's Earnings 2023	\$200,000	\$0	\$0	\$0	\$0
Social Security	\$9,110	\$55,207	\$55,759	\$87,102	\$103,520
Other Income Flows					
Cloud Dragon Income 2024-2035 (assumes invested)	\$0	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000
Net rental cashflow (before depreciation)	\$16,667	\$104,000	\$108,160	\$112,486	\$116,985
Planned Distributions	\$660,793	\$663,425	\$693,997	\$725,856	\$755,083
Total Cash Inflows	\$923,237	\$2,042,632	\$2,077,916	\$1,998,777	\$1,975,588
CASH OUTFLOWS					
Living Expenses	\$83,335	\$520,000	\$540,800	\$562,433	\$584,931
Insurance Premiums	\$58,000	\$58,000	\$0	\$0	\$0
Taxes	\$369,031	\$1,999,277	\$1,825,762	\$1,546,276	\$1,395,128
Other Expenses					
Kai's LTC expenses 2023-2035	\$50,833	\$320,250	\$336,263	\$353,076	\$370,730
Planned Savings	\$10,000	\$30,000	\$30,000	\$25,500	\$0
Total Cash Outflows	\$571,199	\$2,927,527	\$2,732,825	\$2,487,285	\$2,350,789
Net Cash Flow	\$352,038	(\$884,895)	(\$654,909)	(\$488,508)	(\$375,201)

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#### 10-Year Cashflow Cont. 2028-2032



The 10-Year Cash Flow report illustrates your income, savings, expenses, and resulting net cash flow on an annual basis.

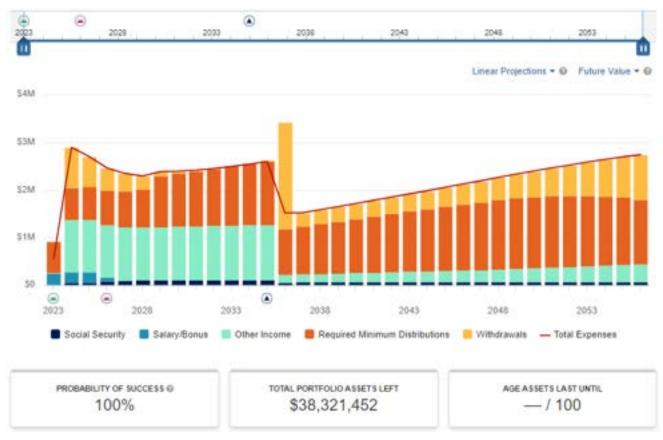
YEARS (AGES)	2028 (83/72)	2029 (84/73)	2030 (85/74)	2031 (86/75)	2032 (87/76)
CASHINFLOWS					
Social Security	\$104,555	\$105,600	\$106,656	\$107,723	\$108,800
Other Income Flows					
Cloud Dragon Income 2024-2035 (assumes invested)	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000
Net rental cashflow (before depreciation)	\$121,664	\$126,531	\$131,592	\$136,856	\$142,330
Planned Distributions	\$789,459	\$1,067,365	\$1,111,776	\$1,156,484	\$1,202,417
Total Cash Inflows	\$2,015,678	\$2,299,496	\$2,350,024	\$2,401,063	\$2,453,547
CASH OUTFLOWS					
Living Expenses	\$608,329	\$632,664	\$657,969	\$684,287	\$711,658
Taxes	\$1,297,936	\$1,345,212	\$1,309,735	\$1,284,458	\$1,267,848
Other Expenses					
Kai's LTC expenses 2023-2035	\$389,267	\$408,730	\$429,167	\$450,625	\$473,156
Total Cash Outflows	\$2,295,532	\$2,386,606	\$2,396,871	\$2,419,370	\$2,452,662
Net Cash Flow	(\$279,854)	(\$87,110)	(\$46,847)	(\$18,307)	\$885

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#### Cash Flow Overview-Base Case (Linear/Future Values)





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## Cash Flow Details-Base Case vs. with 1% increase in Rate of Return (Linear/Future Values)

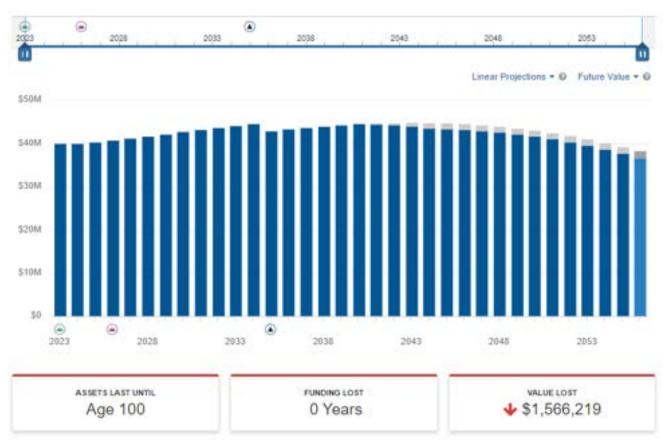


				Base	Facts		1.2 Increased rates of returns by 1%			
	Year	Age	Total Inflows	Total Outflows	Net Cash Flow	Total Portfolio Assets	Total Inflows	Total Outflows	Net Cash Flow	Total Portfolio Assets
96	2023	78/67	\$923,237	\$571,199	\$352,038	\$40,059,332	\$923,237	\$576,176	\$347,061	\$40,117,850
	2024	79/68	\$2,042,632	52,927,527	(\$884,895)	540,104,334	\$2,043,693	\$2,958,782	(\$915,089)	540,524,242
	2025	80/69	\$2,077,916	52,732,825	(\$654,909)	540,356,783	\$2,005,788	\$2,776,879	(\$691,082)	\$41,146,870
90	2026	81/79	\$1,998,777	52,487,285	(\$488,500)	540,754,760	52,014,157	\$2,545,477	(\$531,320)	\$41,922,538
	2027	82/71	\$1,975,588	\$2,359,789	(\$375,201)	\$41,229,378	\$1,999,103	52,420,070	(\$429,967)	\$42,786,975
	2028	83/72	\$2,015,678	52,295,532	(\$279,854)	541,784,746	\$2,848,206	\$2,374,328	(\$326,122)	\$43,747,290
	2029	84/73	52,299,496	52,386,606	(\$87,110)	\$42,271,726	\$2,353,981	52,482,057	(\$128,076)	\$44,647,665
	2030	85/74	\$2,350,024	52,396,871	(\$45,847)	542,767,604	\$2,418,176	\$2,505,084	(\$86,908)	\$45,569,360
	2031	86/75	\$2,401,063	\$2,419,370	(\$18,307)	\$43,259.467	\$2,483,945	\$2,540,636	(\$56,893)	\$46,499,423
	2032	87/76	\$2,453,547	52,452,662	\$885	543,735,404	\$2,552,325	\$2,588,013	(535,688)	\$47,425,625
	2033	88/77	\$2,506,130	\$2,494,564	\$11,566	544,185,174	\$2,621,902	52,644,441	(\$22,539)	\$45,337,374
	2034	89/78	\$2,561,278	52,545,183	\$16,095	544,598,304	\$2,695,409	\$2,710,316	(514,907)	\$49,223,340
00	2035	90/79	\$2,609,664	52,598,854	\$10,510	543.015.546	32,762,547	\$2,779,611	(\$17,064)	\$45,123,507
	2036	91/80	\$1,190,410	\$1,517,989	(\$327,579)	543,400,566	\$1,310,634	51,659,642	(\$349,008)	\$49,040,411
	2037	92/81	\$1,236,511	\$1,523,442	(\$286,931)	543.771,800	51,372,557	\$1,669,244	(\$296,687)	\$49,975.096
	2036	93/82	\$1,289,665	51,588,532	(5298,867)	544,094,079	\$1,443,502	51,752,348	(\$308,846)	\$50,863,977
	2039	94/83	\$1,338,765	\$1,651,684	(\$313,119)	544,367,043	\$1,510,850	\$1,833,307	(\$322,457)	351,714,955
	2040	95/84	\$1,395,967	\$1,719,194	(5323,227)	544,584,450	\$1,588,687	51,918,810	(\$330,123)	\$52,520,942
	2041	96/65	\$1,447,955	\$1,784,803	(\$336,848)	544,745,571	\$1,661,573	\$2,002,473	(\$340,900)	\$53,280,993
	2042	97/86	\$1,501,203	\$1,851,799	(\$350,596)	\$44,846,513	\$1,737,057	\$2,087,956	(\$350,899)	\$53,990,342
	2043	98/87	\$1,555,622	\$1,920,281	(\$364.659)	544,553,106	\$1,815,983	\$2,175,461	(\$360,398)	554,643,691
	2044	99/88	\$1,601,490	51,986,047	(\$384,557)	544,855,368	\$1,883,875	\$2,260,069	(\$376,194)	\$55,240,619
	2045	100/89	\$1.657,668	\$2,057,613	(\$399,945)	544,754,591	\$1,966,296	52,351,981	(\$385,685)	\$55,770,077
	2046	101/90	51,703,098	\$2,125,734	(\$422,636)	544,581,184	\$2,036,614	\$2,440,088	(\$403,472)	\$56,231,865
	2047	102/91	\$1,747,815	52,194,940	(\$447,125)	544,331,029	\$2,107,006	\$2,529,634	(5422,628)	556,620,253
	2048	103/92	\$1,791,432	\$2,265,143	(5473,711)	\$43,999,953	\$2,176,964	52,621,135	(5444,171)	\$56,929,263
	2049	104/93	\$1,033,492	\$2,336,228	(\$502,736)	543,563,762	\$2,245,867	\$2,713,627	(\$467,960)	\$57,152,601
	2050	105/94	\$1,857,504	52,400,896	(\$543,392)	543.085.726	\$2,292,382	\$2,798,572	(\$506,190)	\$57,294,214
	2051	106/95	\$1,877,851	52,466,020	(\$508,169)	\$42,502,399	\$2,334,550	\$2,883,277	(\$545,727)	\$57,349,082
	2052	107/96	\$1,875,890	\$2,523,552	(\$647,662)	541,838,666	\$2,347,685	\$2,957,091	(\$609,406)	\$57,324,172
	2053	100/97	\$1.687,760	\$2,568,788	(\$701,000)	\$41,084,065	\$2,376,957	\$3,040,732	(\$661,775)	\$57,205,386
	2054	109/98	\$1,873,555	52,644,485	(\$770,930)	549,245,483	52,375,242	53,110.921	(\$735,679)	\$57,001,984
	2055	110/99	\$1,852,992	52,699,182	(5846,190)	539,321,650	52,362,276	\$3,178,856	(\$816,580)	558,712,547
	2056	111/100	\$1,803,808	\$2,743,222	(\$939,414)	\$38,321,452	52,309,224	\$3,230,904	(5921,680)	\$56,350,016



# Lifetime Portfolio Value Overview-LTC Wealth Effect Jade needs LTC at age 85 for 4 years (Linear/Future Values)





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#### Income Tax Projected Rates-Base Case-Review for ROTH Opportunity



Federal Marginal Bracket	Effective Income Tax Rate	Total Income Tax	Other Income Tax	Capital Gains Tax	Federal Income Tex	Age	Year	
37%	36.52%	\$2,214,184	\$711,070	5745,441	\$757,673	78 / 67	2023	(8)
37%	36.47%	\$1,999,277	\$635,500	\$665,635	\$496,042	79/65	2024	
37%	36.75%	\$1,825,762	3563,617	\$557,393	\$704,752	80 / 69	2025	
39 60%	35.09%	\$1,546,270	\$469,392	\$446,212	\$630,672	51/70	2026	9
39.60%	35.65%	\$1,395,128	\$406,908	5366,790	\$619,430	82/71	2027	
39.60%	35.48%	\$1,297,996	3362,190	\$307,468	\$628,268	63/72	2028	
39 60%	36.31%	\$1,345,212	\$354,089	\$259,694	\$731,429	04/75	2029	
39.60%	36.27%	\$1,309,735	\$338,900	\$250,347	\$740,455	85/74	2030	
39.60%	98.19%	\$1,284,458	\$327,677	5207.242	\$749,539	88 / 75	2931	
39.60%	36.07%	\$1,267,848	\$319,755	\$100,217	\$758,676	87/76	2632	
39.60%	35.91%	\$1,257,627	5314,415	\$175.324	\$767,668	88/77	2933	
39.60%	35.74%	\$1,253,001	\$311,416	\$164,779	\$777,606	89/78	2034	
39.60%	35.51%	\$1,250,000	\$309,502	\$156,957	\$754,341	50/79	2035	(8)
39 60%	35.62%	\$605,454	\$166,262	3110,663	\$390,529	-/80	2036	
39 60%	36.20%	\$657,606	\$153,323	591,491	\$412,792	-/81	2037	
39.60%	36.10%	3600.061	5161,153	197,490	\$429,418	-/82	2038	
39.60%	38.14%	5715,395	\$165,136	\$102,767	\$444,492	-/83	2039	
39 60%	36.15%	5745,245	\$175,363	\$107,360	5462,522	-/84	2040	
30.60%	31%	5669,283	\$194,056	\$115,977	\$360,650	-/85	2041	
39.60%	38.86%	\$667,129	\$190,182	\$118,714	\$378,233	-/86	2842	
39.60%	30.70%	5704,150	\$195,497	5121,036	\$367,617	-/87	2043	
39.60%	30.46%	\$715,005	5199,836	\$123,091	\$392,678	-/88	2044	
39.60%	36.00%	\$660,720	8201,252	3119.165	\$540,303	-/49	2045	
39.60%	35.99%	5881,254	\$206,136	\$121,966	\$553,130	-/90	2046	
39.50%	35.91%	3900,961	5215.802	\$124,652	\$565,597	-/91	2047	
39.60%	35.63%	\$919,685	\$215,231	\$127,177	\$677,277	-/92	2048	
39.60%	35.74%	\$937,229	\$219,368	\$129.582	\$586,259	-/93	2049	
39.60%	35.57%	3946,302	\$222,972	\$132,030	\$592,290	-/94	2050	
39 60%	35.41%	\$953,894	3225,512	\$134,352	\$594,034	-/95	2051	
39.60%	35.16%	\$851,296	3227,450	\$136,797	\$587,949	-/96	2052	
39.60%	34.99%	1953.007	\$230,127	\$138.675	\$585,005	-/97	2053	
39.60%	34.60%	\$944,373	3231,043	\$140,663	\$572,647	-/90	2054	
39.60%	34.32%	3931,336	\$231,396	\$142,456	\$557,454	-/99	2055	
39.60%	33.85%	5904,933	5229.757	\$144,155	\$530,991	/100	2056	

This analysis must be reviewed in conjunction with the limitations and conditions discissed in the Discisiner page. Projections are based on assumptions provided by the financial advisor, and are not guaranteed. Actual results will very permans to a significant degree. The proposed regions are freporthesists in native and for Sushishes projected with financial advisor. Discussion in the control of the Contro

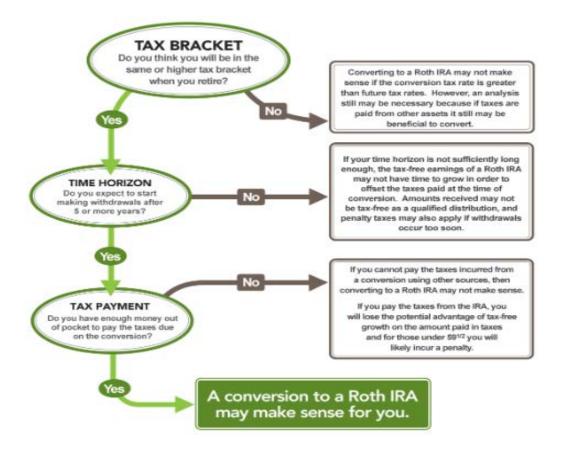




#### **Roth Conversion Decision Tree**

#### O Convert Traditional IRA to Roth IRA

Use the decision tree to determine whether or not converting your traditional IRA to a Roth IRA may be right for you.





Source: eMoney

### Planning Considerations



- ➤ Estate/Down stream Heirs/Beneficiary Designations
- ➤ Business Succession
- ➤ Protection Health, Property, LTC & Life
- >Cashflow/Retirement
- >Investments









## Our Roadmap to Investing



Jeffrey L. Corliss CFP®, ChFC®, CLU®, CASL® Managing Director, Partner

### Our Roadmap for Investing



#### MONITORING PROGRESS

You'll hear from us. In addition to portfolio performance reviews, you receive market updates, quarterly market commentary, financial plan adjustments and more.

#### **NEEDS ASSESSMENT**

Whether assisting with trust work, providing advice on the sale or acquisition of a business, gifting, cash management, post-retirement issues, or addressing asset allocation needs, we make recommendations on how to move forward.

OUR APPROACH

## DUE DILIGENCE AND PORTFOLIO CONSTRUCTION

Based on your needs assessment and financial plan, we determine the proper asset allocation for your portfolio and select the most appropriate investment vehicles. Our entire investment universe undergoes regular evaluation and review.

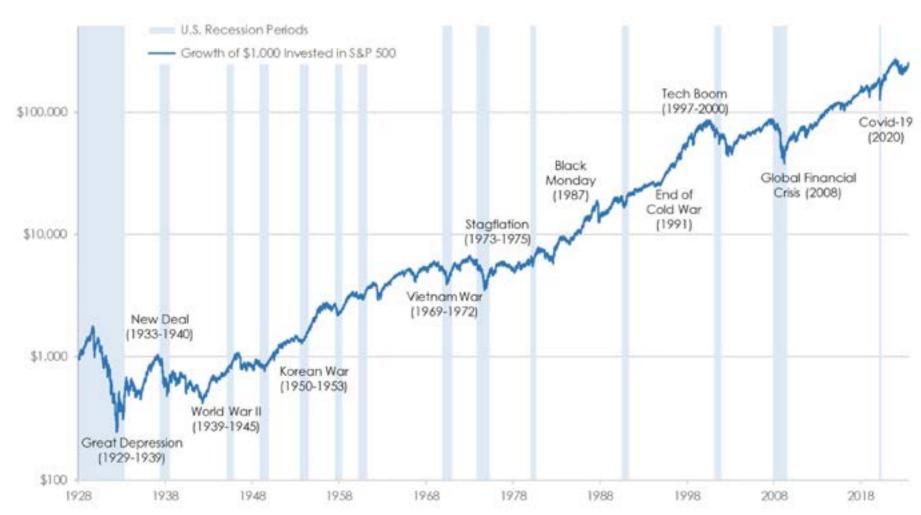
#### CHARTING A COURSE

Once we have identified your goals and issues, we will create a plan for the future – a personalized road map to help achieve your goals.



### Historic Market Events







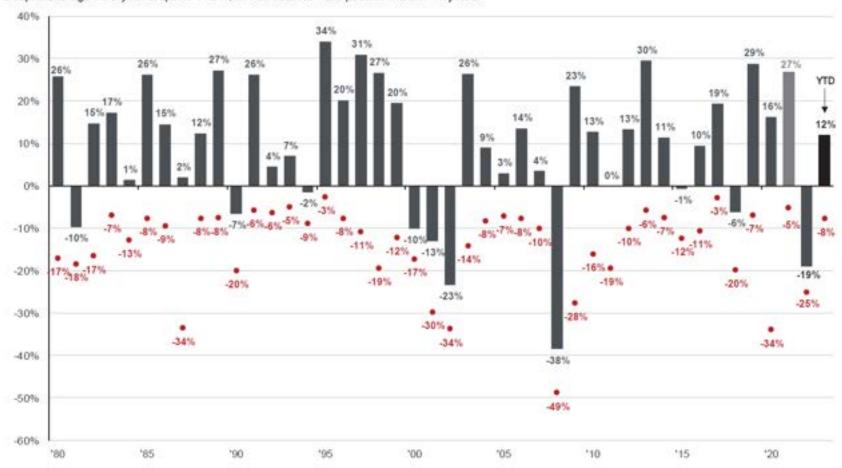
Source: MarketDesk Research. Data as of 1-1-23.

### Annual returns and intra-year declines



#### S&P intra-year declines vs. calendar year returns

Despite average intra-year drops of 14.3%, annual returns were positive in 32 of 43 years





# Asset Class Returns and why it matters....

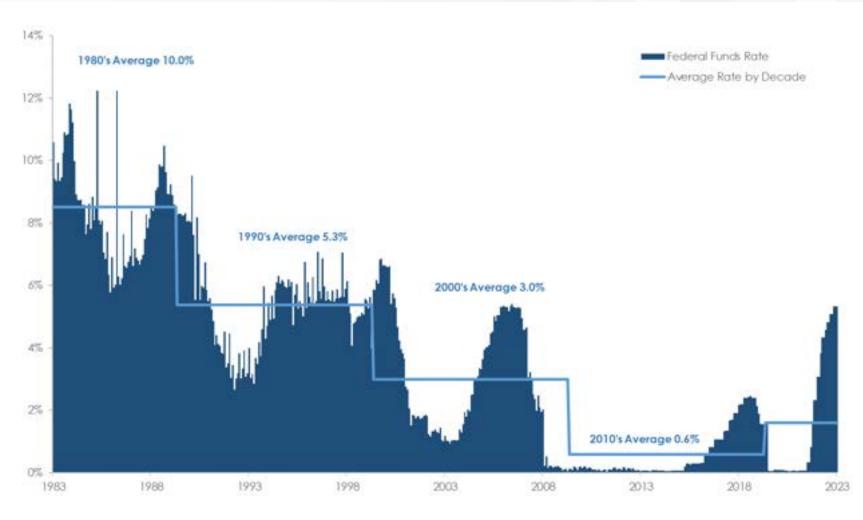


Com dty.	Cash 0.4%	Equity 533.2%	Cash 0.1%	Cash 0.1%	Equity -18.2%	Comdty.	Comdty.	Comdty.	Comdty.	Cash 0.3%	Cash 0.8%	EM Equity	Cash 2.2%	RETS	Equity 2.2%	RBTs 24.9%	RST's -5.6%
Cash 0.6%	Fixed Income 4.2%	Equity 43.1%	Fixed Income 5,9%	Fixed Income 6.5%	Comdty. -13.3%	Cash 0.1%	EM Equity -2.3%	Equity -4.5%	Equity -14.6%	Equity 1.5%	Comdty.	DM Equity -13.4%	Comdty. 7.7%	Comdty. -3.1%	Fixed Income -1.5%	Small Cap -20.4%	Comdty -3.4%
EM Equity 1.0%	Asset Alloc. 12.4%	RET'S -37.7%	Comdty. 18.9%	Equity 8.2%	Equity -11.7%	Fixed Income 4.2%	Fixed Income -2.0%	EM Equity -1.8%	Small Cap -4.4%	Fixed Income 2.6%	Fixed Income 3.5%	Comdty.	Fixed Income 8.7%	Cash 0.5%	Cash 0.0%	Equity -19.7%	Fixed Income -1.2%
CM Equity 2.3%	High Yield 13.0%	Large Cap -37.0%	Asset Allec: 25.0%	Asset Alloc. 13.3%	Small Cap -4.2%	Asset Albc. 12.2%	Cash 0.0%	High Yield 0.0%	High Yield -2.7%	Asset Allec. 8.3%	REITS 8.7%	Small Cap -11.0%	High Yield 12.6%	High Yield 7.0%	High Yield 1.0%	Large Cap -18.1%	EM Equity 2.2%
Fixed Income 2.7%	Large Cap 17.7%	Comdty.	Large Cap 25.5%	High Yield 14.8%	Asset AC- 0.7%	Cap 16.07	REITs 2.9%	Cash 0.0%	Asset Asset	RETS.	High Yield 10.4%	Asset Allec. -5.8%	Equity 18.9%	Fixed Income 7.5%	Equity 11.8%	Equity -14.0%	Small Cap 2.5%
High Yield 5.4%	Equity 20.0%	Small Cap -33.8%	Small Cap 27.2%	Cap 15.1%	Cash 0.1%	Small Cap 16.3%	High Yield 7.3%	Small Cap 4.9%	Equity -0.4%	EM Equity 11,6%	Asset Asset 74.6%	Cap -4.4%	Asset Apric. 19.5%	Equity 8.3%	Asset Aliec. 13.5%	Asset Alfac. -13.9%	Cash 3.7%
Asset Alloc. 6.1%	Comdty. 20.2%	High Yield -26.9%	RETs 28.0%	Comdty. 16.8%	Large Cap 2.1%	Equity 17.5%	Asset Alec. 14.9%	Asset Asset 5.2%	Cash 0.0%	Comdty.	Small Cap 14.6%	High Yield -4.1%	DM Equity 22.7%	Asset Affic 10.6%	Small Cap 14.8%	Pixed Income -13.0%	Asset Alloc. 4.5%
RBT's 6.6%	EM Equity 23.0%	Asset Allec. -25.4%	Equity 32.6%	EM Equity 19.2%	High Yield 3.1%	EM Equity 18.5%	Equity 23.3%	Fixed Income 6.0%	Fixed Income 0.5%	Cap 12.0%	Large Cap 21.8%	RBTs -4.0%	Small Cap 25.6%	Large Cap 18.4%	Comdity. 27.1%	High Yield -12.7%	High Yield 5.0%
Small Cap 7.2%	Small Cap 23.2%	Cash 1.8%	High Yield 59.4%	Small Cap 26.9%	Fixed Income 7.8%	High Yield 19.6%	Large Cap 32.4%	Cap 13.7%	Cap 1.4%	High Yield 14.3%	Equity 25.6%	Fixed Income 0.0%	REST's.	EM Equity 18.7%	Large Cap 28.7%	Cash 1.5%	Equity 7.6%
Cap 8.8%	RBTs 23.4%	Fixed Income 5.2%	EM Equity 79.0%	RBTs 27.9%	RSTs. 8.5%	RET's 19.7%	Small Cap 38.8%	REITs 28.0%	2.8%	Small Cap 21.3%	EM Equity 37.8%	Cash 1.8%	Cap 31,5%	Small Cap 20.0%	RBTs 41.3%	Comdty, 16.1%	Cap 13.1%
Ann.	Vol.	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	YTD



#### Federal Funds Rate

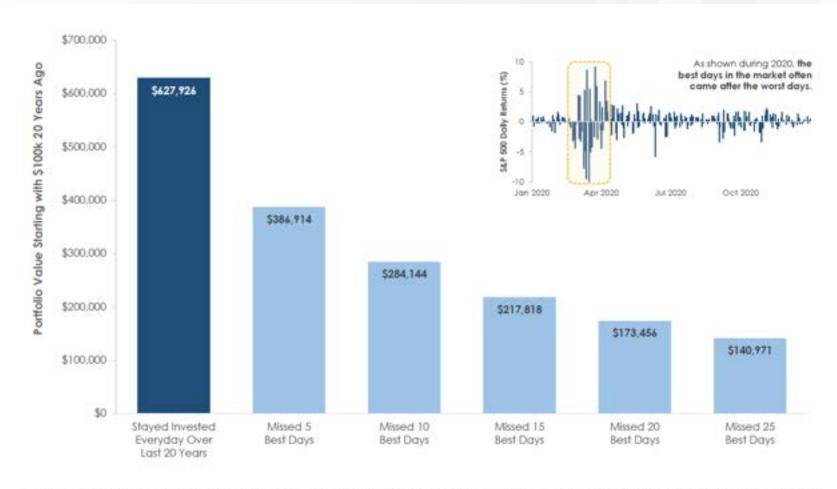






# Time, Not Timing, is What Matters





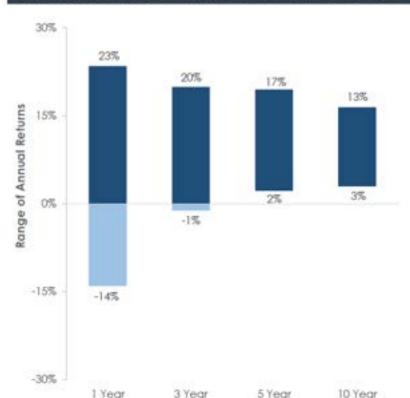
Disclosures: Past performance is no guarantee of future results. The analysis is based on 20 years of daily price return data. The portfolio value is represented by the State Street SPOR S&P SOD ETF (SPV), which represents an index of large cap stocks. The analysis does not include the impact of taxes or capital gains.



### Stay Invested for the Long Term







% of Time a 50 Stock / 50 Bond Portfolio was Positive / Negative Based on Various Holding Periods Using Monthly Data From the Last 30 Years

- % of Time You Made Money (Positive Return)
- \*% of Time You Lost Money (Negative Return)



Disclosures: Past performance is no guarantee of future results. The analysis is based on the last 30 years of total neturn data. Returns are represented by a 50/50 allocation to equities (State Street S&P 500 ETF - SPY) and bonds (Bloomberg Bond Aggregate Index).



### Portfolio Goals for Kai and Jade

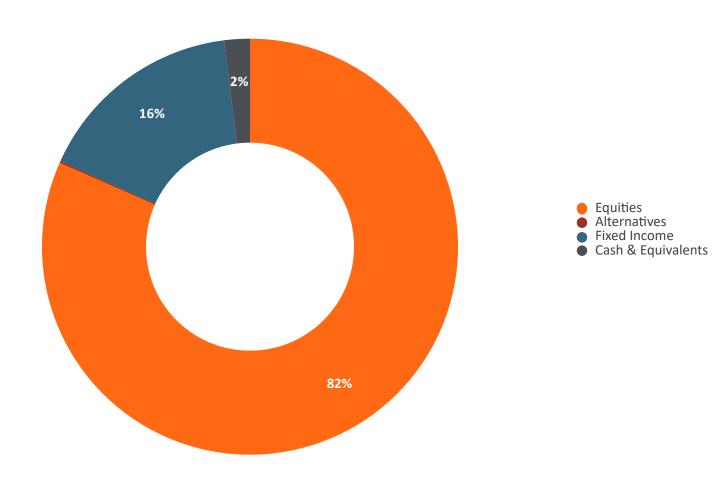


- Provide sufficient income for Kai's care and Jade's lifestyle.
- Our goal is to generate attractive returns over a multi-year time-period to help meet their long-term investment objectives.
- By including multiple asset classes, this will provide portfolio diversification and should help reduce volatility somewhat within the portfolio.



#### Global Asset Allocation - Current

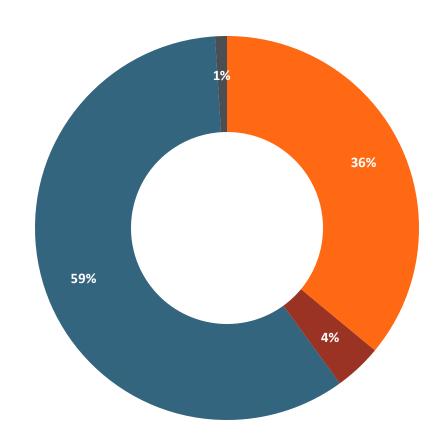






## Proposed Asset Allocation for Taxable Assets





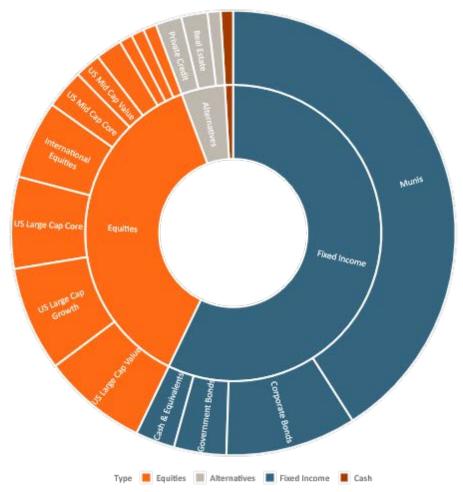
EquitiesAlternativesFixed IncomeCash & Equivalents





## Proposed Asset Allocation for Taxable Assets - Detail





\$20,000,000	Total	100.0%
\$200,000	Cash	1.0%
	Cash & Equivalents	\$600,000
	Corporate Bonds	\$2,000,000
	Munis	\$8,500,000
	<b>Government Bonds</b>	\$700,000
\$11,800,000	Fixed Income	59.0%
	Precious Metals	\$100,000
	Private Credit	\$350,000
	Real Estate	\$350,000
\$800,000	Alternatives	4.0%
	International Equities	\$1,200,000
	US Small Cap Value	\$150,000
	US Small Cap Core	\$200,000
	<b>US Small Cap Growth</b>	\$200,000
	US Mid Cap Value	\$400,000
	US Mid Cap Core	\$1,500,000 \$1,350,000 \$400,000 \$500,000 \$400,000 \$200,000 \$150,000 \$1,200,000 \$350,000 \$350,000 \$100,000 \$700,000 \$2,000,000 \$600,000
	US Mid Cap Growth	
	US Large Cap Value	\$1,350,000
	<b>US Large Cap Growth</b>	\$1,500,000
	US Large Cap Core	\$1,300,000
\$7,200,000	Equities	36.0%



### Estimated Income for Taxable Assets

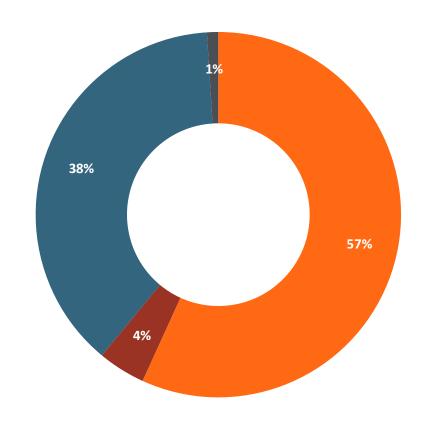


Asset	Amount	Weight	Yield	Est'd Income
U.S. Equities	\$6,000,000	30.0%	1.90%	\$114,000
International Equities	\$1,200,000	6.0%	4.00%	\$48,000
Fixed Income	\$11,800,000	59.0%	6.00%	\$708,000
Alternatives	\$800,000	4.0%	6.25%	\$50,000
Cash	\$200,000	1.0%	5.00%	\$10,000
Total	\$20,000,000	100.0%	4.65%	\$930,000



# Proposed Asset Allocation for Retirement Assets





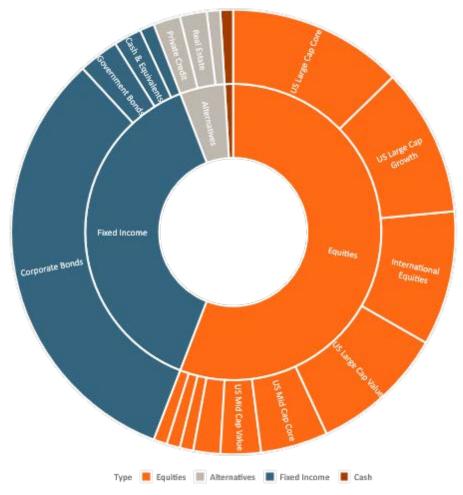






## Proposed Asset Allocation for Retirement Assets - Detail





\$11,360,00



For illustrative purposes only.

### Estimated Income for Retirement Assets



Asset	Amount	Weight	Yield	Est'd Income
U.S. Equities	\$9,380,000	47.0%	1.90%	\$178,220
International Equities	\$1,980,000	9.9%	4.00%	\$79,200
Fixed Income	\$7,600,000	38.0%	6.00%	\$456,000
Alternatives	\$840,000	4.2%	6.25%	\$52,500
Cash	\$200,000	1.0%	5.00%	\$10,000
Total	\$20,000,000	100.0%	3.88%	\$775,920



### Retirement Account – Laddered Bond Portfolio Proposed



Sample U.S. Corporate Bond Portfolio Sample Portfolio Size: \$1,045,000

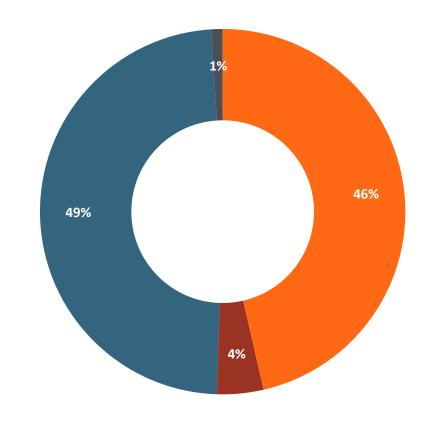
Principal Value				ARREST CONTRACTOR OF THE PARTY			Americal	lennual Tield-to- Tield-to-		. 043	540	Montys			
Full Portfolia	(Pw)	Cosip	Security Description	Coupon	Minusky	Prior	Meter Value	Income	Worst	Metarity	Dunation	Rating	Rating	Sector	Street Size
2.49%	25,000	06051GPM6	BANK OF AMERICA CORP	4.000	1/22/2025	\$87.425	\$24,555.75	\$1,000.00	6.20	6.26	116	888-	AS	Financial	2,500,000,00
2.38%	25,000	294425886	EQUIFAX INC	2,600	12/15/2005	599.304	\$23,526.00	\$850.00	6.00	6.00	1.99	808	final?	Consumer, Non-cyclical	400,000,000
2.49%	25,000	5590000048	MAGELLAN MIDSTREAM FARTN	3.200	3/15/2025	595.994	\$23,998.50	\$800.00	6.31	6.31	1.10	100	San?	Energy	250,000,000
2.50%	25,000	617446701	MORGAN STANKEY	5.000	11/24/2025	587.747	534,436.75	\$1,750.00	6.15	6.15	1.88	886-	Sex1	Financial	2,000,000,00
2.47%	25,000	6668078M3	NORTHROP GRUMMAN CORP	2.930	1/25/2025	\$96,695	\$34,175,75	5732.50	5.00	5.00	1.15	555-	fast.	Industrial	1,500,000.00
3.44%	35,000	907618506	UNION PACIFIC CORP	3.250	8/15/2025	596.174	535,660.90	\$3,137.50	5.53	5.53	1.67	4	AS	Industrial	500,000,000
2.50%	25,000	091163DAF	AMIEN INC	5.507	3/2/2026	099,512	534,878,00	\$1,176.75	5.79	5.79	1.06	B86-	Best	Consumer, Nov-cyclical	1,500,000,00
2.43%	25,000	17196703	OTIGROUPING	4.600	3/9/2026	295.926	525,961,50	\$1,150,00	5.49	5.49	2.16	868	Best?	Financial	1,500,000,00
2.43%	25,000	301044DC2	KROGER CO	3.500	1/1/2008	985-177	\$29,794.25	\$875.00	5.81	5.81	2.00	000	Best	Consumer, Non-cyclical	500,000,000
3.57%	35,000	682680804	ONEONING	5.850	1/15/2026	\$99,944	534,900.40	\$2,047.50	5.27	5.87	1.97	960	Best	Deep	600,000,000
2.44%	25,000	92936UAE9	WP CARRY INC	4.250	10/1/2026	595.479	\$25,868.25	\$1,062.50	3.95	3.95	2.63	888-	Boot	financial	350,000,000
2.29%	25,000	025818058	AMERICAN EXPRESS CO.	2.350	5/4/2027	589.752	522,438.00	\$482.50	3.97	5.97	8.10	888=	42	Firencial	1,750,000,00
2.64%	25.000	0758874AB	SECTION DICKINSON & CO.	7.000	8/1/2607	\$100,595	525,640.75	\$1,756.00	5.97	5.97	521	888	fins2	Consumer, Non-cyclical	200,000,000
2.40%	25,000	25179M8D4	DEVON ENERGY COMPONATION	5.250	10/15/7027	587.368	534,290.75	\$1,312.50	6.07	6.07	2.78	900	Ban2	freepy	577,557,000
3.20%	35,000	900494809	TYSION FORCE INC.	5.550	6/2/2007	\$82,178	532,260.55	\$1,242.50	6.01	6.03	3.21	865-	Ban2	Consumer, Non-cyclical	1,350,000,00
2.56%	25,000	98949LADT	WILLIAMS COMPANIES INC.	3.750	6/35/2027	502,366	525,091,50	5857.50	6.13	6.13	3.23	555	Besl	Energy	1,450,000,00
3.59%	55,000	046ZEXAJT	ADSUBANT INC	4,900	5/27/2028	594 943	\$35,230.05	\$1,715.00	6.22	6.22	5.81	888	San2	Financial	300,000,000
2.39%	25,000	189054KW9	CLOROX COMPANY	3.900	5/25/2028	590,565	529,041.25	\$875.00	5.09	5.99	1.95	900-	Best	Consumer, Non-cyclical	500,000,000
2.11%	25,000	545661EDS	LOWE'S COS INC	1,700	9/35/2028	\$87,817	\$30,708.00	\$425.00	5.80	5.80	452	866-	Best.	Consumer, Cyclical	1,000,000,00
2.09%	25,000	571905479	MARKOTT INTERNATIONAL	4.000	4/31/2028	587,004	529,000,00	\$1,000.00	6.07	6.07	3.95	900	Ban2	Consumer, Ovolicel	450,000,000
2.44%	25,000	65130KCM0	NEXTERA ENERGY CAPITAL	4.900	2/26/2028	595.557	525,889.25	\$1,225.00	6.00	6.08	3.77	866+	Band	Utilities	1,250,000.00
2.99%	25,000	855244EFE	STARBUICKS CORP	3.500	8/1/2008	591,995	\$32,998.75	5875.00	5.61	5.63	3.66	888-	Boot.	Consumer, Cychox	600,000,000
3.00%	30,000	8718258F4	TRICO CORPORATION	6.500	8/1/0008		\$30,154.50	\$1,950,00	6.52	6.32	3.97	888	Basi	Consumer, Non-cyclical	225,000,000
2.47%	25,000	025155007	AMAZON COM INC	4.650	12/1/2029		534.152.50	\$1,162.50	5.50	5.51	5.08	.AA	At	Communications	1,500,000,00
2.73%	25,000	208251AEE	CONDCOPHILIPS-DOMPHAY	6.950	4/15/2029		536,747.50	\$4,797.50	5.45	5.45	412	A	A2	Deep	1,900,000,00
2.70%	25,000	2605438/1	DOW/CHEMICAL CO/THE	7.375	11/1/2029		526,454.25	\$1,945.75	6.20	620	4.03	100	Best	Static Materials	1,000,000,00
2.41%	25,000	408016038	HONEYWELL INTERNATIONAL	4.250	1/15/2029	594,550	\$25,637.50	\$1,042.50	5.46	5.46	447	4	42	Industrial	750,000,000
2.31%	25,000	24422EWES	JOHN DEERE CAPITAL CORP	3.350	4/18/2029	990,290	\$32,572.50	5897.50	5.43	5.43	4.06	A	A2	Industrial	600,000,000
2.50%	25,000	685890016	09AO2 0099	6.150	13/9/2029	\$100.395	\$25,096.25	\$1,537.50	6.07	6.07	4.79	555	Best?	Technology	1,750,000,00
2.38%	25,000	701094653	PARKER-HANNIFIN CORP	4.500	W15/3029	589.252	\$29,313.00	\$1,125.00	5.87	5.87	4.99	866-	Best	Industrial	1,000,000,00
2.09%	23,000	91159HHW3	US BANCORP	5.000	7/90/2029	581.842	520,460,50	\$750.00	6.87	6.87	5.04	4	A3 %	Financial	1,000,000,00
2.74%	25,000	94106LAGA	WASTE MANAGEMENT INC	7.375	5/15/2029		\$36,827.25	\$1,043.75	5.79	5.79	4.40	20	Bed	Industrial	249,925,000
2.06%	25,000	MINISTRA	GOLDMAN SACHS GROUP INC	2.600	2/7/2000	\$80,852	\$30,218.00	\$650.00	6.35	6.15	5.54	868+	82	Financial	2,000,000,00
2.47%	25,000	456140075	INTEL CORP	5.125	2/20/2030	\$96,713	\$34,179.25	\$1,291.25	5.75	5.75	5.18	A	A2	Technology	1.250,000,00
2.23%	25,000	466477985	PMORGAN CHASE & CO	2.799	10/15/2000	\$82.556	530,619.00	\$684.75	6.30	6.38	5.24	A	41	Ferencial	5,750,000,00
1.10%	25,000	45339WBR0	NEXTERA ENERGY CAPITAL	2.250	6/1/2000	\$78,677	519,519,25	\$562.50	6.58	6.38	5.82	800-	faut	Unines	2,000,000,00
2.29%	25,000	67100HA06	O'REILLY AUTOMOTIVE INC.	4.200	4/1/2000	589,594	\$22,396,50	\$1,050,00	6.19	6.19	3.43	500	Seal	Consumer, Oxforal	500,000,000
2.41%	25,000	FUELF2DIA4	PHILP MORRS WIT, INC.	5.125	2/15/2010	\$94.443	\$25,630.75	\$3,282.25	6.20	6.20	5.18	de-	AZ	Consumer, Non-cyclical	
2.02%	25,000	036753APE	ELEVANCE HEALTH INC	2.550	5/15/2001	579.312	\$19,828.00	\$687.50	6.07	6.07	6.45	7	Best?	Consumer, Non-cyclical	
190%	25,000	571760876	MARSH & MICLEROWN COS INC.	2.9%	13/15/2001	576.843	529.230.75	\$590.75	6.02	6.02	7.02	2	45	Financial	400,000,000

BOM francisis Group is a group comprised of investment professionals registered with hightower Source size. LLC, with 5th registered investment advisors, to require size of the substitution of these materials in those sources believed to be related through hightower Sources are offered through hightower Advisors, LLC. Securities are offered through hightower Sources are offered through hightower Sources are offered through hightower Advisors, LLC make no representations or warrantees express or implied as to the accuracy or complements of the information are for stamment, or ensure, or results observed from the use of this information. BOM financial Group and hightower Advisors, LLC make no representations or warrantees express or implied as to the accuracy or complements or for transment, or ensure, or ensure, or results observed from the use of this information. BOM financial Group and hightower Advisors, LLC or any of its efficience assume no liability for any action made or taken in relation on or relating in any way to this information. This is not an offer to loay or set securities. No investment process is free of risk and there is no guarantee that the investment process described benefits will be prefixed benefits. Investigation, and there is no guarantee of future investment in results. This described harden is all process or improved the authority, and do not represent those of high guarantee and own not supervised as a service of your Advisor, and do not require and own not supervised or processing and one of your device of your Advisors.



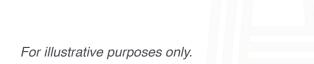
# Proposed Overall Allocation











# Summary



- Our goal is to provide the rate of return that the plan showed over a multi-year time period to help you meet your long-term investment objectives.
- The portfolios provide investment diversification across different asset classes along with some exposure to alternative investments to help mitigate volatility and generate additional income in the current interest rate environment.







# How We Can Help You and Your Clients

- Personalized Investment Strategies
- Cash Flow Planning
- Retirement Planning
- Insurance Assessment
- Philanthropy & Family Giving
- Coordination of Income Taxes & Estate Planning
- Business Succession Planning



Second Opinion Services



Hightower Trust Company





BARRON'S ADVISOR Top 100 RIA Firms 2023

Hightower has been named one of Barron's Top RIA's for 2023. Compensation was paid for the ability to use this logo in promotional material





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# **Jeffrey L. Corliss**, CFP®, ChFC®, CLU®, CASL® Managing Director, Partner

Jeffrey L. Corliss is the Managing Director and Partner of RDM Financial Group at Hightower. He brings over 35 years of financial service experience in both management and direct client services. Jeff upholds RDM Financial Group's philosophy of comprehensive wealth planning while focusing on the development and implementation of company initiatives.

Prior to joining RDM Financial Group, Jeff spent five years as the Financial Planning Director at Barnum Financial Group, one of the largest financial services companies in Connecticut. He built the organization's Wealth Strategies Division, providing the financial plans for the clients of more than 150 financial representatives. He also served two terms on MetLife's National Quality of Advice Committee, which monitors and reviews the quality of financial plans delivered to MetLife's clients nationwide.

Prior to Barnum Financial Group, Jeff was a Financial Planner at Robert J. Reby and Co., a wealth management practice with offices in three states. He was also Vice President JP Morgan Chase, Chase Investment Services, and Advanced Planning Consultant at Wealth Consultants, Inc., a provider of insurance-based tax-efficient services and estate tax savings solutions. During his early career, Jeff held positions as Senior Financial Consultant at Quick & Reilly (FleetBoston Financial); Agency Director / Field Underwriter at The MONY Group. He was also a Project Management & Industrial Engineer at Grumman Aircraft Systems.

He is a member of the Estate Planning Council of Lower Fairfield County, Inc. He is a former member of the board of the Financial Planning Association of Connecticut, Fairfield County Chapter.

Jeff has been ranked as a top wealth advisor by Forbes and Barron's. His most recent rankings include placements on the Forbes 2023 "Best-In-State Wealth Advisor" list and the Barron's 2023 "Best-In-State Wealth Advisors" list. In 2021, he was ranked on Barron's 2021 list of "Top 100 Independent Wealth Advisors" in America.

Jeff received his Master of Business Administration degree from Adelphi University. He holds Certified Financial Planner®(CFP®), Chartered Life Underwriter®(CLU®), Chartered Financial Consultant®(ChFC®) and Chartered Advisor for Senior Living®(CASL®) designations. Jeff also holds his Series 7, 24, 53, 63 and 65 licenses.







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# Ruth L. Gretz, CPA, PFS, CFP®

#### **Executive Director**

Ruth L. Gretz works directly with our clients offering advice, guidance and objective, personalized strategies and comprehensive financial planning across the spectrum of wealth management. RDM's clients include high-net worth individuals, affluent families, and successful business enterprises.

Prior to joining RDM, Ruth had over twenty years of experience providing tax and financial planning solutions to wealthy individuals and their businesses, including family offices, C-Suite executives and investment firms (including hedge funds and private equity funds), as well as mid-tier firms. She has held a variety of positions with some of the world's leading accounting firms, including Arthur Andersen, Deloitte and as a financial advisor at Merrill Lynch. At RDM, Ruth leverages her broad knowledge of tax, financial planning, and investments to create and deliver comprehensive customized financial plans, investment management and other financial solutions for our clients including insurance, trustee and business valuation services.

Ruth is a Certified Public Accountant (CPA), a CERTIFIED FINANCIAL PLANNER™ (CFP®), a Personal Financial Specialist™ (PFS) with the AICPA, and holds the Series 7 and 63 licenses and Insurance Producer license. She earned her Bachelor of Business Administration degree in Accounting from the University of Michigan's Ross School of Business. Ruth currently serves on the Advisory Council (Member-at-Large) and the Investment Committee for the Connecticut Society of CPAs. She is also a member of the American Institute of CPA's (AICPA), the Connecticut Society of CPA's (CTCPA), the New York State Society of CPAs (NYSSCPA), and the Financial Planning Association (FPA).



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# Guardianship Planning

Peter J. Strauss, Esq., Senior Partner Pierro, Connor & Strauss, LLC



# Why Is "Guardianship" Being Presented Today?

- Kai has been diagnosed with dementia; he can no longer make legal decisions for himself.
- The "simple" POA Kai executed before he lost mental capacity does <u>not</u> grant Jade gifting power; thus, she is presently unable to do any of the above planning for Kai (i.e., financial, insurance, tax, trust/ estate, business/ corporate, etc.)
- Therefore, the Court must now appoint a guardian over Kai's "property" before any of his planning can be done.



# Guardianship In New York – Article 81 Of The Mental Hygiene Law

### **THE THESIS**

- A model statute with appropriate focus on individual rights
- But policies and practices can diminish those rights in some cases

### THE CAUSE

Well-intentioned tendency to favor paternalism over autonomy

### **THE FACTS**

Growing numbers of incapacitated seniors and younger persons with disabilities who have no advance directives



# Guardianship in New York State

- A judicial process by which a person (generally, a close relative) petitions the New York Supreme Court.
- A judge can appoint another person (or persons) to handle the medical and/or financial affairs of a person who is believed to be incapacitated (the "Alleged Incapacitated Person" or "AIP").





# Distinguishing a Power of Attorney

- Powers under a POA are similar to guardianship (in fact, POAs are often preferable if the forms have been prepared correctly).
- A POA is a legal document, executed by a "Principal," which appoints someone of their choosing (the "Agent") to act on his/her behalf.
- The Agent can make financial decisions for the Principal, but [specific gifting and trust making] powers must be added to authorize further estate planning
- Kai's POA was drafted by his real estate attorney and lacks the appropriate powers

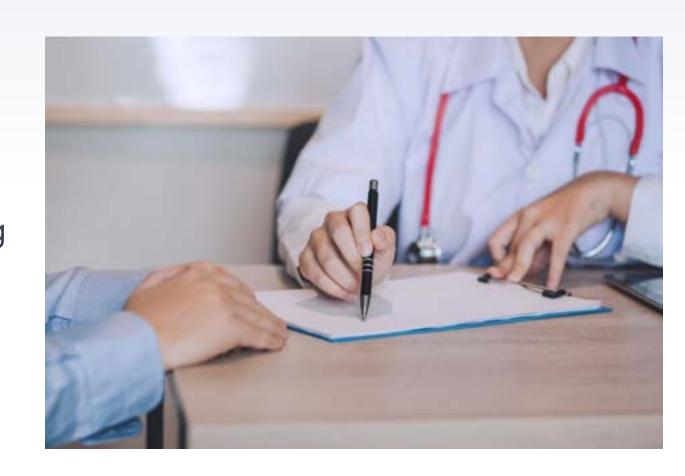


# Health Care Proxies

Similar to a POA, but relates to medical decision-making

 HCPs appoint someone to make critical health decisions, including end of life choices

Kai does not have a Health Care Proxy





# Are Guardianship Cases Adversarial?

Article 81 Guardianships are considered "adversarial" proceedings, even though they are usually pursued with the AIP's best interests in mind.

- The "Petitioner" is asking the Court to take away a person's right to make his or her own medical and/or financial decisions and give those rights to someone else (the Guardian).
  - That is why you are required to "serve" the Alleged Incapacitated Person ("AIP") with a Petition, and the Court grants the AIP the right to a hearing (to challenge or consent to the guardianship).



# When Is ART. 81 Guardianship Needed?

New York Courts ask two questions:

- 1. Is the AIP unable to care for their own property (i.e., financial) and personal (i.e., medical) needs?
- 2. Is the AIP likely to suffer harm because s/he cannot understand the consequences of not being able to care for their property and/or personal needs?

\*\*The Court's analysis focuses on functional capacity, as opposed to an AIP's medical diagnoses\*\*



# Problems With Guardianship

- Guardianship as a highly intrusive intervention should be used only as a last resort
- Cost
- Court Process is Public
- Contested vs. Uncontested
- Court Evaluator/Court Appointed Attorney

 Availability / Admissibility of Financial & Medical Records

- No alternative for Kai
- Not an issue for Kai
- Kai and Jade's standing in the community
- Kai's family is in agreement
- The complex plan being proposed for Kai must be accepted by the judge, who relies on outside attorneys
- Kai's condition is clear



# **Court Evaluator**

- The Court may appoint any person drawn from a list maintained by the Office of Court Administration
- Has knowledge of property management, personal care skills, problems associated with disabilities, etc.
- Including, but not limited to, an attorneyat-law, physician, psychologist, accountant, social worker, or nurse
- Limited pool of business and tax expertise



# The Court Decides "Who"

If the Court determines that a guardian is needed, then the focus shifts to who should be appointed.

The selection of particular a guardian (or, co-guardians) is in the court's discretion

The Court considers a wide range of factors...



# The Guardianship Process For Kai

- Jade files a petition jointly with the kids, seeking co-guardianship.
- The family all gets along, so it's unlikely that the petition will be contested.
   (But Michael's attorney is involved)
- All agree that Jade is the best candidate to manage Kai's personal/ medical needs
- The kids Melvin and Maria are the best candidates to serve as co-guardians of the property to manage assets, pay bills and plan for business and tax matters



# The Guardianship Process For Kai

- A court evaluator will conduct an investigation (written report will be finalized and submitted to the Court within 2 to 3 weeks after the petition has been filed)
- Then a hearing will be held. The Judge will ask questions and allow testimony. If anyone were to object, this would be their opportunity to put on witnesses.



# The Guardianship Process For Kai

Assuming the Judge agrees, he would grant the Petition – this would formally appoint:

Jade as Guardian of the Person



Melvin and Maria as coguardians of Kai's property



## What Planning Can Be Done

Case law: Florence, Sur. Ct., Nassau Co. 1988

#### **Doctrine of Substituted Judgement**

- Court permitted transfers in the interest of tax savings
- Must be consistent with the incapacitated person's wishes

#### "Florence" is an estate planning case

The court considers life expectancy, care needs and health status



## Solving Challenges for Kai

The statute allows the court to authorize the guardian to exercise powers on behalf of the incapacitated person:

- Manage the property and financial affairs
- Transfer a part of the person's assets for the benefit of another person
- Make gifts
- Enter into contracts
- Create trusts which can extend beyond the person's life



## Solving Challenges for Kai (continued)

#### Petitioner must establish:

- Reasons why proposed disposition of Kai's property should be made
- Kai's needs can be met from remainder of assets once plan is adopted
- Proposed plan will produce estate, gift, income or other tax savings which will significantly benefit Kai and family
- A competent, reasonable individual in Kai's position would be likely to perform the acts under the same circumstance

A comprehensive legal and financial plan will need to be prepared and presented to the Court.



## Thank You

#### Peter J. Strauss, Esq.

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## Estate Planning

Richard S. Rothberg, Esq. and Carolyn M. Glynn, Esq. Pierro, Connor & Strauss, LLC



## Spousal Lifetime Access Trusts (SLATs)

#### Planning Objectives

- Capture full current gift/estate tax and GST exemptions
- Remove future growth from estate tax base
- Reduce exposure to New York estate tax
- Preserve access to assets if needed
- Retain asset management and control





## Jade – Trust for Kai and Descendants

- Funding target \$12-\$13 million
- Liquid assets (not 401(k))
- Sever joint tenancy; avoid step transaction treatment
- High basis assets first no step-up at death



# Trust Design – Jade's Trust for Kai and Descendants

- Full distribution discretion
- Grantor Trust for Income Tax Purposes
- Remainders in trust to preserve GST exemption, protection from creditor, spousal and "significant other" claims
- Trustee choice Children? Independent?
- Management strategy 401(k) distributions used first; absorb medical expense deductions?
- What if Kai dies first? Loans to Jade? Power to add Jade as a beneficiary?



## Kai – Trust for Jade and Descendants

- Funding target \$12 \$13 million
- Guardianship and court-approved gifting plan
- Cloud Dragon shares discounted value
- Defined value formula clause?





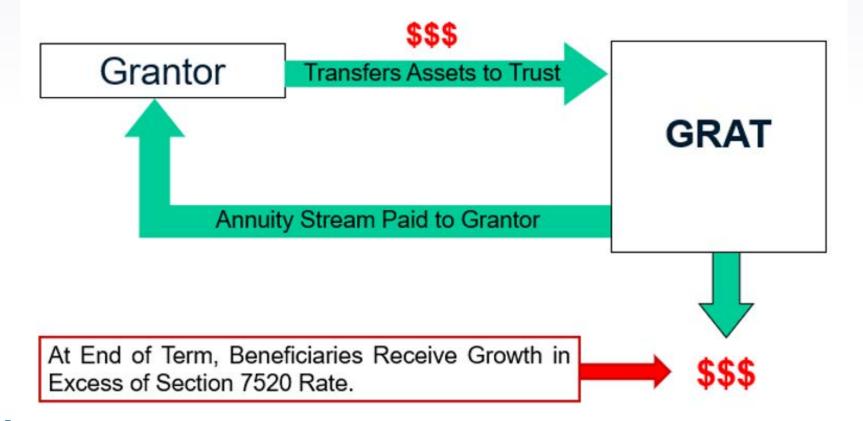
# Trust Design – Kai's Trust for Jade and Descendants

- Full distribution discretion
- Grantor Trust for income tax purposes
- Corporate management director and shareholder provisions
- S Corporation status preservation ESBT issues
- Management of S Corporation shareholder income taxes
- Will existing estate plan constrain court approval of trust beneficiaries?
- Reciprocal trust issues if two SLATs are created

- Irrevocable lifetime trust.
- Grantor retains an annuity from transferred property for a number of years or lifetime.
- Following Grantor's annuity term, all property (plus appreciation) passes to Grantor's heirs with no further transfer tax.
- CAVEAT: Taxable gift of the projected value of the REMAINDER interest to Grantor's heirs may occur upon creation.
- Taxable Gift = Fair Market Value of Property minus Present Value of Grantor's Annuity Stream based on IRS 7520 rate.



#### **Grantor Retained Annuity Trust**





- Assume Kai gifted \$4,000,000 to a 5-year GRAT in November 2023 when the 7520 rate is 5.6%
- Assume Cloud Dragon has annual growth of 3%
- Kai retains an annuity stream of 7% of the fair market value of Cloud Dragon, valued each year.
- Result: Kai will have made a taxable gift of \$2,791,000 and, at the end of 5 years, the children will receive \$3,140,000.

Eoonomio Sohedule						
	Beginning	3.00%	0.00%	Required	Distributed	
Year	<u>Principal</u>	<u>Growth</u>	<u>Annual Income</u>	<u>Payments</u>	Discount	Remainder
1	\$4,000,000.00	\$117,900.00	\$0.00	\$280,000.00	\$0.00	\$3,837,900.00
2	\$3,837,900.00	\$113,037.00	\$0.00	\$280,000.00	\$0.00	\$3,670,937.00
3	\$3,670,937.00	\$108,028.12	\$0.00	\$280,000.00	\$0.00	\$3,498,965.12
4	\$3,498,965.12	\$102,868.96	\$0.00	\$280,000.00	\$0.00	\$3,321,834.08
- 5	\$3,321,834.08	\$97,555.02	\$0.00	\$280,000.00	\$0.00	\$3,139,389.10
Summary	\$4,000,000.00	\$539,389.10	\$0.00	\$1,400,000.00	\$0.00	\$3,139,389.10



- Use "zeroed-out GRAT" if no taxable gift is desired.
- For example: If instead Kai retains a 23.16% annuity, the taxable gift will be 0.
- Suggestion: Leave a minimal taxable gift to start the statute of limitations and prevent IRS step-transaction argument.





Successful GRAT = choosing appreciating property that will outperform the IRS 7520 rate!

#### **Key Tradeoffs**

- If the GRAT property underperforms the Section 7520 rate, no tax savings is achieved (and if the GRAT is depleted, no property is transferred to the remainder beneficiaries.)
- If the GRAT property underperforms the Section 7520 rate, gift taxes paid and/or any applicable exclusion amount used will be wasted (though the amounts would be minimal).
- If the grantor does not outlive the term of years, any property remaining in the GRAT is includable in the grantor's gross estate for federal gift and estate tax purposes.
- If the GRAT is unsuccessful, any costs incurred to create and maintain the GRAT will have been wasted.



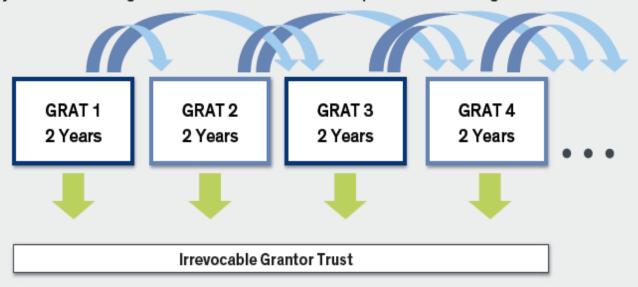
#### How is it implemented?

- Hire an experienced attorney to draft the GRAT document.
- Have property that is transferred to GRAT professionally appraised.
- Transfer property to GRAT (i.e., retitle assets).
- File gift tax return(s).



CASCADING SHORT TERM GRATS AS A MORTALITY HEDGE

- Contribute initial assets to a two-year trust
- Annual payout is contributed to a new two-year GRAT every year
- Any assets remaining in a GRAT at the end of its term pass tax-free to a grantor trust for the children\*



\*Assuming the GRAT is zeroed-out so that the present value of the annuity stream, discounted by the Section 7520 rate, equals the original contribution, and assuming the grantor survives the term of the GRAT Source: AB





# Accounting Issues and Tax Planning

Richard Oremus and Hunter Norton Farkouh Furman & Faccio



## Planning Idea #1

Convert ownership in Cloud Dragon into ownership of qualified small business stock ("QSBS") for potential exclusion of 100% of gain recognized on future taxable disposition of QSBS under IRC section 1202

## Steps

- 'Cloud Dragon contributes all of its business assets and new investors contribute cash to a newly formed C corporation ("Newco") in exchange for stock of Newco
- Cloud Dragon will not recognize gain on the exchange of its business assets for Newco stock as the transaction will be a tax-free exchange under IRC section 351
- Cloud Dragon and the new investors will be able to avoid recognition of capital gain on the future disposition of Newco stock provided the stock is held for five years and the Newco stock constitutes QSBS

#### QSBS

- QSBS generally must meet the following requirements:
  - ´ Stock is held in a domestic C corporation
  - At the date of stock issuance, the corporation must be a "qualified small business"
    - The fair market value of the assets and the cash contributed must be less than \$50 million at the time of the contribution
  - The stock must be acquired by the taxpayer at its original issue for money or other property (not including stock)
  - During substantially all of the taxpayer's holding period, the corporation meets the active business requirement, and the corporation is a C corporation

## QSBS (Cont.)

- The active business requirement is met if at least 80% by value of the assets are used by the corporation in the active conduct of one or more qualified trades or businesses
  - A qualified trade or business is any trade or business other than:
    - Certain professional service businesses health, law, engineering etc.
    - Financial businesses banking, insurance, investing etc.
    - ' Farming business
    - Drilling, mining, or extraction businesses
    - ′ Hotel, restaurant, or similar businesses
  - Reasonably required working capital is considered used in the active conduct of a trade or business
  - A corporation will not meet the active business requirement if more than 10% of the total value of its assets consist of real property not utilized in an active trade or business
  - Rights to software which produce active business computer software royalties are treated as asset used in the active conduct of a trade or business

## QSBS (Cont.)

- Each non-corporate holder of Newco stock that holds the Newco stock for five years will be able to exclude an amount of gain from the disposition of Newco stock equal to the greater of:
  - 510 million (or \$5 million in the case of a separate return filed by a married individual); or
  - 10 times the aggregate adjusted bases of QSBS issued by Newco and disposed by the taxpayer during the taxable year
    - For this purpose, the basis of QSBS will not be considered less than the FMV of the property contributed to Newco

## QSBS (Cont.)

- Owners of Cloud Dragon, a pass-through entity, who receive their proportionate share of gain from the disposition of Newco stock will be able to exclude such gain (subject to the limitations described above) provided: the Newco stock is considered QSBS in the hands of Cloud Dragon, Cloud Dragon has held the Newco stock for five years, and the owners held their interests in Cloud Dragon on the day that Cloud Dragon acquired the Newco stock and at all times thereafter
- Small business will often restructure to take advantage of the QSBS provisions at the time such businesses are seeking investment capital. Cloud Dragon is a mature corporation with significant gross assets. Due to the limitation on the gross asset value of a corporation for it to be considered a qualified small business, Cloud Dragon or Newco may not be able to receive investment capital and qualify for QSBS treatment

## Subsequent Transactions

If Cloud Dragon were to receive nonqualified stock in exchange for its Newco stock as part of a nonrecognition incorporation or corporate reorganization, the nonqualified stock is treated as qualified, and its holding period includes the Newco holding period; But the gain that is eligible for the exclusion is limited to the gain calculated on the value of the nonqualified stock received less the basis of Newco stock

#### In The News

- https://www.nytimes.com/2021/12/28/business/tax-break-qualified-small-business-stock.html
- Using gifts to "stack" the QSBS exemption
- ´ Future value/growth out of estate with gain exclusion benefit

## Planning Idea #2

Corporate Tax Planning – Consider changes to the rules governing the deduction of research and experimentation expense in determining mix of foreign versus U.S. R&E expense; Consider utilization of the credit for increasing research activities

#### R&E

- Software development is characterized research and experimentation ("R&E") expense under section 174 of the IRC. As such, R&E expense is subject to special rules regarding deductibility and eligibility for the research tax credit
- Because R&E expense generally provides a benefit beyond the tax year, those expenses are generally required to be capitalized. For tax years beginning before December 31, 2021, a special rule allowed taxpayers the ability to deduct R&E expense
- For tax years beginning after December 31, 2021, R&E expense is required to be capitalized and amortized over a 5-year period (15 years in the case of R&E expense attributable to foreign research)

## R&E (Cont.)

- The significant difference in the amortization period for domestic R&E expense versus foreign R&E expense should cause taxpayers to carefully consider the degree to which they intend to utilize persons located outside of the U.S. to conduct R&E activities. The decision should further take into account the fact that foreign R&E expenses are not eligible in determining the tax credit for increasing research activities
- The credit for increasing research activities takes two alternative forms:
  - The regular research credit; or
  - ´ The alternative simplified research credit

## R&E (Cont.)

- The regular research credit is generally equal to 20% of the qualified research expenses that exceed a base amount. The base amount is equal to the product of the fixed base percentage and the average annual gross receipts of the taxpayer for the four years preceding the year in which the credit is to be taken.
- The alternative research credit is generally equal to 14% of the qualified research expenses for the year as exceeds 50% of the average research expenses for the three preceding years
  - Both forms of the credit have special rules applicable to start-up companies
- In determining the amount of qualified research expenses for purposes of determining the credit, only research conducted in the United States, Puerto Rico or a U.S. possession can be taken into account. Qualified research for purposes of the credit does not include research conducted after the beginning of commercial production of a particular item of computer software offered for sale, lease or license
- To the extent the amount of the research credit for a taxable year exceeds the amount of the amount allowable as a deduction for such year, the amount chargeable to capital for the taxable year is reduced by such excess. Alternatively, taxpayer may elect to take a reduced credit as opposed to a reduction in the capitalized amount

## R&E (Cont.)

Newco should evaluate whether any cost savings associated with utilizing offshore employees or contractors for software development exceeds the tax benefits associated with considerably faster amortization of such development costs and the possibility of obtaining a research tax credit

## Planning Idea #3

Newco should take advantage of the reduced rate of taxation on foreign derived intangible income by maximizing sales of software to foreign markets

#### **FDII**

- The 2017 Tax Cuts and Jobs Act enacted a special tax benefit for domestic C corporations that realize foreign-derived intangible income ("FDII") under IRC section 250. A corporation may take a deduction equal to 37.5% of the FDII that it realizes in a taxable year. This translates into a into a corporate tax rate of 13.125% on FDII through the end of 2025. For tax years beginning after December 31, 2025, the deduction is reduced to 21.875% or the equivalent tax rate of 16.4%
- FDII is equal to the product of a domestic corporation's deemed intangible income multiplied by the ratio of its foreign derived deduction eligible income to its deduction eligible income

## FDII (Cont.)

- Deemed Intangible income means the excess of a corporation's deduction eligible income over 10% of a corporation's qualified business asset investment ("QBAI"). A corporation's QBAI is equal to the average adjusted bases of the corporation's depreciable tangible property.
- ´ Deduction eligible income is the excess of
  - A domestic corporation's gross income without regard to:
    - ´ Subpart F income
    - ′ GILTI
    - ´ Financial services income
    - ´ Dividend income from a CFC
    - ´ Domestic oil and gas extraction income
    - Foreign branch income
  - The deductions properly allocable to such gross income

## FDII (Cont.)

- / Foreign derived deduction eligible income is:
  - ' Property—
    - Which is sold by the taxpayer to a foreign person, and
    - Which the taxpayer establishes is for foreign use
  - ´ Services
    - Provided by the taxpayer to any person, or with respect to property, not located in the U.S.
- Sales of general property that primarily contains digital content that is transferred electronically is for foreign use if the end user downloads, installs, receives or accesses the digital content on the end user's device outside of the U.S. In the case of electronically supplied services provided to consumers, the service is deemed to reside at the location of the device used to receive the service (IP address)

## FDII (Cont.)

- The deduction for each of FDII and GILTI combined cannot exceed the taxable income of the taxpayer for any taxable year. Therefore, the deductions for FDII and GILTI combined cannot generate a loss.
- The FDII deduction presents an opportunity for Newco to obtain a low 13.125% tax rate on a portion of its net income attributable to foreign use sales to the extent such net income exceeds 10% of the adjusted basis of its tangible assets.

## Honorable Mentions

- Itemized deduction for medical expenses is limited to the excess over 7.5% of AGI. 7.5% of AGI is in excess of medical costs. Strategy would be to move taxable income to wife so Kai can deduct medical expenses on a married filing separate return
- Qualified charitable deduction (QCD) from Kai's RMD
  - Limited to \$100K and must be direct from IRA to qualified charity (not DAF).
  - Would reduce AGI (possibly help with medical deduction) and would be fully deductible for NYS/NYC instead of only partially, so can benefit in NYS
- Establish NYS 529 plan for grandkids
  - Maximum \$10K NYS income tax deduction
  - Growth is tax free if distributions are used for education expenses
- Charitable contributions of appreciated securities only. Jade is a philanthropist, could use DAF
- Maximize QBI deduction on S Corp (while applicable) and on rental real estate income (if not net leased)
- Utilize PTET on rental real estate income and S Corp income. Convert SMLLCs to Partnerships to allow for PTET



# Business Valuation for Cloud Dragon

Nathan Schroeder Senior Manager, Empire Valuation Consultants, LLC







## **Valuation of Cloud Dragon & Court Issues in Valuation**

Nathan Schroeder Senior Manager (585) 794-5721 nschroeder@empireval.com

**Privileged & Confidential** 





## **Agenda**

- Empire Overview
- Why Do I Need A Valuation?
- Overview Of Valuation Process
- Standards of Value
- Basic valuation methodologies
  - Income Approaches
  - Market Approaches
  - Cost Approach
- General Factors Affecting Valuation
- Current Factors Affecting Valuation





## **Agenda-Continued**

- Valuation of Cloud Dragon
  - Exit or Growth?
  - What's it's Story?
  - Historical Financials
  - Levels of Value
  - Earnings Capitalization and Guideline Company Approaches
  - S-Corp / Tax Pass-through Adjustment Calculation
- Cecil v Commissioner
  - Tax Court decision on Tax Affecting a S-Corp
  - Other Tax Court decisions





## **Empire Corporate Overview**

- One of the largest independent valuation firms in the U.S.
- Founded in 1988; have performed tens of thousands of business and intangible valuations across the globe
- Specialize in providing independent valuations
  - Valuation is our specialty and our only business
  - Your valuation project is our #1 priority and only focus
- Highly credentialed and experienced staff
- Offices in New York, Long Island, San Francisco, Rochester, and Boston





## **Our Experience and Expertise**

- We have over 35 years of experience in business valuation
- We perform over 1,500 valuations per year
- Our experience transcends industries and all sizes and stages of a company's life cycle
  - Our professionals apply both common and uncommon valuation methods that are in the best interest of our clients







## **Trust & Estate Group Experience**

Empire performs over 600 estate and trust valuations each year

- Operating companies
- Real estate and investment holding companies
- Carried interest

- Royalty interest
- Sports franchises
- Promissory notes





## Why Do I Need A Valuation?

- Estate/corporate planning
- Income tax reporting, including gift tax
- Financial reporting





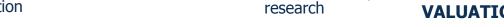
## **Overview of Empire's Valuation Process**

## SCOPE OUT ENGAGEMENT

Speak with client to get preliminary information and determine scope of valuation Financial market research and analysis and value determination

Economic and industry research **VALUATION** 

Follow-up questions; Draft analysis provided; review analysis with management











#### COMPLETION

DATA & INFORMATION GATHERING

Financials and projections prepared and submitted to valuation firm, along with additional company information

Due Diligence Meeting held with management Finalize analysis and report





## **Scope Out Engagement - an Empire Process**

- Information requested to scope out engagements:
  - Purpose (gift, corporate/estate planning, potential sale, etc.)
  - Five years of financial statements
  - Capital structure of company
  - Industry info
  - Any potential financing in the near-term
  - Any potential transactions in the near-term (sale, acquisition, etc.)

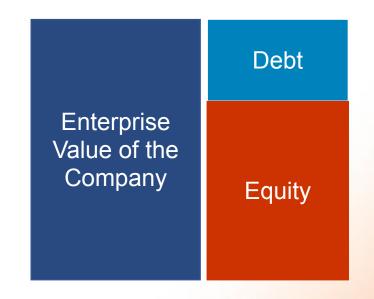




## **Basic Valuation Theory**

- What is a valuation?
  - A valuation is similar to a real estate appraisal. Instead of determining how much your home is worth, it determines the enterprise value of the business.









### **Standards of Value**

#### Fair Market Value

- Definition: "the price at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of relevant facts" (IRS Treasury Regulations 20.2031-1(b))
- Focus: Buyer and seller are hypothetical and typical
  - Used for gift and estate tax planning and reporting, charitable contributions, and employee stock ownership plans (ESOPs)





## **Standards of Value (continued)**

#### Fair Value (financial reporting)

- **Definition:** "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date" (Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820))
- Focus: Market participants and willing buyer but NOT necessarily a willing seller

#### Fair Value (legal)

- varies state to state and is defined by legal statutes and case law.
- Used on shareholder disputes and marital disputes





## **Valuation Methodologies**

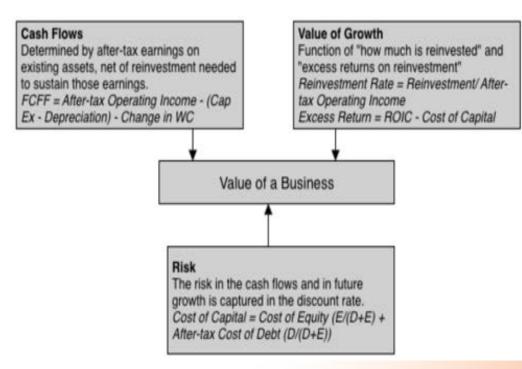
- Income Approach
  - Capitalization of historical cash flow
  - Discounted cash flow ("DCF")
- Market Approach
  - Guideline publicly-traded
  - Guideline transactions
  - Prior transactions
- Cost or Asset Approach
  - Adjusted net asset value
- Each may be used separately and in conjunction with each other in a weighted approach or as a reasonableness test





## **Income Approach**

- The **Income Approach** uses valuation techniques to estimate value based on an expected stream of benefits (earnings or <u>cash flows</u>) adjusted for <u>projected growth</u> and <u>estimated risk</u>.
- Two common methods under this approach are:
  - capitalization of benefits method ("Earn Cap"), which is based on adjusted historical results; and
  - the discounted future benefits method ("DCF"), which is based on discrete projections for several future periods.



Source: Aswath Damodaran, Musings on Markets: Tax Reform, 2017: Promise of Plenty or Poisoned Chalice?, October 10, 2017





## **Market Approach**

© Randy Glasbergen www.glasbergen.com



"Is it better to invest during a bull market or bear market? Depends...would you rather be gored or mauled?"

- The Market Approach uses prices and other relevant information generated by market transactions.
- Two common methods under this approach are:
  - the <u>guideline company method</u>, which considers transactions that generally involve minority positions in publicly-traded companies; and
  - the <u>guideline transaction method</u>, which considers third-party and arms-length transactions in the subject company as well as transactions in similar entities.





## **Cost or Asset Approach**

- The **Asset Approach** determines the value of a business based on the value of its <u>assets</u> net of liabilities.
- Typically, the asset-based approach should be considered in valuations conducted at the enterprise level and involving:
  - real estate holding company
  - investment holding company
  - a business appraised on a basis other than as a going concern
    - nascent companies, troubled companies with minimal earning potential, or companies facing likely near-term liquidation



It's just that you're depreciating."





## **General Factors Affecting Valuations**

- Profitability
- Company's performance, relative to similar companies in the industry
- Balance sheet
- General economic conditions
- Industry and industry trends
- Management team and company outlook





## **Current Factors Affecting Valuations**

- General economic uncertainty
- Interest rates
- Recent supply chain and labor market issues
- Overall market multiples/M&A activity
- Sunset of the Tax Cuts and Jobs Act (2025)
  - Immediate expensing of capital expenditures (already partially decreased); expires
     January 1, 2027
  - Current corporate tax rate lowered to 21% in 2017; expected to remain at this level, unless Congress changes it
  - Gift tax exclusion (\$12.92MM in 2023) amount may decrease by half (\$6.2MM) at end of 2025





## **Cloud Dragon Valuation – Exit or Growth?**

#### Potential <u>Exit</u> Strategies

- Sale or transfer to family members
- Sale to a third party (competitor, or company in a complementary industry)
- Sale to a third party (private equity or investor)
- Sale to ESOP
- Sale to management team

#### Potential <u>Growth</u> Strategies

- Acquisition of a competitor or company in a complementary industry to gain market share or size
- Entry into new market/product line; could be organic growth or acquisition





## **Cloud Dragon – What's the Company's Story**

**Fundamentals** 

 Distressed or fundamentally strong

Business cycle sensitivities

cyclical, sensitive, defensive

Lifecycle stage

 start-up, high growth, slow growth, decline

Degree of specialization

franchise or commodity-like



#### **EXHIBIT A**

#### COMPARATIVE INCOME STATEMENTS

#### CLOUD DRAGON

	HISTORY 2017	HISTORY 2018	HISTORY 2019	HISTORY 2020	HISTORY 2021	HISTORY 2022
TOTAL REVENUES	25,082,266	26,127,360	27,216,000	28,350,000	31,500,000	35,000,000
Materials	5,016,453	5,225,472	5,443,200	5,670,000	6,300,000	7,000,000
Labor	6,270,566	6,531,840	6,804,000	7,087,500	7,875,000	8,750,000
Less Cost of Goods Sold	11,287,020	11,757,312	12,247,200	12,757,500	14,175,000	15,750,000
GROSS PROFIT	13,795,246	14,370,048	14,968,800	15,592,500	17,325,000	19,250,000
Kai (Patriarch)	800,000	1,000,000	1,000,000	1,000,000	1,000,000	1,200,000
Jade (Wife)	180,000	200,000	200,000	200,000	200,000	220,000
Melvin (Son)	285,077	300,081	315,875	332,500	350,000	350,000
Maria (Daughter)	285,077	300,081	315,875	332,500	350,000	350,000
Michael (Son, at-large board member)	8,000	10,000	10,000	10,000	10,000	10,000
Other Officers	511,133	345,345	403,570	463,875	688,750	757,500
Officers' Salaries	2,069,287	2,155,507	2,245,320	2,338,875	2,598,750	2,887,500
Admin & Warehouse	2,483,144	2,586,609	2,694,384	2,806,650	3,118,500	3,465,000
Depreciation	2,916,000	2,916,000	3,078,000	3,252,000	3,564,000	4,291,200
Total Operating Expenses	7,468,431	7,658,116	8,017,704	8,397,525	9,281,250	10,643,700
NET OPERATING INCOME	6,326,815	6,711,932	6,951,096	7,194,975	8,043,750	8,606,300
Interest Income	4,891	4,993	5,201	5,418	7,182	9,975
Interest Expense	(18,688)	(63,213)	(113,425)	(153,644)	(287,600)	(473,250)
Total Other Income (Expense)	(13,796)	(58,220)	(108,224)	(148,226)	(280,418)	(463,275)
PRE-TAX INCOME	6,313,018	6,653,713	6,842,872	7,046,749	7,763,332	8,143,025
Provision (Benefit) for Taxes	0	0	0	0	0	0
NET INCOME	6,313,018	6,653,713	6,842,872	7,046,749	7,763,332	8,143,025

#### COMPARATIVE BALANCE SHEETS

#### CLOUD DRAGON

	HISTORY 2017	HISTORY 2018	HISTORY 2019	HISTORY 2020	HISTORY 2021	HISTORY 2022
<u>ASSETS</u>						
Cash and Equivalents	752,468	783,821	816,480	850,500	945,000	1,050,000
Accounts Receivable	2,405,149	2,290,618	2,535,189	4,038,904	3,710,959	3,931,507
Inventory	2,350,174	2,093,768	2,147,454	978,658	1,398,082	2,028,082
Total Current Assets	5,507,791	5,168,207	5,499,123	5,868,062	6,054,041	7,009,589
Fixed Assets	15,000,000	18,600,000	22,600,000	27,600,000	35,600,000	44,600,000
Less: Accumulated Depreciation	(4,500,000)	(7,416,000)	(10,494,000)	(13,746,000)	(17,310,000)	(21,601,200)
Net Fixed Assets	10,500,000	11,184,000	12,106,000	13,854,000	18,290,000	22,998,800
Intangible Assets	650,000	650,000	650,000	650,000	650,000	650,000
Total Other Assets	650,000	650,000	650,000	650,000	650,000	650,000
TOTAL ASSETS	16,657,791	17,002,207	18,255,123	20,372,062	24,994,041	30,658,389
LIABILITIES & MEMBERS' CAPITAL						
Line of Credit	450,000	800,000	1,300,000	1,000,000	2,500,000	500,000
Current Portion of Long-term Debt	200,000	600,000	725,000	750,000	1,000,000	1,200,000
Accounts Payable	1,952,809	1,853,360	2,495,633	3,139,161	1,907,476	2,301,082
Total Current Liabilities	2,602,809	3,253,360	4,520,633	4,889,161	5,407,476	4,001,082
Long-term Debt, Less Current Portion	500,000	1,340,000	2,215,000	3,465,000	5,665,000	8,065,000
Total Other Liabilities	500,000	1,340,000	2,215,000	3,465,000	5,665,000	8,065,000
TOTAL LIABILITIES	3,102,809	4,593,360	6,735,633	8,354,161	11,072,476	12,066,082
Capital Stock	100	100	100	100	100	100
Additional Paid-in Capital	8,000,000	8,000,000	8,000,000	8,000,000	8,000,000	8,000,000
Retained Earnings	5,554,882	4,408,746	3,519,391	4,017,801	5,921,465	10,592,207
Total Members' Capital	13,554,982	12,408,846	11,519,491	12,017,901	13,921,565	18,592,307
TOTAL LIABILITIES & MEMBERS' CAPITAL	16,657,791	17,002,207	18,255,123	20,372,062	24,994,041	30,658,389

#### **EXHIBIT C**

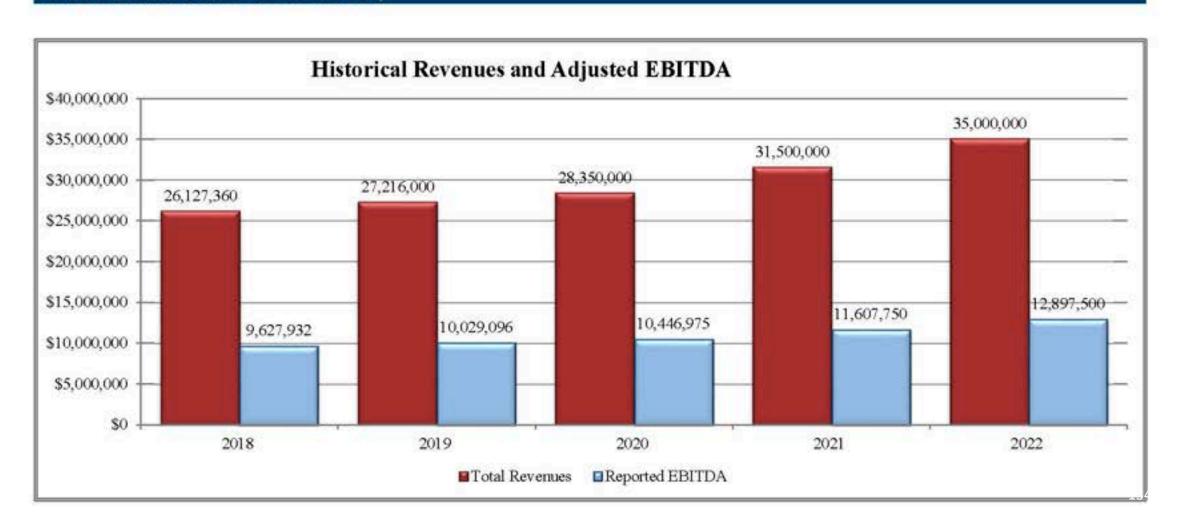
#### COMPARATIVE CASH FLOW STATEMENTS

#### **CLOUD DRAGON**

	HISTORY 2018	HISTORY 2019	HISTORY 2020	HISTORY 2021	HISTORY 2022
CASH FLOW FROM OPERATING ACTIVITIES	22222		21.22.2		
Net Income	6,653,713	6,842,872	7,046,749	7,763,332	8,143,025
Adjustments to reconcile Net Income to Net Cash Provided from Operating Activities					
Depreciation	2,916,000	3,078,000	3,252,000	3,564,000	4,291,200
Amortization	0	0	0	0	0
(Inc.) Dec. in Accounts Receivable	114,531	(244,571)	(1,503,715)	327,945	(220,548)
(Inc.) Dec. in Inventory	256,406	(53,686)	1,168,797	(419,425)	(630,000)
nc. (Dec.) in Accounts Payable	(99,449)	642,272	643,528	(1,231,685)	393,606
Net Cash Provided By (Used In) Operating Activities	9,841,201	10,264,887	10,607,358	10,004,168	11,977,283
CASH FLOW FROM INVESTING ACTIVITIES					
Capital Expenditures	(3,600,000)	(4,000,000)	(5,000,000)	(8,000,000)	(9,000,000)
ntangible Assets	0	0	0	0	0
Net Cash Provided By (Used In) Investing Activities	(3,600,000)	(4,000,000)	(5,000,000)	(8,000,000)	(9,000,000)
CASH FLOW FROM FINANCING ACTIVITIES					
ine of Credit	350,000	500,000	(300,000)	1,500,000	(2,000,000)
.ong-term Debt	1,440,000	1,600,000	2,000,000	3,200,000	3,600,000
Distributions	(7,999,848)	(8,332,227)	(7,273,338)	(6,609,668)	(4,472,283)
Net Cash Provided By (Used In) Financing Activities	(6,209,848)	(6,232,227)	(5,573,338)	(1,909,668)	(2,872,283)
NET INCREASE (DECREASE) IN CASH	31,353	32,659	34,020	94,500	105,000
Beginning Cash	752,468	783,821	816,480	850,500	945,000
Ending Cash	783,821	816,480	850,500	945,000	1,050,000

#### FINANCIAL STATEMENT ANALYSIS: CHARTS & GRAPHS

#### **CLOUD DRAGON**





## **Cloud Dragon – Levels of Value**

- Controlling (marketable)
- Non-controlling, marketable
- Non-controlling, non-marketable

	Liabilities
Assets	Equity
	Non-Controlling, Non- Marketable Interest





## **Cloud Dragon – Valuation Approaches Used**

- Capitalization of Debt-Free Cash Flow, Controlling Interest (informative only)
- Capitalization of Cash Flow, Minority Interest
- Guideline Company, Minority Interest
  - MVIC to EBTIDA basis
  - MVIC to Revenue
  - MVIC to Book Value

MVIC (Market Value of Invested Capital)



#### CONCLUSION OF VALUE

#### CONCLUSION OF VALUE

#### CLOUD DRAGON

AS OF OCTOBER 31, 2023

	Aggregate Fair Mar	ket Value of Equity			
Valuation Method	Controlling	Non-Controlling	Exhibit	Weighting	Weighted FMV
Income Approaches					
Capitalization Of Adjusted Debt-Free Cash Flow - Controlling Interest Basis	\$47,300,000		Exhibit E-1	N/A	N/A
Capitalization Of Adjusted Cash Flow - Minority Interest Value		\$40,300,000	Exhibit E-2	50.0%	\$20,150,000
Market Approaches					
MVIC to EBITDA (5 Year)		\$40,800,000	Exhibit F	5.0%	\$2,040,000
MVIC to EBITDA (3 Year)		\$40,000,000	Exhibit F	5.0%	\$2,000,000
MVIC to EBITDA (TTM)		\$39,900,000	Exhibit F	20.0%	\$7,980,000
MVIC to Revenue (TTM)		\$49,200,000	Exhibit F	10.0%	\$4,920,000
MVIC to Book Value		\$37,800,000	Exhibit F	10.0%	\$3,780,000
				100%	\$40,870,000
Fair Market Value of Cloud Dragon's Equity on Aggregate Minority Interest	Basis, rounded				\$40,900,000
Valuation Exercise for Conversion to C-Corp	~	FMV of Equity	\$40,900,00	0 as provided a	bove
THE PROPERTY CONTRACTOR CONTRACTOR OF STREET AND A STREET		Plus Net Debt	\$7,665,00	0 Exhibit B-2	
	FMV of Cloud Dragon		\$48,565,00	-	

## CAPITALIZATION OF ADJUSTED DEBT-FREE CASH FLOW - CONTROLLING INTEREST BASIS CLOUD DRAGON AS OF OCTOBER 31, 2023

	HISTORY 2018	HISTORY 2019	HISTORY 2020	HISTORY 2021	HISTORY 2022	
Pre-tax Income	6,653,713	6,842,872	7,046,749	7,763,332	8,143,025	
Plus: Interest Expense on Debt	63,213	113,425	153,644	287,600	473,250	
Control Adjustments						
Plus: Actual Officers' Compensation Expense Less: Normalized Officers' Compensation Expense Plus: Discretionary Expenses - Yacht Club Membership (in Admin & Other)	2,155,507 (945,345) 30,000	2,245,320 (1,003,570) 30,000	2,338,875 (1,063,875) 32,000	2,598,750 (1,288,750) 35,000	2,887,500 (1,357,500) 35,000	
kdjusted Debt-Free Pre-tax Income	7,957,088	8,228,047	8,507,393	9,395,932	10,181,275	
Veighting Considerations						
-Year Straight Line -Year Weighted Average	1	1 2	1 3	4	5	\$8,853,947
-Year Straight Line	0	0	1	- 1	1	\$9,361,533
-Year Weighted Average	0	0	1	2	3	\$9,640,514
railing 12 Months	0	0	0	0	1	\$10,181,275
Selected Debt-Free Income Base						\$10,100,000
Less: City, State & Federal Taxes, Calculated idjusted Debt-Free Net Income			33 2%			(3,354,424 \$6,745,576
Plus: Normalized Depreciation Less: Normalized Capital Expenditures Less: Normalized Working Capital Requirements						\$4,291,200 (4,591,584 (124,746
idjusted Free Cash Flow to Total Invested Capital from Operations (Cf)						\$6,320,446
Capitalization Rate (r - g)			12.1%			
Aggregate Total Invested Capital from Operations (Vo) <sup>1</sup> Less: Net Interest-Bearing Debt on Valuation Date Aggregate Marketable Controlling Interest Value of Equity from Operation	ns				1	\$53,802,144 {8,715,000 \$45,087,144
Add: Premium for Control  Aggregate Marketable Controlling Interest Value of Equity from Operation	ns		5%		1.6	2,254,357 \$47,341,601

Cost of Equity Build-up		Weighted Average	Cost of Capi	ital	
10 Year Treasuries at Valuation Date	4 50%	Equity	17.80%	80%	14 24%
Seneric Stock Premium	6.00%	Debt	4.40%	20%	0.88%
Small Stock Premium	6.30%	WACC, rounded		Johnson Fra	15.10%
ndustry/Company Specific Risk:	1.00%				
Equity Discount Rate, rounded	17.80%	Less Long Tem	Growth Rate		3.00%
		Debt-free Capitaliz	ation Rate, rou	inded	12.10%
Cost of Debt					
Company's Cost of Debt	6.6%				
ax Rate	33.2%				
After-Tax Cost of Debt, rounded	4.40%				

EXHIBIT E-2

INDIVIDUE FOED

#### CAPITALIZATION OF ADJUSTED CASH FLOW - MINORITY INTEREST VALUE

#### **CLOUD DRAGON**

AS OF OCTOBER 31, 2023

	HISTORY 2018	HISTORY 2019	HISTORY 2020	HISTORY 2021	HISTORY 2022	
re-tax Income	6,653,713	6,842,872	7,046,749	7,763,332	8,143,025	
ormalizing Adjustments/Adjustments for Non-Recurring Items Plus: Non-Employee Family Salaries	188,000	210,000	210,000	210,000	210,000	
gusted Pre-tax Income	6,941,713	7,052,872	7,256,749	7,973,332	8,353,025	
leighting Considerations Year Straight Line		4		•		\$7,495,538
Year Weighted Average	1		3	- 4	5	\$7,758,410
Year Straight Line		2 0 0	3	1		\$7,861,035
Year Weighted Average	0	0		2	3	\$8.043.748
ailing 12 Months	0 0 0	ő	Ô	ō	1	\$8,353,025
elected Pre-Tax Income Base						\$8,400,000
Less: City, State & Fed. Taxes, Calculated			33.2%			(2,789,818
verage Adjusted Net Income						\$5,610,182
Plus: Normalized Depreciation						\$4,291,200
Less: Normalized Capital Expenditures						(4,591,584
Less: Normalized Working Capital Requirements (from Exhibit G)						(124,746
djusted Free Cash Flow to Equity from Operations (Cf)						\$5,185,052
apitalization Rate (r - g)			14.8%			
ggregate Fully Marketable Minority Interest Equity Value from Op	erations (C-Corp Equi	valent) (Vo)'				\$35,034,135
ess Through Premium ggregate Fully Marketable Minority Interest Equity Value from Op	erations		15%			5,255,120 \$40,289,255

#### Cost of Equity Build-up

20 Year Treasuries at Valuation Date	4.50%
Generic Stock Premium	6.00%
Small Stock Premium	6.30%
Industry/Company Specific Risk	1.00%
Discount Rate, rounded (r)	17.90%
Less: Long Term Growth Rate (g)	3.00%
Capitalization Rate, rounded (r - g)	14.90%

Gordon Growth Model: Vo = [Cf x (1 + g)] / (r - g)

## DETERMINATION OF MAXIMUM POTENTIAL PASS-THROUGH ADJUSTMENT CLOUD DRAGON

AS OF OCTOBER 31, 2023

	C-CORP	PASS-THROUGH NO DEDUCTION	PASS-THROUGH 20% DEDUCTION
Pre-Tax Income	\$100.00	\$100.00	\$100.00
Corporate Level Taxes:			
Federal Corporate Tax Rate	21.00%	N/A	N/A
State (NY) Corporate Tax Rate	7.25%	N/A	N/A
City (NYC) Corporate Tax Rate	8.85%	8.85%	8.85%
Net Income Available for Distribution	\$66.79	\$91.15	\$91.15
Investor Level Taxes:			
Pass-Through Income Deduction	N/A	0.00%	20.00%
Federal Income Tax - Personal	N/A	37.00%	37.00%
State (NY) Income Tax Rate - Personal	N/A	8.82%	8.82%
City (NYC) Income Tax Rate - Personal	N/A	N/A	N/A
Net Income for Distribution	\$66.79	\$49.39	\$56.13
City (NYC) Dividend Tax	3.876%	3.876%	3.876%
State (NY) Dividend Tax	8.82%	N/A	N/A
Federal Dividend Tax	20.00%	N/A	N/A
Net Income	\$45.18	\$47.47	\$53.95
Maximum Pass-Through Adjustment		5.1%	19.4%

#### GUIDELINE COMPANY VALUATION MEASURES

#### CLOUD DRAGON

AS OF OCTOBER 31, 2023

#### EBITDA BASIS (1)

	Latest	Aggregate	Weighted Average EBITDA		5-Year	MVIC / Y	Weighted Average	EBITDA	
Company	Quarter End	MVIC (2)	5 Year	3 Year	TTM	CAGR	5 Year	3 Year	TTM
(\$ in millions)									
ACM Research, Inc.	06/30/23	\$897.836	\$146.767	\$168.552	\$215.610	117%	6.1	5.3	4.2
Alpha and Omega Semiconductor Limited	06/30/23	\$710.373	\$254.359	\$202.797	\$174.146	3%	2.8	3.5	4.1
Amtech Systems, Inc.	06/30/23	\$116.801	\$14.963	\$14.777	\$13,560	7%	7.8	7.9	8.6
Applied Materials, Inc.	07/30/23	\$115,382.112	\$22,327.600	\$22,269.150	\$23,539.600	14%	5.2	5.2	4.9
Axcelis Technologies, Inc.	06/30/23	\$4,975.368	\$508.083	\$558.219	\$639.596	33%	9.8	8.9	7.8
AXT, Inc.	06/30/23	\$116.002	\$44.342	\$42.121	\$19.866	11%	2.6	2.8	5.8
Diodes Incorporated	06/30/23	\$3,419.371	\$1,316,703	\$1,335,832	\$1,418.055	25%	2.6	2.6	2.4
GLOBALFOUNDRIES Inc.	06/30/23	\$32,156.042	\$6,333.902	\$6,763.650	\$7,455,467	N/A	5.1	4.8	4.3
MKS Instruments, Inc.	06/30/23	\$10,152,306	\$2,303.180	\$2,254.050	\$2,287,600	12%	4.4	4.5	4.4
Maximum		\$115,382.112	\$22,327.600	\$22,269.150	\$23,539.600	117%	9.8	8.9	8.6
Minimum		\$116.002	\$14.963	\$14.777	\$13.560	3%	2.6	2.6	2.4
Average		\$18,658.468	\$3,694.433	\$3,734.350	\$3,973.722	28%	5.2	5.0	5.2
Median		\$3,419.371	\$508.083	\$558.219	\$639.596	13%	5.1	4.8	4.4

Valuation Conclusion	Weighted Average EBITDA				
	5 Year	3 Year	TTM		
Cloud Dragon	\$11.463	\$12.059	\$12.898		
Multiplied by a Factor of:	4.3	4.0	3.8		
Aggregate Market Value of Invested Capital	\$49.466	\$48.732	\$48.653		
Less: Outstanding Interest Bearing Debt	(\$9.765)	(\$9.765)	(\$9.765)		
Plus: Cash	\$1.050	\$1.050	\$1.050		
Aggregate Marketable Minority Interest Equity Value	\$40.751	\$40.017	\$39.938		

Aggregate Marketable Minority Interest Equity Value	\$40.751	\$40.017	\$39.938	
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<sup>(1)</sup> EBITDA = adjusted earnings before net interest, taxes, depreciation and amortization.

#### GUIDELINE COMPANY VALUATION MEASURES

#### **CLOUD DRAGON**

AS OF OCTOBER 31, 2023

#### MVIC TO REVENUE AND MVIC TO BOOK VALUE OF INVESTED CAPITAL

Company		MVIC (1)	TTM Revenue	BVIC (4)	Implied Multiples		
	Latest Quarter End				MVIC to TTM Rev.	MVIC to Latest BVIC	
(\$ in millions)							
ACM Research, Inc.	06/30/23	\$897.836	\$461.084	\$503.082	1.95	1.78	
Alpha and Omega Semiconductor Limited	06/30/23	\$710.373	\$691.321	\$767.535	1.03	0.93	
Amtech Systems, Inc.	06/30/23	\$116.801	\$117.923	\$107.553	0.99	1.09	
Applied Materials, Inc.	07/30/23	\$115,382.112	\$26,543.000	\$14,657.000	4.35	7.87	
Axcells Technologies, Inc.	06/30/23	\$4,975,368	\$1,023,216	\$368.518	4.86	13.50	
AXT, Inc.	06/30/23	\$116.002	\$99.978	\$219.719	1.16	0.53	
Diodes Incorporated	06/30/23	\$3,419,371	\$1,951,878	\$1,460.037	1.75	2.34	
GLOBALFOUNDRIES Inc.	06/30/23	\$32,156,042	\$7.861.000	\$10,525,000	4.09	3.06	
MKS Instruments, Inc.	06/30/23	\$10,152.306	\$3,837.000	\$6,861.000	2.65	1.46	
Maximum			\$26,543.000	\$14,657.000	4.86	13.50	
Minimum			\$99.978	\$107.553	0.99	0.53	
Average			\$4,731,822	\$3,941.049	2.54	3.62	
Median			\$1,023.216	\$767.535	1.95	1.78	
Valuation Conclusion					TTM Revenue	Latest BVIC	
Cloud Dragon					\$35.000	\$30.658	
Then, Multiplied by a factor of					1.66	1.52	
Aggregate Market Value of Invested Capita	1				\$57.930	\$46,508	
Less: Outstanding Interest Bearing Debt					(\$9.765)	(\$9.765	
Plus: Cash					\$1.050	\$1.050	
Aggregate Marketable Minority Equity Valu	ie				\$49.215	\$37.793	



## Cecil v Commissioner (T.C. Memo 2023-24), 2/28/2023

#### Addresses

- Tax affecting in tax pass-through entities
- Assumptions regarding liquidation value of companies for minority interests
- Importance of relevant Guideline Companies and Transactions

#### Background

- TBC's (The Biltmore Company's) owners (William & Mary Cecil) gifted 1 Voting and various Non-Voting shares to each of their children & trusts.
- TBC is an S-Corp
- In 709 filing, each reported gift was valued at \$10.4MM (or \$20.9MM combined) in 2010
- IRS initially suggested TBC should be valued on Asset Approach (indicating \$140MM gift)





## Cecil v Commissioner (T.C. Memo 2023-24), 2/28/2023

#### Trial

- IRS expert used 2 approaches, Asset (\$92MM) & Income (\$36MM)
- Because TBC is an S corporation, the <u>IRS expert believed it was appropriate to tax-affect</u> the future earnings and apply a pass-through adjustment, which resulted in a 17.6 percent valuation premium for the Company
- IRS expert weighted the Income Approach more heavily
- IRS expert used DLOMs of 19%, 22% and 27% for the Class A, and smaller & larger Class
   B stock





#### Trial

- Taxpayer had two experts each using Income and Guideline Approaches
- 1st Expert applied:
  - Valuation multiples based on Size, Growth, & Liquidity from 5 Guideline Companies, then 15% lack of diversification discount and 30% DLOM
  - EBITDA multiples from 6 Guideline Transactions, then 20% DLOC and 30% DLOM
  - 15% Discount Rate and 30% DLOM to Income Approach (DCF) but did not tax affect
  - During testimony, agreed that Tax-Affecting would be appropriate, but did not apply a pass-through adjustment
- 2<sup>nd</sup> Expert applied:
  - MVIC to EBITDA, but only 1 Guideline Company, then a 25% DLOM and 2% DLOV
  - 10.7% Cap Rate and 25% DLOM to Income Approach (Earnings Cap), did tax affect and applied an adjustment





- The Court's Opinion
  - Three key valuation issues
    - the tax-affecting of the S corporation earnings and the use of an adjustment
    - the appropriate application of the asset liquidation assumption when valuing a noncontrolling interest in a company,
       and
    - the selection of comparable companies and similar
  - Tax affecting, not the first time the Court has evaluated such analysis
  - In Gross v. Commissioner and Wall v. Commissioner, the Court completely disallowed the use of tax-affecting
  - Precedent shifted in *Jones v. Commissioner* in which tax affecting was conditionally accepted
  - In Cecil, however, the Court accepted the tax-affecting of an S corporation's earnings because the valuation experts retained by both sides agreed that the analyses were necessary





The Court's Opinion (continued)

- Appropriate Application of the Asset Liquidation Assumption
  - The valuation experts should consider the possibility of liquidation when applying an assetbased approach to value a noncontrolling interest,
  - The IRS initially valued TBC under the asset liquidation assumption
  - The Court decided that the liquidation of TBC was <u>unlikely</u> given the minority interest of the new owners





The Court's Opinion (continued)

- The Selection of Comparable Companies and Similar Transactions
  - The Court believed the Cecils' experts did not sufficiently identify comparable companies or similar transactions when valuing TBC
  - Court's main fault with the second Cecil expert's GPTC method was the use of a single company/transaction to calculate valuation multiples
  - The first Cecil expert used more than one company and transaction in his GPTC and similar transactions methods, but the Court still faulted his methodology
    - Pairi Daiza SA "operates a park which houses thousands of animals, and it does so at a location (in Belgium)
    - Premier Exhibitions, Inc. "presents museum exhibitions outside the hospitality industry and does that worldwide while TBC's operation is limited to a single city
    - Transactions: two of which occurred during the great Recession, and were deemed irrelevant





The Court's Final Decision

- The Court ultimately accepted
  - The 1st Expert's price per share valuation, before tax affecting and application of any discounts
  - The 1st Experts 20% DLOC
  - The IRS's DLOM discounts ranging from 19% to 27%



#### **Your Presenter - Nathan Schroeder**



Nathan is a senior manager for Empire Valuation Consultants where he has worked since 2008.

He has over 15 years of experience with business, financial asset and carried interest valuations. Prior to that he was in corporate finance and banking and trust administration areas.

Nathan manages and performs complex valuation engagements involving various classes of equity and debt. Representative industries alternative asset management, traditional asset management and investment advisory, real estate, technology and biotech start-ups, and a variety of manufacturing and service businesses

Nathan specializes in the valuation of carried interests in private equity and hedge funds, and has extensive experience in the valuation of limited partnership interests in such funds. Nathan has performed valuations of derivative instruments, intangible assets, and equity and debt interests for diverse purposes, including those of tax planning and reporting, lending purposes, and other corporate planning and reporting purposes.



#### **Questions?**







# Remarks from Our Lunch Sponsor

Frank Melia, Division Manager Contour Mortgage fmelia@contourmtg.com





# Corporate Planning

Louis W. Pierro, Esq. Pierro, Connor & Strauss, LLC



### Ownership of Cloud Dragon, Inc.

- Cloud Dragon is an S-Corp with one class of stock.
- The shares of the Company are owned 94% by Kai and 3% each by Melvin and Maria.
- Melvin and Maria both wish to continue to own and operate the business together 50/50.
- Maria is advocating for a 51/49% split to allow Cloud Dragon to become a certified WBE in order to market to large scale companies.
- Jade does not wish to step into management of Cloud Dragon.
- Michael does not wish to own any of the stock of the Company or engage in any management.

#### **INTERGEN**

### Management Succession

Given Kai's decline, Melvin and Maria wish to become directors and officers of Cloud Dragon immediately.

As guardians, they can act to vote his shares of the Company to elect themselves as directors.

The directors then elect the officers of the Company with Maria being President/CEO and Secretary and Melvin acting as VP and Treasurer.



### Transfer of Shares of Cloud Dragon

In order to facilitate planning and gifting, a restructure of the Corporation can occur to create voting and non-voting shares.

Kai's 94% ownership is converted into 94 voting and 940 non-voting shares.

Melvin and Maria each retain their 3% of voting shares and each gain 30 non-voting shares.



### **Transfer Continued**

Kai retains the non-voting shares which carry a distribution right, so he receives distributions of profit from the Company every year.

These non-voting shares are gifted by the guardians into two SLATs for the benefit of Kai and Jade.

The voting shares are gifted to Melvin and Maria so they own 100% of the voting shares.

#### **INTERGEN**

### Cloud Dragon After Transfer

- Create buy-sell agreement between Maria and Melvin
- Prevent either party from selling to outside third-parties without consent
  - CAVEAT Maria has drag-along rights
- Upon either's death, Cloud Dragon will purchase their shares
- Use of life insurance
- Valuation of Company to be determined by 5 year rolling average of net revenue for buy-sell purposes
- Maria to have ultimate control if Cloud Dragon will apply for WBE certification – no deadlock provision needed



### Commercial Building

- Building was purchased in Kai and Jade's names.
- Transfer ownership of building to newly formed LLC.
- Lease between new LLC and tenants to generate funds in LLC and to separate liability of real estate company.



# Intergenerational Estate Planning Conference 2023



- Principal Agent at Stern Slavutin—2, Inc.
- Provides insurance, estate planning, and financial planning services for families, business owners, and professional service firms
- 40 years experience in the life insurance business
- Medical doctor and Chartered Life Underwriter
- Life insurance portfolio review, split dollar, and life insurance/risk planning for high net worth families and business owners
- Medical qualifications support the underwriting of high net worth individuals seeking substantial life insurance policies



Lee Slavutin MD, CLU, AEP (Distinguished)

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#### Caveat

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#### CRN202610-5235262

Access to cash values through borrowing or partial surrenders will reduce the policy's cash value and death benefit, increase the chance the policy will lapse and may result in a tax liability if the policy terminates before the death of the insured.

### Agenda

- Learning Objectives
- Review Background Information
- Discussion Points
  - Term Life Insurance
  - O Permanent Life Insurance
  - O Key Person Life Insurance
  - O Long Term Care Insurance
- Summary





### Learning Objectives

- Recognize life insurance planning strategies for family businesses
- Understand the impact of uninsurability
- Evaluate the benefits of split dollar funding
- Identify opportunities to optimize life insurance planning with clients



### Background Information

- Kai (78) Husband, dementia, long term care expenses \$300K annually
- Jade (67) Wife, healthy
- Three children
  - Melvin (43) and Maria (41) Both married with children and in the business
  - ⊙ Michael (38) Single and not in the business
- Retirement accounts \$20MM
- Liquid assets \$20MM
- Business (Cloud Dragon) S corporation; Melvin and Maria each own 5%
- New business venture in AI
- Lifetime gift exemptions not used by Kai and Jade



#### Discussion Points Regarding Life Insurance

- 1. Kai (78) Existing term insurance
  - Conversion option expired
- 2. Jade (67) Permanent life insurance for estate liquidity
  - Reasons
    - o Business \$60MM value
    - o New business may explode in value
    - Estate equalization Michael not in business
    - o Retirement accounts 10 year rule under SECURE Act accelerates income tax
  - Owner of policy ILIT, Dynasty trust, GST planning
  - Funding
    - Gifts to ILIT large up-front gift to trust use \$12.9MM exemption
    - o Gift of income-producing real estate to ILIT
    - o GRAT remainder to ILIT
    - O Split dollar second to die or insurance on Jade alone



#### Discussion Points Regarding Life Insurance

- 3. Melvin and Maria Key person life insurance for new entity: AI venture
  - O Rules regarding EOLI (employer owned life insurance
    - Notice and consent requirements
    - o Form 8925
- 4. Long term care insurance
  - Kai not insurable
  - What Kai "should have done" at age 60
    - O Standalone LTC insurance
      - Least expensive option
      - Premium may increase
    - Hybrid life/LTC insurance
      - Premium guaranteed
      - Cash value can recover most of premiums
      - Death benefit
      - Can fund in 1 to 10 years



### 1. Kai – Existing Term Life Insurance

- Conversion Option
  - O Duration
  - O Partial option
  - Flexibility in choosing product

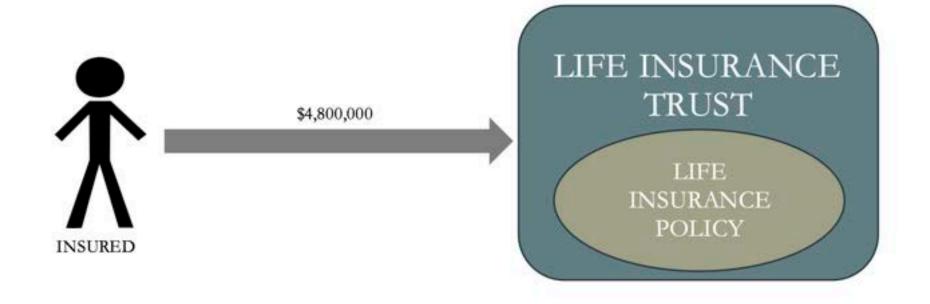


### 2. Jade – Permanent Life Insurance

- Gift to ILIT
  - Utilize lifetime exemption
  - O Use gift to pay premiums every year compared with lump sum gift to insurance company
    - o MEC
    - O Premature death



### Gifts: Pre-fund Life Insurance





### 2. Jade – Permanent Life Insurance

- Split dollar funding
  - O Donor could be Kai or Jade or the S corporation
  - O Non-equity split dollar
  - Economic benefit taxation
  - Use second to die life insurance to reduce economic benefit
  - O Dramatically reduces annual gift
  - O Gift in year one: \$6,620 compared with annual premium of \$415,567
  - O Make additional gift of \$3MM to trust to fund premium repayment in year 16
  - O This will prevent escalating economic benefit costs



CONCEPT ELUSTRATION PRIVATE SPLIT DOLLAR

Non-Equity Split Dollar Kai Client, Male 78, Class T Jade Client, Fernale 67, Preferred Non-Tobacco \$10,000,000 PruLife® SUL Protector Fixed Death Benefit

#### Guaranteed Results Based on Minimum Interest Rate of 1.00% and Maximum Charges.

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Year	Agis.	Assignee				Trust Assets and Income						
		Net Insurance Outlay	Cash Summder Value	Death Benefit	Cash Gifts to Trust	Economic Bionefit <sup>®</sup>	Interest/ Loan Repayment/ Promium Outlay	Cesh Summder Value	Death Benefit	Other Assets Received	Other Assets Balance of 5 00%	Total to Heirs (10)+(12)
1	78/67	415,567	0	415,567	1,000,000	6,620	0	0	9,584,433	3,000,000	3,150,000	12,734,433
2	79/68	415,567	-0	831,134	0	7,828	0	0	9.168,866	0	3.307.500	12,476,366
3	80/69	415,567	0	1,246,701	0	9,154	0	0	8,753,299	0	3,472,875	12,226,174
4	81/70	415,567	134,645	1,662,268	0	10.663	0	0	8,337,732	0	3,646.519	11,984,251
5	82/71	415,567	272,248	2,077,835	0	12,313	0	0	7,922,165	.0	3,828,845	11,751,010
6	83/72	. 415,567	424,020	2,493,402	.0	14,095	0	0	7.506,598	.0	4,020.287	11,526,885
7	64/73	415.567	548.711	2,908,969	0	16,701	0	0	7,091,031	0	4,221,301	11,312,332
8	85/74	415,567	656,244	3.324,536	0	18,329	0	0	6,675,464	.0	4,432,366	11,107,830
9	86/75	415,567	751,917	3,740,103	0	21,028	0	0	6,259,897	0	4,653,985	10,913.882
10	83/36	415,567	825.327	4,155,670	0	24,027	0	0	5.844,330	0	4,886,684	10,731,014
Total		4,155,670		18	3.000.000		0		3,000,000			
11	89/77	415.567	880.545	4,571,237	0	27.237	0	0	5.428.763	0	5.131.018	10,559,781
12	89/78	415,567	905.080	4,986,804	0	30.367	0	0	5.013,196	.0	5.387.569	10,400,765
13	90/79	415,567	899,962	5,402,371	0	13.478	0	0	4.597.A29	0		10,254,576
14	91/80	415.567	849.853	5,817,938	.0	36,438	0	0	4,182,062	. 0	5,939.795	10.121.857
15	92/81	415.567	757,225	6.233.505	0	39.421	. 0	0	3.766,495	0	6.236.785	10.003,280
16	93/82	(6.233.505)	0	0	0	0	(8.293.505)	283.006	10,000,000	0	3,444	30,003,444
17	94/83	0	0	0	0	0	0	0	10,000,000	D	1.616	10,003,616
18	95/84	0	0	0	0	0	0	0	10,000,000	.0	1.796	10.003,796
19	96/85	0	0	0	0	0	0	0	10,000,000	0	1.986	10,003,986
20	97/86	.0	0	.0	0	0	0	0	10,000,000	.0	4,186	10,004,186
1	lotal	0		-	3.000.000		(6.233.505)		57	3,000,000		

<sup>4</sup> Actual economic rates are based on Table 2001

October 11, 2023



These values are based on non-guaranteed hypothetical assumptions. Actual results will fluctuate from year to year. Results labeled as non-guaranteed are not guaranteed. They are based on assumptions that are not likely to continue unchanged in future years and are subject to change by the insurer. Please refer to the basic illustration which accompanies this supplemental illustration for guaranteed elements and important information.

The illustration is not intended to predict or project investment results. This Supplemental Illustration shows a hypothetical example for illustrative purposes only. Actual results will vary.

# 3. Melvin and Maria – Key Person Life Insurance – New AI Venture

- Amount of life insurance usually 5-10x annual income
- Typically we buy term insurance with conversion option
- Special rules for employer-owned life insurance (EOLI)
  - Notice and consent requirements
  - O Very important to preserve tax-free death benefit
  - O File Form 8925



### 4. Long Term Care Insurance

- Kai is not insurable
  - O What Kai "should have done" at age 60
  - O Standalone long term care insurance
    - O Least expensive option
    - O Premium may increase
    - O No cash value



### 4. Long Term Care Insurance

- Standalone long term care insurance
  - O Kai, age 60, in good health
  - ⊙ Monthly benefit: \$10,000
  - O Elimination period: 90 days
  - O Duration: 5 years
  - 3% compound inflation
  - O Annual premium: \$6,976



### 4. Long Term Care Insurance

- Hybrid life/long term care insurance
  - O Kai, age 60, in good health
  - O Monthly benefit: \$20,000
  - O Elimination period: 90 days
  - O Duration: 6 years
  - 3% simple inflation
  - O Annual premium: \$39,733, payable for 10 years
  - Cash value in year 10: \$317,866
  - O Total long term care benefit pool at age 80: \$2MM



### Learning Objectives

- Recognize life insurance planning strategies for family businesses
- Understand the impact of uninsurability
- Evaluate the benefits of split dollar funding
- Identify opportunities to optimize life insurance planning with clients



## Thank you!

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