



# Small Business, Big Savings

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## Income Tax Saving Strategies for Business Owners

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# The Basics

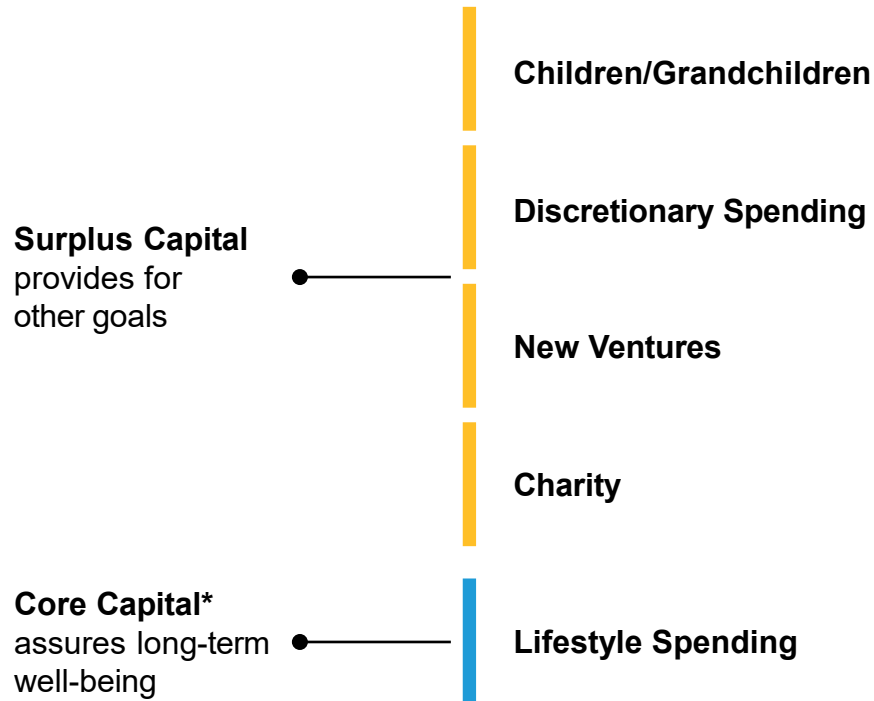
# Basic Estate Planning Documents

Document	Purpose	When Effective
<b>Will</b>	Distribution of property; care of minor children or other dependents	Upon death
<b>Revocable Living Trust</b>	Distribution and management of property	During life and at death
<b>Durable Power of Attorney for Property</b>	Distribution and management of property	During life, often in the event of disability
<b>Durable Power of Attorney for Healthcare</b>	Healthcare decisions	During life, in the event of disability
<b>Living Will</b>	Decisions on end-of-life treatment	During life, in the event of disability

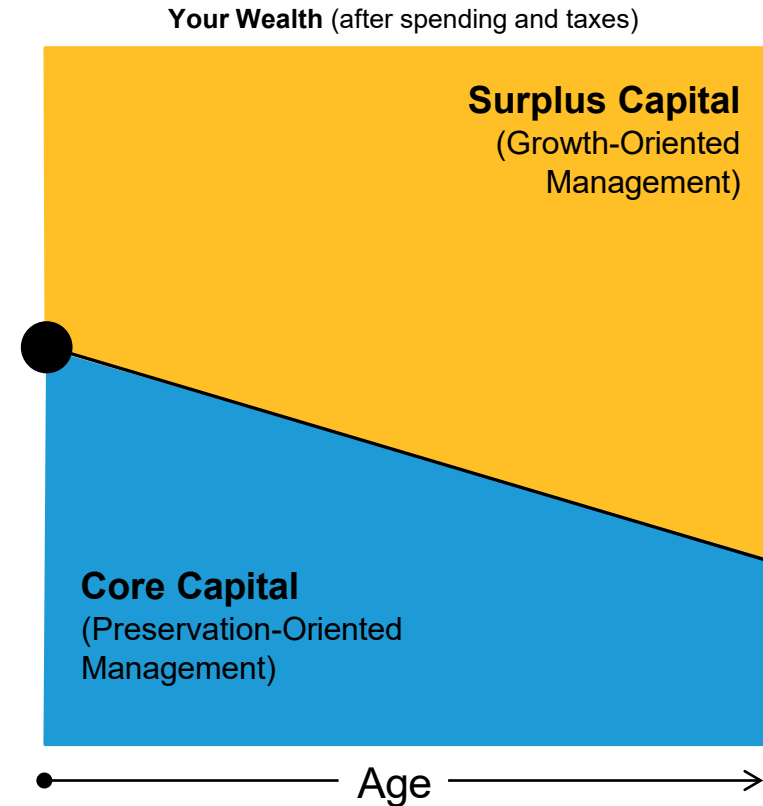
For illustrative purposes only.  
Source: AB

# Core and Surplus Capital

## Hierarchy of Objectives



## The Critical Goal: Meeting Spending Needs



For illustrative purposes only.

\*The amount needed to support your lifestyle as long as you live.

Source: AB

# Overview of Key One Big Beautiful Bill Act ("OBBA") 2025 Tax Provisions

# New Legislation: "One Big Beautiful Bill Act"

## Key Tax Provisions (effective 2025, unless otherwise indicated)

### Individuals

- **Estate & Gift Tax Exclusion (eff. 2026):**
  - Increases to \$15 million per person
- **Income Tax Rates:**
  - Extends current brackets, topping out at 37%
- **Standard Deduction:**
  - Increases to \$31,500/\$15,750, indexed for inflation
- **Alternative Minimum Tax (AMT):**
  - Exemption made permanent; slight decrease in phase-out thresholds
- **Deduction Limitations:**
  - Eliminates personal exemption and most miscellaneous itemized deductions; deduction benefit limited to 35%; retains \$750,000 mortgage deduction limit
- **State and Local Tax (SALT) Deduction Cap (eff. 2025-2029):**
  - Increases to \$40,000, "phased down" to \$10,000 starting at \$500,000 of MAGI
- **Expanded Deductions and Credits:**
  - Child and dependent care; casualty loss deduction; child tax credit
- **New Deductions (eff. 2025-2028):**
  - Tips and overtime; auto loan interest; senior deduction
- **Charitable Contributions (eff. 2026):**
  - \$2,000/\$1,000 deduction for non-itemizers; itemized deductions reduced by 0.5% of AGI; extends 60% AGI limit for cash donations to public charities
- **Qualified Opportunity Funds (eff. 2027):**
  - Capital gain deferral until 5<sup>th</sup> anniversary of investment date; aggregate 10% basis step-up, 30% for "rural" funds
- **New Trump Accounts (eff. for children born 2025-2028):**
  - Tax-deferred accounts for minors, similar to IRAs; \$5,000 max annual contribution

Source: Pub. L. 119-21.

See Appendix for additional details.

Source: AB

### Businesses

- **Qualified Business Income (QBI) Deduction:**
  - Extends 20% deduction, with modified phase-in limits and restrictions
- **Excess Business Losses:**
  - Extends inflation-indexed \$626,000/\$313,000 limitation for noncorporate taxpayers
- **Qualified Small Business Stock (QSBS) Exclusion (eff. for stock issued after July 4, 2025):**
  - Tiered exclusion: 50% for stock held 3 years, 75% for stock held 4 years, 100% for stock held 5 years
  - Per-issuer exclusion increased from \$10 million to \$15 million, inflation-adjusted
  - Aggregate small business gross asset limitation increased to \$75 million, inflation-adjusted
- **Section 179 Deduction:**
  - Increases deductible amount for qualified property from \$1 million to \$2.5 million
  - Dollar-for-dollar phase-out threshold increases to \$4 million, inflation-indexed beginning in 2026
- **Bonus Depreciation (eff. for property acquired after January 19, 2025):**
  - Restores 100% bonus depreciation for eligible property
  - New 100% bonus depreciation for "qualified production property" acquired by 2028 and placed in service by 2030
- **Research and Experimental Expenditures:**
  - Allows immediate expensing of domestic research expenses; foreign expenses must be amortized over 15 years
  - Small businesses can apply retroactively to taxable years after 2021
- **Corporate Charitable Contributions:**
  - Reduces deductible amount by 1% of taxable income
  - Retains cap at 10% of taxable income, with carryforward only to the extent that charitable deductions for the year exceed that cap

# New Legislation: "One Big Beautiful Bill Act"

## Key Tax Planning Areas of Focus

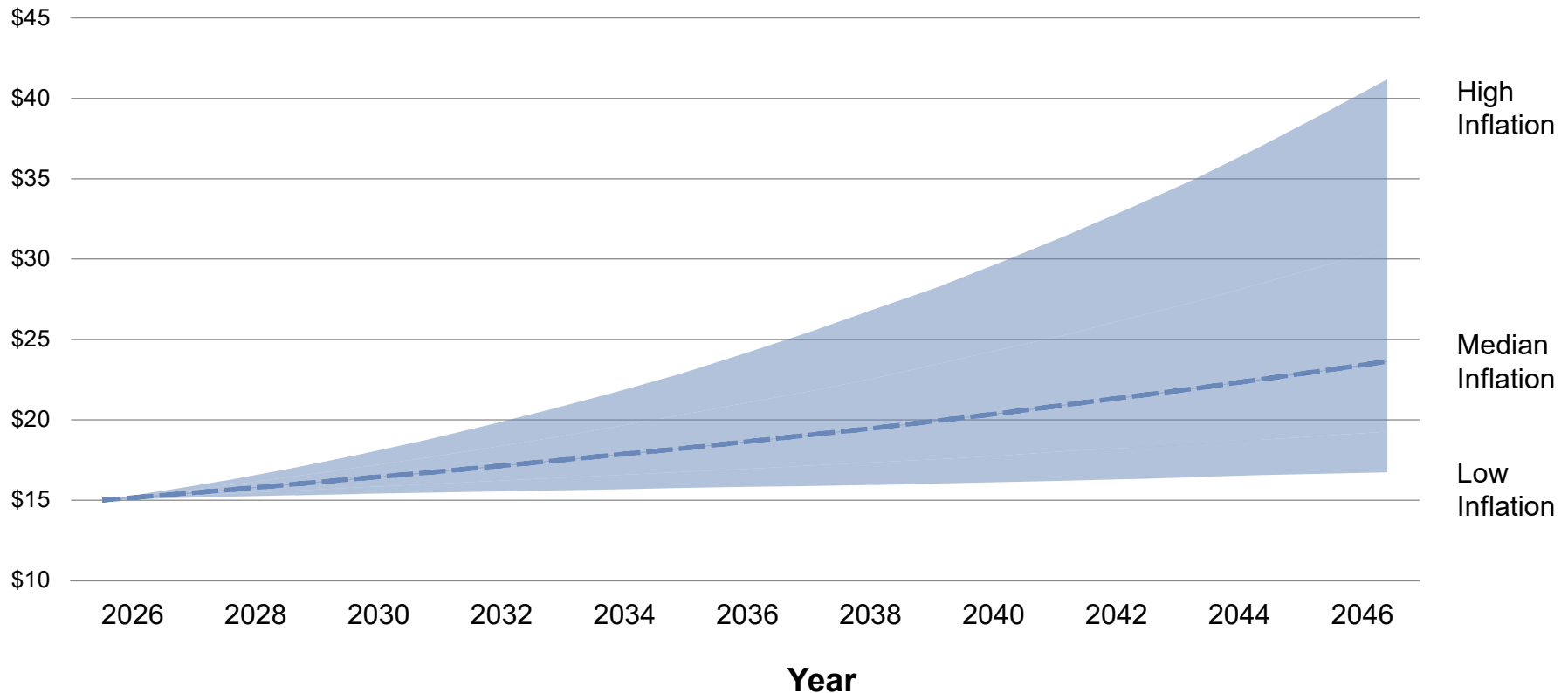
- **Wealth Transfer:**
  - *Most should prioritize income tax efficiency over transfer tax reduction*
- **SALT Deduction:**
  - *Reduce MAGI below \$500,000 to maximize deduction benefits*
  - *Is trust "stacking" worth it?*
- **QSBS:**
  - *Stay below \$75 million inflation-adjusted gross asset limitation*
  - *Time sales of pre- and post-OBBBA shares to maximize exclusion benefit*
- **Capital Gain Deferral:**
  - *Delay start of 180-day deferral period to take advantage of QOF "2.0"*
  - *Consider expanded bonus depreciation investment opportunities in taxable year of sale*
- **Charitable Planning:**
  - *Accelerate contributions to 2025 to avoid new deduction limits*

Source: AB

# Estate Planning Framework After the One Big Beautiful Bill Act (OBBBA)

Which is more valuable: lifetime wealth transfer or basis step-up at death?

**\$15 Million Basic Exclusion Amount Projection\***  
(USD Millions, nominal)

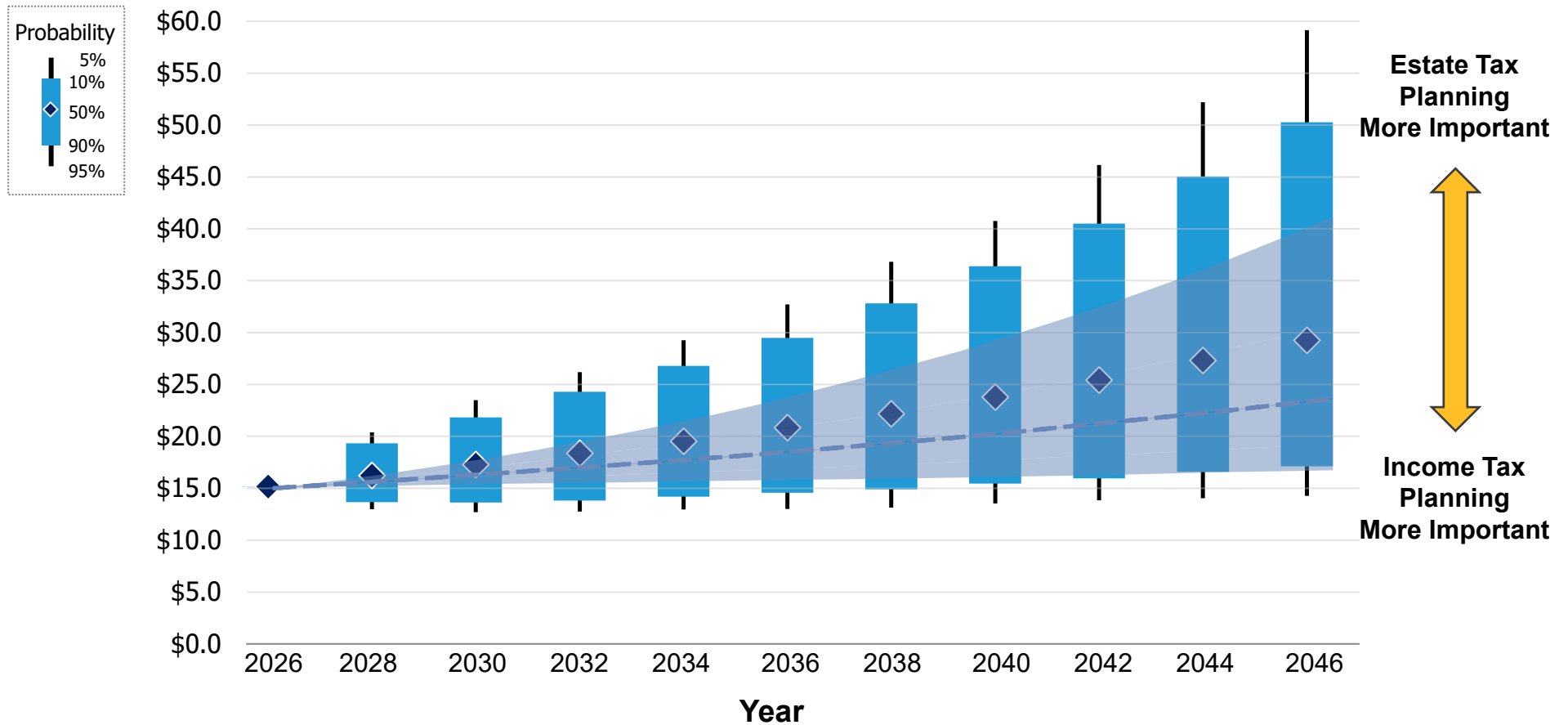


\*"High Inflation," "Median Inflation" and "Low Inflation" correspond to the 10th, 50th and 90th percentiles of Bernstein's forecast, adjusted using the Chained Consumer Price Index (C-CPI-U). For illustrative purposes only. Projections based on AB's estimates of the range of returns for the applicable capital markets over the periods analyzed. **Data do not represent past performance and are not a promise of actual future results or a range of future results.** For further details, see Appendix, Notes on Wealth Forecasting System.  
Source: AB

# Estate Planning Framework, After OBBBA

## Wealth Transfer Planning vs. Income Tax Planning

**Projected Growth of Estate vs. Basic Exclusion Amount\***  
\$Millions, Nominal



For illustrative purposes only. Based on Bernstein's estimates of the range of returns for the applicable capital markets. **Data do not represent past performance and are not a promise of actual results or a range of future results.** See Appendix, Notes on Wealth Forecasting System, for details.

Source: AB

# Overview of Pre- and Post-Transaction Tax Strategies for Business Owners

# Partial List of Tax-Saving Strategies for Business Owners

## Pre-transaction

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- Charitable contribution of ownership interest to public charity (e.g., DAF)
- Income tax deferral strategy (e.g., CRUT, rolled equity, seller note, earnout, deferred sale trust)
- State income tax strategy (e.g., relocation, ING or CNG trust)
- Section\* 1202 exclusion (QSBS)
- Gift to family members or trusts for their benefit
- Leveraged wealth transfer strategy (e.g., GRAT, installment sale to IDGT)
- Sale to Section\* 678 trust (BDIT or BDOT)
- Private placement life insurance (PPLI)

## Post-transaction\*\*

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- Charitable contribution of cash or appreciated securities
- Grantor CLAT funded with cash
- Qualified opportunity fund (QOF)
- Bonus depreciation / qualified production property (QPP)
- Qualified conservation easement
- Portfolio loss harvesting

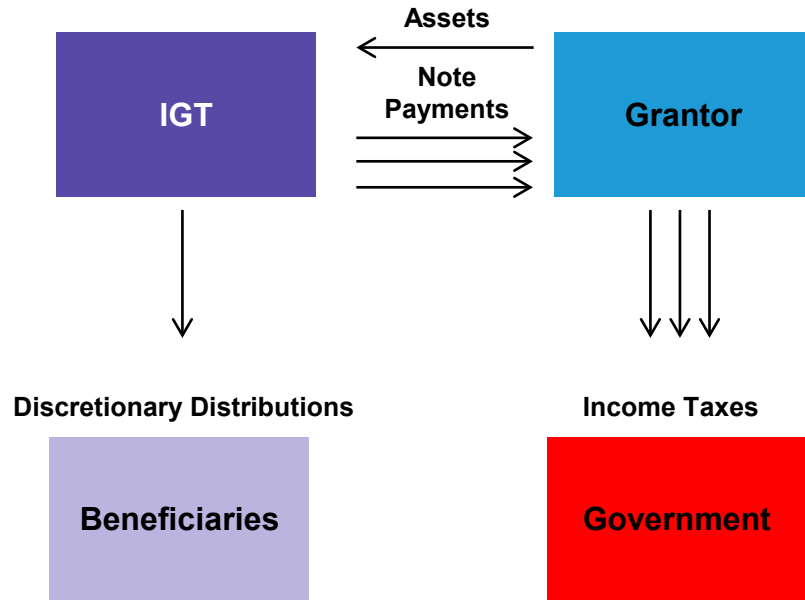
\*"Section" generally refers to a section number of the Internal Revenue Code of 1986, as amended ("Code" or "I.R.C.").

\*\*Typically, in the same taxable year as the business sale, except that a QOF may extend into the following year, depending upon the circumstances.

Source: AB

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# How an Installment Sale to an Irrevocable (“Intentionally Defective”) Grantor Trust Works



**If transaction is structured properly and Grantor fails to survive note term, value of note (not assets sold) will be subject to estate tax at Grantor’s death**

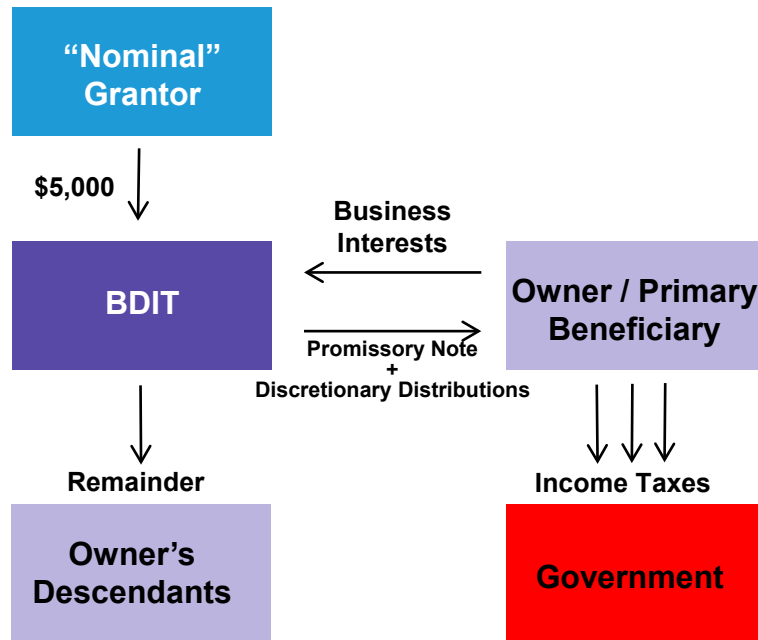
- Key points:**
- Over time, Grantor transfers assets to IGT
  - Collectively, transfers are treated as part-gift (10%), part-sale (90%)
  - In exchange for assets sold, Grantor receives promissory note; interest payable annually for note term, with principal and final interest installment due upon maturity
  - Until then, Grantor pays all income taxes on behalf of IGT and its beneficiaries
  - Annual growth in excess of AFR may avoid gift, estate, and GST taxes\*

\*Potential benefit to trust and its beneficiaries equals post-transfer growth of assets given, plus growth of assets sold in excess of interest payable. “AFR” means applicable federal rate, annual compounding, as published by the Treasury Department. The mid-term AFR applies to fixed debt having a term greater than three years, but not greater than nine years; the long-term AFR applies to longer term loans; the short-term AFR applies to shorter term loans.

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Source: AB

# How a Beneficiary Defective Inheritor's Trust (BDIT) Works



Works as advertised only if (1) Section 678 applies to entire trust; (2) value of Business Interests exactly equals value of Promissory Note; and (3) BDIT is "creditworthy"

## Key points:

- Grantor (1) gives \$5,000 to BDIT; and (2) grants Owner, say, 30-day *Crummey* withdrawal right; following lapse, Owner should be deemed owner of BDIT's assets for income tax purposes under Section 678
- Next, Owner sells business interests to BDIT in exchange for promissory note; "mismatch" of value could cause owner to have contributed to self-settled trust, so defined-value clause is essential
- Third-party guarantee (from business or "old-and-cold" trust) typically is used to establish BDIT's creditworthiness
- Owner pays all income taxes on behalf of BDIT pursuant to Section 678
- If properly structured, (1) Owner arguably may serve as trustee and be primary beneficiary of BDIT; and (2) BDIT's assets (net of remaining note balance) should avoid estate tax at Owner's death

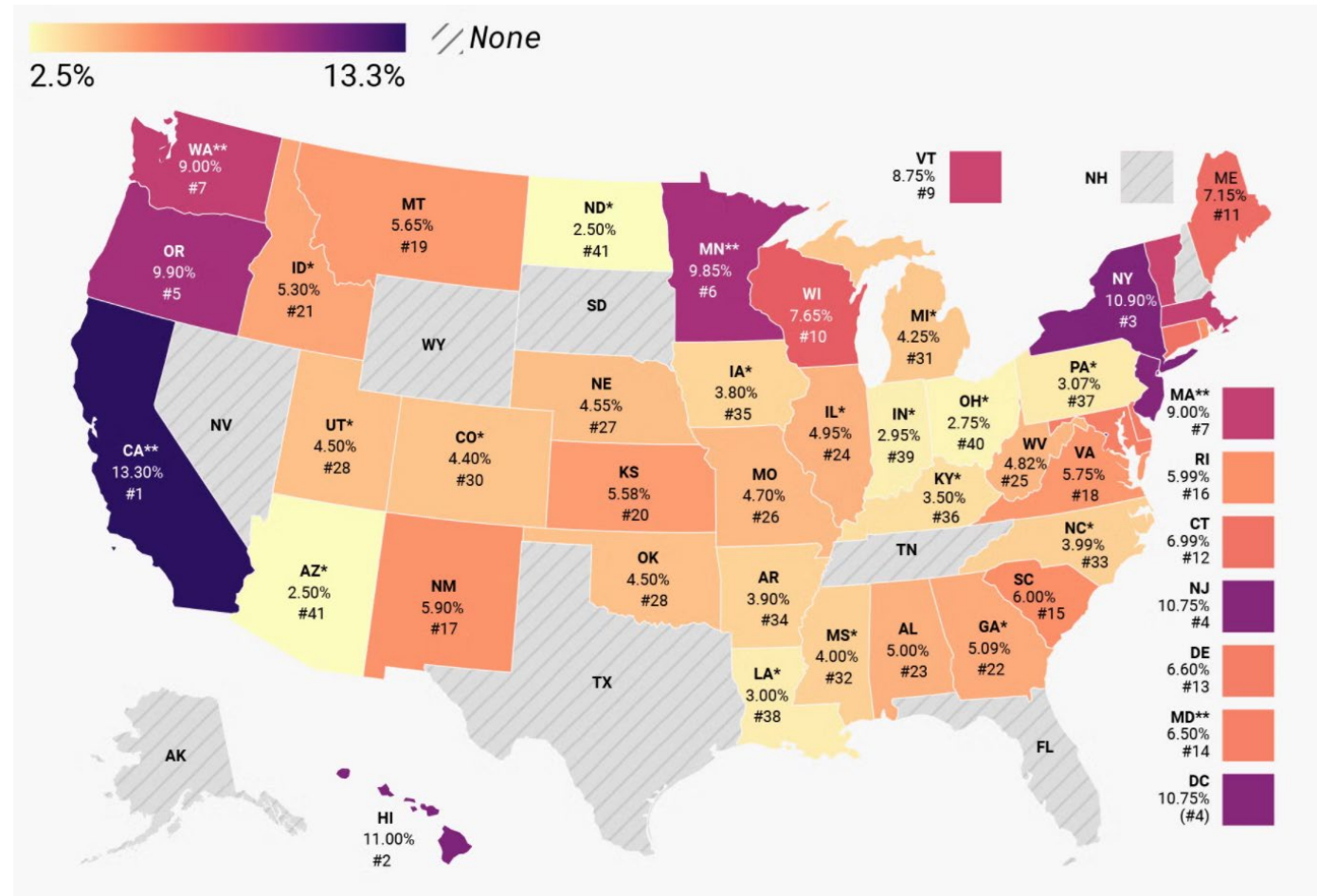
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Source: AB

# State Income Tax Planning

# State Income Taxes Differ Significantly from State to State

## Top State Individual Income Tax Rates†: 2026



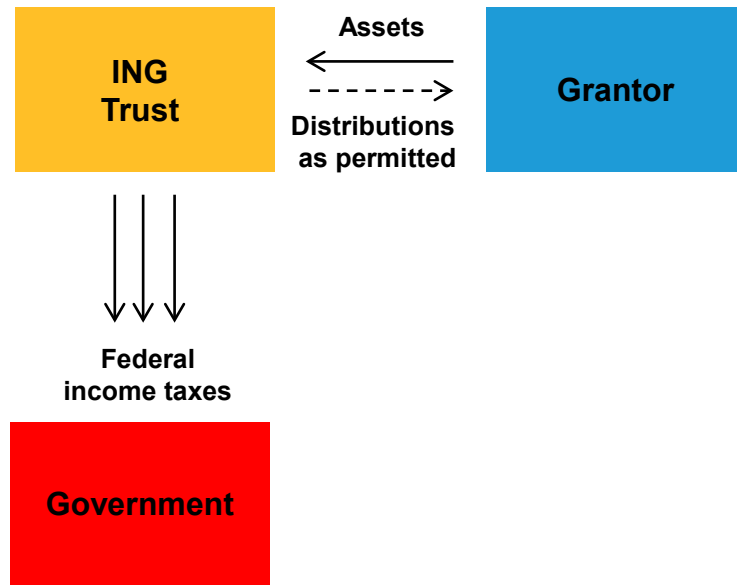
\*These states impose a "flat," rather than graduated-rate, income tax.

\*\*Top rates in CA, MA, and WA exclude non-unemployment-insurance (non-UI) payroll taxes. WA imposes a 7% excise tax on capital gains exceeding \$278,000 (2025, inflation-indexed), increasing to 9% for capital gains exceeding \$1 million (not inflation-indexed). MN imposes an additional 1% tax on capital gains of taxpayers whose net investment income exceeds \$1 million (not inflation-indexed). MD imposes an additional 2% surtax on capital gains income for filers with AGI exceeding \$350,000 (2026).

†Map shows top marginal income tax rate for each state but excludes local taxes and certain other adjustments that may result in a higher or lower effective tax rate.

Sources: Bloomberg, Tax Foundation

# “Incomplete” Gift Nongrantor (ING) Trust



## Key points:

- Grantor, who lives in a high-income-tax state, establishes a non-grantor trust in a state (e.g., Delaware, Nevada, Wyoming) that has **no** state income tax. The trust is subject to federal income tax
- The trust has an individual trustee or corporate trustee that is domiciled in the tax-favored state
- A trust distribution committee can authorize distributions to the grantor during the grantor's life
- When structured properly, the trust assets should be protected from the grantor's and other beneficiaries' creditors, but because the gift is incomplete, they will be included in the grantor's estate for federal estate tax purposes\*
- At least two states, New York and California, treat incomplete gift trusts as grantor trusts, the income of which is taxable to the grantor for state income tax purposes\*\*

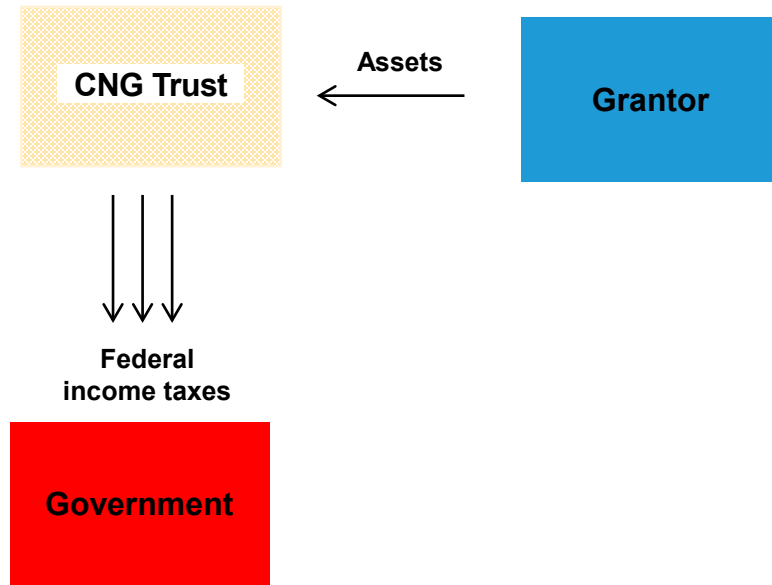
\*Treas. Reg. § 25.2511-2(c). The transfer is considered incomplete when, among other reasons, the grantor retains the power to appoint trust assets or otherwise change the beneficiaries of the trust.

\*\*New York Tax Law § 601(b)(41); California Tax and Revenue Code § 17082.

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Source: AB

# “Completed” Gift Nongrantor (CNG) Trust



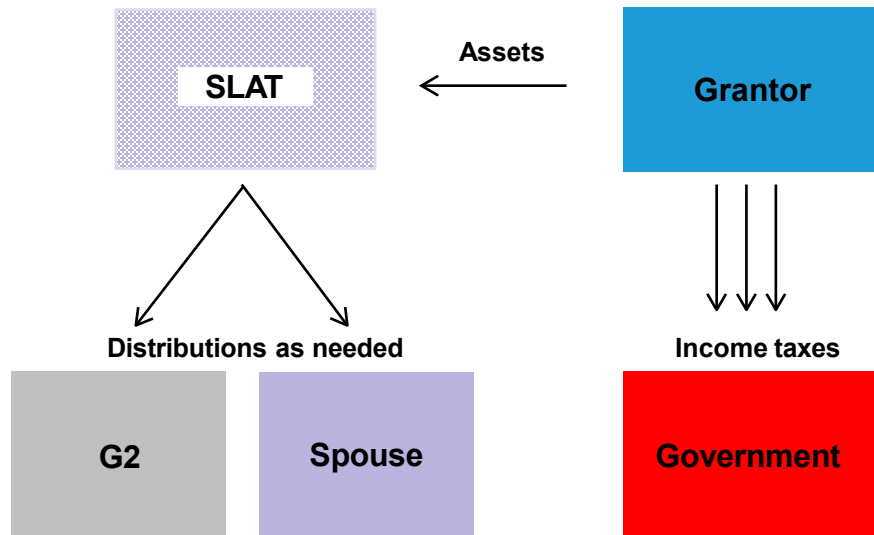
## Key points:

- Grantor, who lives in a high-income-tax state, establishes a non-grantor trust in a state (e.g., Delaware, Nevada, Wyoming) that has no state income tax. The trust is subject to federal income tax
- The trust has an individual trustee or corporate trustee that is domiciled in the tax-favored state
- When structured properly, the trust assets should be protected from the grantor’s and beneficiaries’ creditors, and because the gift is complete, they should **not** be included in the grantor’s estate for federal estate tax purposes
- State income tax laws vary significantly, and some states may attempt to tax undistributed income based on the grantor’s state of residence when the trust was created, the residence of the trustee, the residence of the beneficiaries, or the place where the trust is administered\*

\*Whether these criteria establish constitutional nexus to tax is a separate question. See, e.g., North Carolina Dept. of Revenue v. Kimberley Rice Kaestner 1992 Family Trust, 588 US 53 (2019). For illustrative purposes only; not an advertisement and not an endorsement of any particular wealth transfer strategy. Bernstein does not provide valuation, tax, legal, or accounting advice. Consult qualified professionals in these areas to discuss your individual circumstances before making decisions.

Source: AB

# Spousal Lifetime Access Trust (SLAT)



## Key points:

- Grantor's spouse typically is the sole or primary initial beneficiary, but children and younger descendants may be included as current beneficiaries
- Grantor pays taxes on trust income, with considerable debate about whether that obligation can be "turned off" during grantor's lifetime
- Possible for each spouse to establish a SLAT for the primary benefit of the other, but those trusts cannot be substantially identical (in estate planning speak, "reciprocal")\*
- When structured properly, trust assets should not be subject to estate tax upon the death of either spouse
- Death of the beneficiary spouse, or divorce, may cut off grantor's indirect access to trust assets

\*See United States v. Estate of Grace, 395 US 316 (1969).

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Source: AB

# Meet the Riveras

- Owners: Married, each spouse is 60 years old
- Top marginal state income tax rate: 10%
- Current assets
  - Closely held business structured as a limited liability company (LLC) and taxed as a partnership for income tax purposes, zero “outside” basis
  - Liquid assets: \$2.5 million (includes \$1.5 million IRA), invested 80% global stocks / 20% bonds
- Annual living expenses: \$250,000 (after-tax), adjusted for inflation
- Objective: Sell business for \$40 million cash

**Planning challenge: How to reduce the tax consequences of sale?**

Source: AB

# Which Strategy Is Likely to Provide the Best Outcome?\*

**Scenario A:** No lifetime wealth transfer planning

**Scenario B:** Give 25% of LLC member interests to ING trust

- Net income tax savings is \$620,600
  - Saves \$1 million (10% of \$10 million sale price) in state income taxes, **but**
  - ING trust is subject to 3.8% federal surtax on net investment income, resulting in \$379,400 of additional tax
- Grantor can receive distributions from ING trust during life
- No transfer tax exclusion is used, but ING trust assets are subject to estate tax upon grantor's death

**Scenario C:** Give 25% of LLC member interests to CNG trust

- Net income tax savings is \$620,600, same as Scenario B
- Grantor **cannot** receive distributions from CNG trust during life
- \$10 million of transfer tax exclusion is used; CNG trust assets are **not** subject to estate tax upon grantor's death

**Scenario D:** Give 25% of LLC member interests to SLAT

- No net income tax savings
- Grantor **cannot** receive distributions from SLAT during life, but grantor's spouse **can**
- \$10 million of transfer tax exclusion is used; SLAT assets are **not** subject to estate tax upon grantor's death

\*Assumptions: (1) equity sale, not asset sale; (2) no home-state-sourced income realized upon sale; and (3) no valuation discount prior to sale.

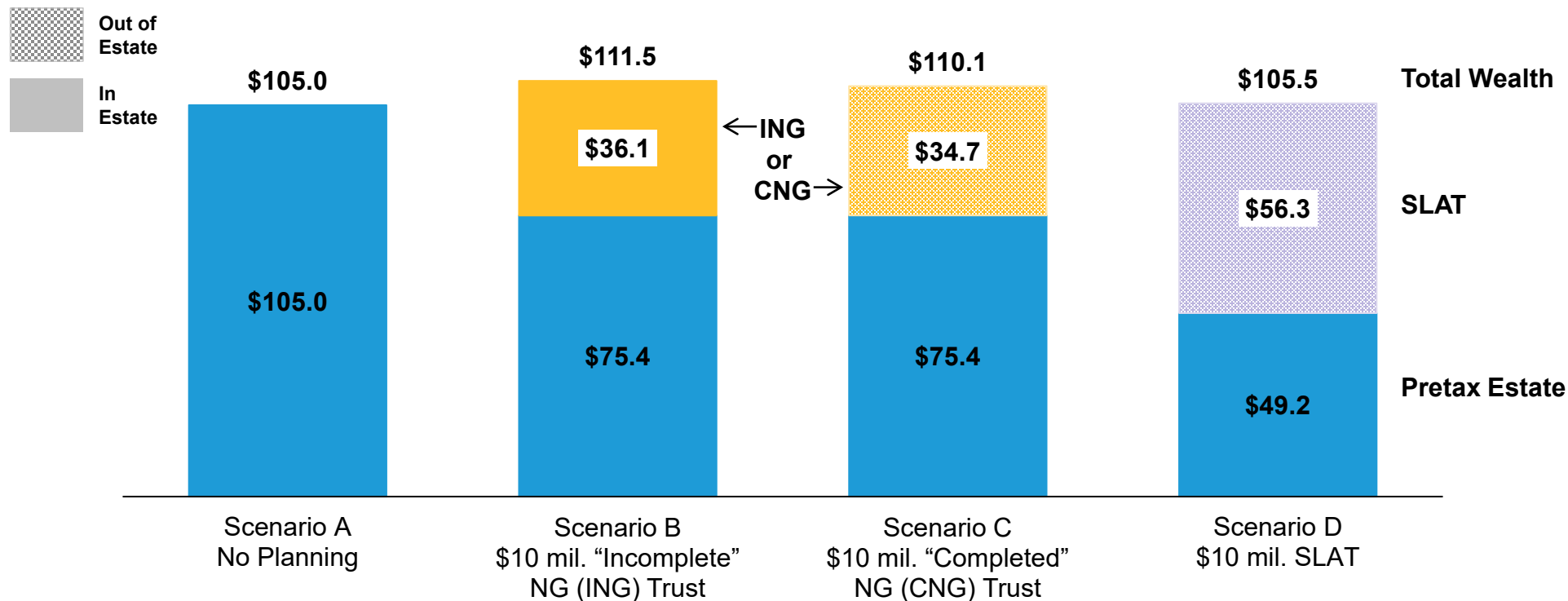
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Source: AB

# The ING and CNG Trusts Create Immediate Income Tax Savings...

Projected pre-estate-tax wealth, year 30 (USD millions, nominal)\*

\$40 million sale



\*Detailed assumptions are provided on slides 7, 9–12. In Scenario D, grantor pays income taxes on behalf of SLAT and its beneficiaries for 20 years. To account for the economic benefit of the step-up in basis at death accorded to personal (all scenarios) and ING trust (Scenario B) assets, all unrealized gains in the CNG trust (Scenario C) and SLAT (Scenario D) are realized in year 30.

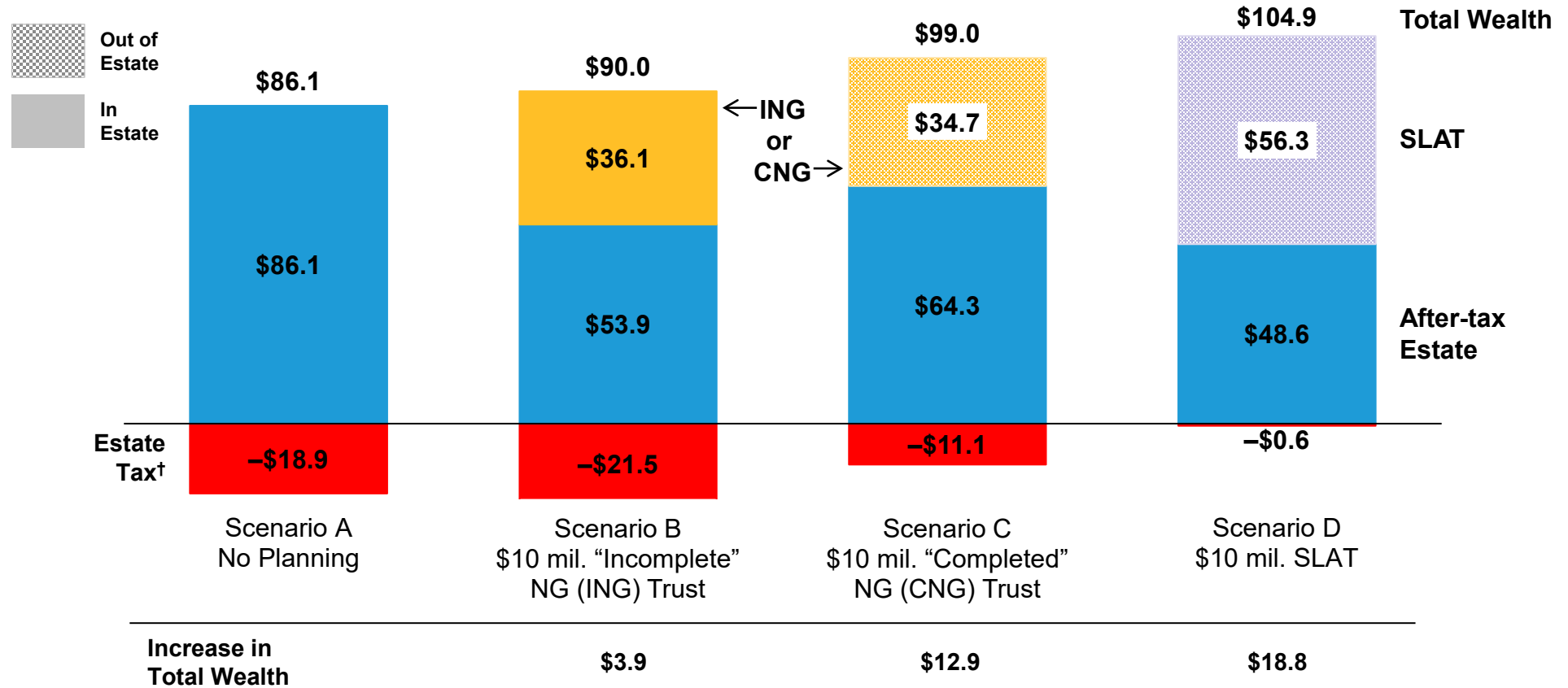
Projections based on AB's estimates of the range of returns for the applicable capital markets over the periods analyzed. **Data do not represent past performance and are not a promise of actual future results or a range of future results.** See Notes on Wealth Forecasting System in the Appendix for further details. Bernstein does not provide valuation, tax, legal, or accounting advice. Consult qualified professionals in these areas to discuss your individual circumstances before making decisions.

Source: AB

# ...While the CNG Trust and SLAT Create Estate Tax Savings

Projected after-estate-tax wealth, year 30 (USD millions, nominal)\*

\$40 million sale



\*Detailed assumptions are provided on slides 7, 9–12. In Scenario D, grantor pays income taxes on behalf of SLAT and its beneficiaries for 20 years. To account for the economic benefit of the step-up in basis at death accorded to personal (all scenarios) and ING trust (Scenario B) assets, all unrealized gains in the CNG trust (Scenario C) and SLAT (Scenario D) are realized in year 30.

†Estate tax assumes a "flat" federal rate of 40% and a gift and estate tax exclusion of \$15.0 million per person in 2026, adjusted by chained-inflation thereafter.

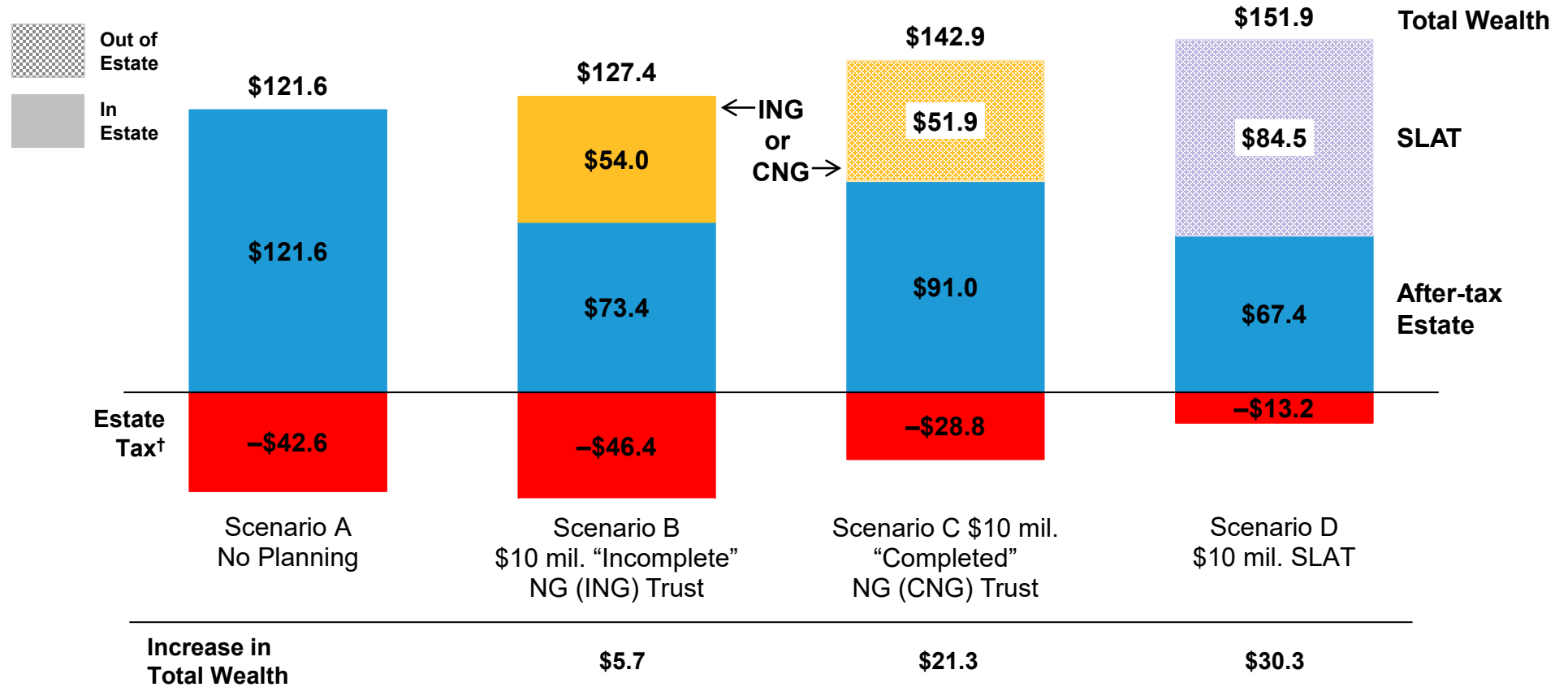
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Source: AB

# Estate Tax Savings Are Enhanced with a Higher Sale Price...

Projected after-estate-tax wealth, year 30 (USD millions, nominal)\*

\$60 million sale



\*Detailed assumptions are provided on slides 7, 9–12. In Scenario D, grantor pays income taxes on behalf of SLAT and its beneficiaries for 20 years. To account for the economic benefit of the step-up in basis at death accorded to personal (all scenarios) and ING trust (Scenario B) assets, all unrealized gains in the CNG trust (Scenario C) and SLAT (Scenario D) are realized in year 30.

†Estate tax assumes a "flat" federal rate of 40% and a gift and estate tax exclusion of \$15.0 million per person in 2026, adjusted by chained-inflation thereafter.

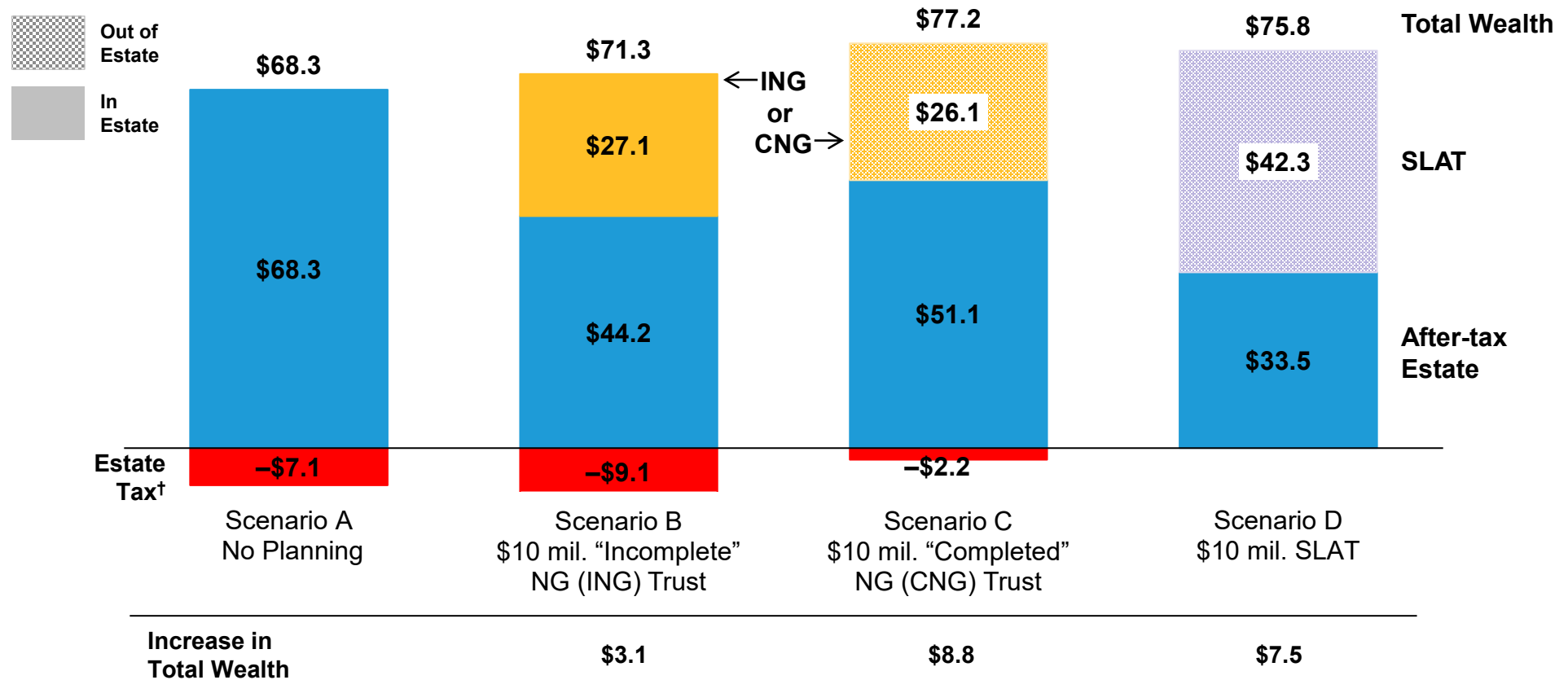
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Source: AB

# ...But Are Less Significant at a Lower Sale Price

Projected after-estate-tax wealth, year 30 (USD millions, nominal)\*

\$30 million sale



\*Detailed assumptions are provided on slides 7, 9–12. In Scenario D, grantor pays income taxes on behalf of SLAT and its beneficiaries for 20 years. To account for the economic benefit of the step-up in basis at death accorded to personal (all scenarios) and ING trust (Scenario B) assets, all unrealized gains in the CNG trust (Scenario C) and SLAT (Scenario D) are realized in year 30.

†Estate tax assumes a "flat" federal rate of 40% and a gift and estate tax exclusion of \$15.0 million per person in 2026, adjusted by chained-inflation thereafter.

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Source: AB

# Planning Challenges with Nongrantor Trusts

## Resident trust

- Some states\* (e.g., New York) may treat a trust established by a resident and administered in another jurisdiction as a resident trust for state income tax purposes
- Triggers may include:
  - Tax domicile of the grantor at the time when the trust was established
  - Any home-state-sourced income (e.g., income generated by tangible property located in the grantor's home state)

## Timing matters

- For income tax purposes: transferred business interest cannot represent a fixed right to receive cash at closing\*\* under the assignment of income doctrine
- For gift and estate tax purposes: transfer business interest as far in advance as possible to maximize any applicable valuation discount

## For California residents

- California has joined New York in adopting legislation† that treats an ING trust established by a resident as a grantor trust for state income tax purposes
- Even if trust income is not subject to California state income tax in the year when that income is generated, that income could be subject to a throwback tax when ultimately distributed to a California beneficiary‡

\*N.Y. Tax Law § 605(b)(3).

\*\*See *Ferguson v. Commissioner*, 174 F.3d 997 (9th Cir. 1999).

†Cal. Rev. and Tax Code § 17082.

‡*Id.* § 17745

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Source: AB

# Qualified Small Business Stock (QSBS) Exclusion

# What Is the Qualified Small Business Stock (QSBS) Exclusion?

- In 1993, Congress enacted legislation (Section 1202 of the Internal Revenue Code) to encourage investment in emerging companies by providing income tax incentives to founders, investors and employee shareholders of qualified small businesses
- If all statutory requirements are satisfied, a shareholder may exclude up to 100% of eligible gain realized upon sale of QSBS
- Prior to modification by OBBBA (more on those modifications in a moment), “eligible gain” meant the greater of:
  - \$10 million, or
  - 10 times adjusted basis
- The percentage of eligible gain that is excluded from tax under Section 1202 depends on when the QSBS was originally issued\*:
  - 50% is excluded if issued between 8/11/1993 and 2/16/2009
  - 75% is excluded if issued between 2/17/2009 and 9/27/2010
  - 100% is excluded if issued after 9/27/2010

\*The statute refers to the date on which QSBS was “acquired by the taxpayer at its original issue,” but later clarifies that certain transferees (e.g., recipients of gifts) will be treated as having acquired the shares in the same manner as the transferor, including “tacking on” the holding period of the transferor. I.R.C. § 1202(h).

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Source: I.R.C. § 1202

# Key Requirements: Pre-OBBBA

- Domestic C corporation\*
- Common or preferred stock
- Original issuance
- Directly to non-corporate shareholder
  - In exchange for money or property other than stock; or
  - As compensation for services
- Held by taxpayer for more than five years from date of issue
- Business
  - At all times before issuance, had aggregate gross assets\*\* of no more than \$50 million
  - Uses at least 80% of its assets in an active trade or business
  - Conducts a “qualified” business,† defined in the negative
  - Conducted an active business and was a C corporation during “substantially all” of the taxpayer’s holding period

\*Not eligible: Domestic international sales corporation (DISC) or former DISC, corporation (including subsidiaries) that has a Code Section 936 election in effect (relating to tax credits for activities in Puerto Rico or other US possessions), regulated investment company (RIC), real estate investment trust (REIT), real estate mortgage investment conduit (REMIC), cooperative, S corporation, or foreign corporation. I.R.C. § 1202(d)(1), (d)(2), (e)(4).

\*\*Equals cash plus aggregate adjusted bases of the corporation’s assets; basis of contributed property is deemed to be its fair market value on the date of contribution. I.R.C. § 1202(d)(2).

†Excludes (A) any trade or business involving the performance of services in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, consulting, athletics, financial services, brokerage services, or any trade or business where the principal asset is the reputation or skill of one or more of its employees; (B) any banking, insurance, financing, leasing, investing, or similar business; (C) any farming business, including the business of raising or harvesting trees; (D) any business involving the production or extraction of products of a character with respect to which a deduction is allowable under Code Section 613 or 613A; and (E) any business of operating a hotel, motel, restaurant, or similar business. I.R.C. § 1202(e)(3).

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Source: I.R.C. § 1202

# Expanded QSBS Benefits Under OBBBA

## Key changes and implications

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### Summary of Key Changes

Effective for stock issued after July 4, 2025

- Tiered exclusion based on holding period
  - 3 years: **50%** exclusion
  - 4 years: **75%** exclusion
  - 5+ years: **100%** exclusion
- Increased per taxpayer cap: **\$15 million** (inflation-adjusted)
- Increased gross asset cap: **\$75 million** (inflation-adjusted)

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### Planning Insights

- Immediate expensing of R&E (Section 174A) and bonus depreciation (Section 168(n)) may help companies stay under the \$75 million asset ceiling
- Retroactive R&E expensing for companies with receipts under \$31 million may help companies meet the pre-7/5/25 issuance \$50 million gross asset cap and qualify prior stock grants as QSBS
- Manage asset levels and timing of raises to remain under inflation-adjusted \$75 million gross asset cap

Bernstein does not provide valuation, tax, legal, or accounting advice. Consult qualified professionals in these areas to discuss your individual circumstances before making decisions.  
Sources: I.R.C. §§ 168, 174A, and 1202; AB

# Can the QSBS Exclusion Be Multiplied (“Stacked”)?

- Shareholders can give QSBS to multiple individuals, each of whom may “inherit” a separate \$10 million / \$15 million exclusion
- While there is no clear guidance, many practitioners believe that an irrevocable trust will qualify for its own QSBS exclusion if the trust is a separate taxpayer (i.e., not a grantor trust)
- Nonexclusive list of potential donees
  - Individuals
  - Non-grantor trusts for the benefit of one or more individuals (limited to CNG trusts for New York residents)
  - Charitable remainder unitrust (CRUT)—more on whether a CRUT is a separate taxpayer for purposes of Code Section 1202 in a moment
  - Non-grantor charitable lead annuity trust (CLAT)
- Open questions under the statute
  - Are spouses who file tax returns jointly treated as separate taxpayers, each of whom may be eligible for a \$10 million / \$15 million exclusion?
  - Can an irrevocable grantor trust (e.g., SLAT) “spin off” separate non-grantor trusts, each of which qualifies as a separate taxpayer?

Bernstein does not provide valuation, tax, legal, or accounting advice. Consult qualified professionals in these areas to discuss your individual circumstances before making decisions.  
Sources: I.R.C. § 1202; AB

# Qualified Small Business Stock (QSBS): Pitfalls and Opportunities

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## Pitfalls

- Forming as an S corporation (perhaps)
- Original issuance does not include
  - Options
  - Convertible debt
- Large capital contributions may result in failure to satisfy
  - Aggregate gross asset test
  - Active business requirement
- Failure to meet holding period requirement
- Significant stock redemptions

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## Opportunities

- LLC to C corporation conversion
- Acquiring stock before aggregate gross assets exceed \$50 million / \$75 million
- Continued post-sale deferral under Code Section 1245
- Basis + QSBS sales over multiple years
- Gifts

Bernstein does not provide valuation, tax, legal, or accounting advice. Consult qualified professionals in these areas to discuss your individual circumstances before making decisions.  
Sources: I.R.C. § 1202; AB

# Say “Hello” Again to the Riveras: Revised Facts

- Owners: Married, each spouse is 60 years old
- Top marginal state income tax rate: 10%
- Current assets
  - Closely held **qualified small business structured since 2011 as a C corporation**, zero “outside” basis
  - Liquid assets: \$2.5 million (includes \$1.5 million IRA), invested 80% global stocks/20% bonds
- Annual living expenses: \$250,000 (after-tax), adjusted for inflation
- Objective: Sell business for \$40 million cash, **1/4 of which qualifies for the QSBS exclusion**

**Planning challenge: How to *further* reduce the tax consequences of sale?**

# Which Is Better in the Long Run: One More Stack or a SLAT?\*

## **Scenario A:** Shareholder sells entire business interest

- One \$10 million QSBS exclusion
- Remaining \$30 million of gain is taxed at a blended 33.8% rate

## **Scenario B:** Same as A, except

- Second \$10 million to an ING trust in advance of the transaction
- Remaining \$20 million of gain is taxed at a blended 33.8% rate

## **Scenario C:** Same as B, except

- Third \$10 million to a CNG trust in advance of the transaction, requiring the use of \$10 million of gift and estate tax exclusion
- Remaining \$10 million of gain is taxed at a blended 33.8% rate

## **Scenario D:** Same as C, except

- Third \$10 million to a SLAT, rather than a CNG trust, in advance of the transaction
- SLAT's \$10 million of gain is taxed to the grantor, along with the remaining \$10 million of gain, at a blended 33.8% rate

\*Assumptions: (1) equity sale, not asset sale; (2) no home-state-sourced income realized upon sale; and (3) no valuation discount prior to sale.

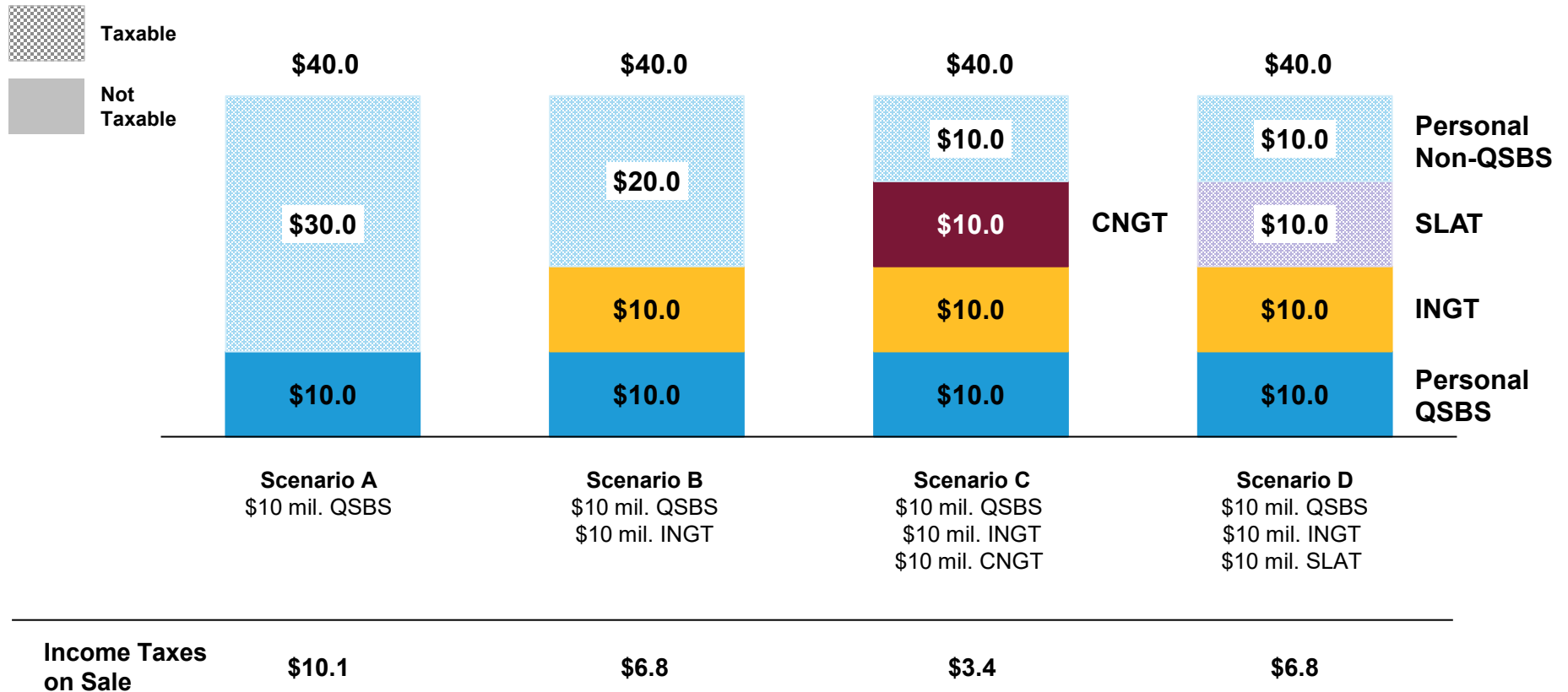
Bernstein does not provide valuation, tax, legal, or accounting advice. Consult qualified professionals in these areas to discuss your individual circumstances before making decisions.

Source: AB

# How QSBS Exclusions May Be Stacked

Pretax proceeds\* (USD millions, nominal)

\$40 million sale

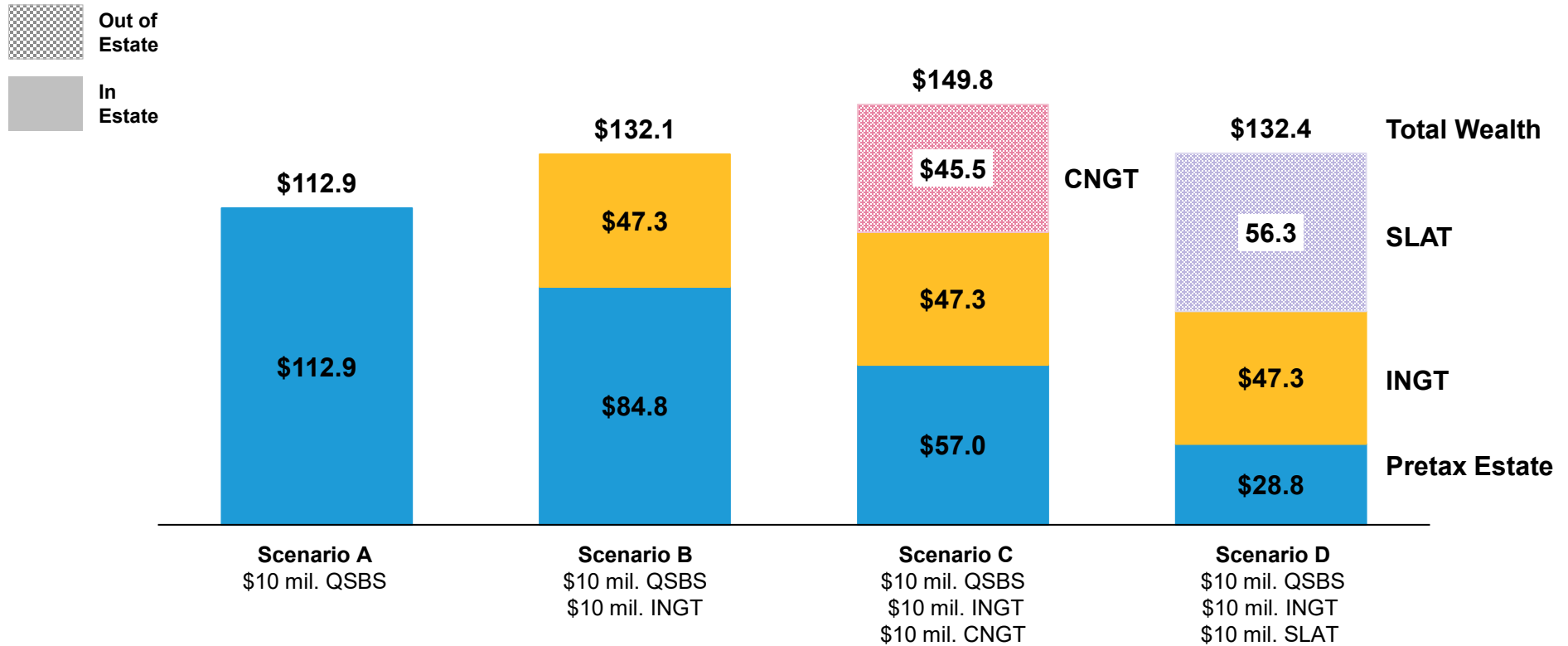


\*We assume that each "Not Taxable" stack (shown as a solid color) qualifies for a \$10 million QSBS exclusion, and that the SLAT and Personal Non-QSBS stacks do not. Bernstein does not provide valuation, tax, legal, or accounting advice. Consult qualified professionals in these areas to discuss your individual circumstances before making decisions. Source: AB

# Stacking Provides a Meaningful Expected Long-Term Benefit...

Projected pre-estate-tax wealth, year 30 (USD millions, nominal)\*

\$40 million sale



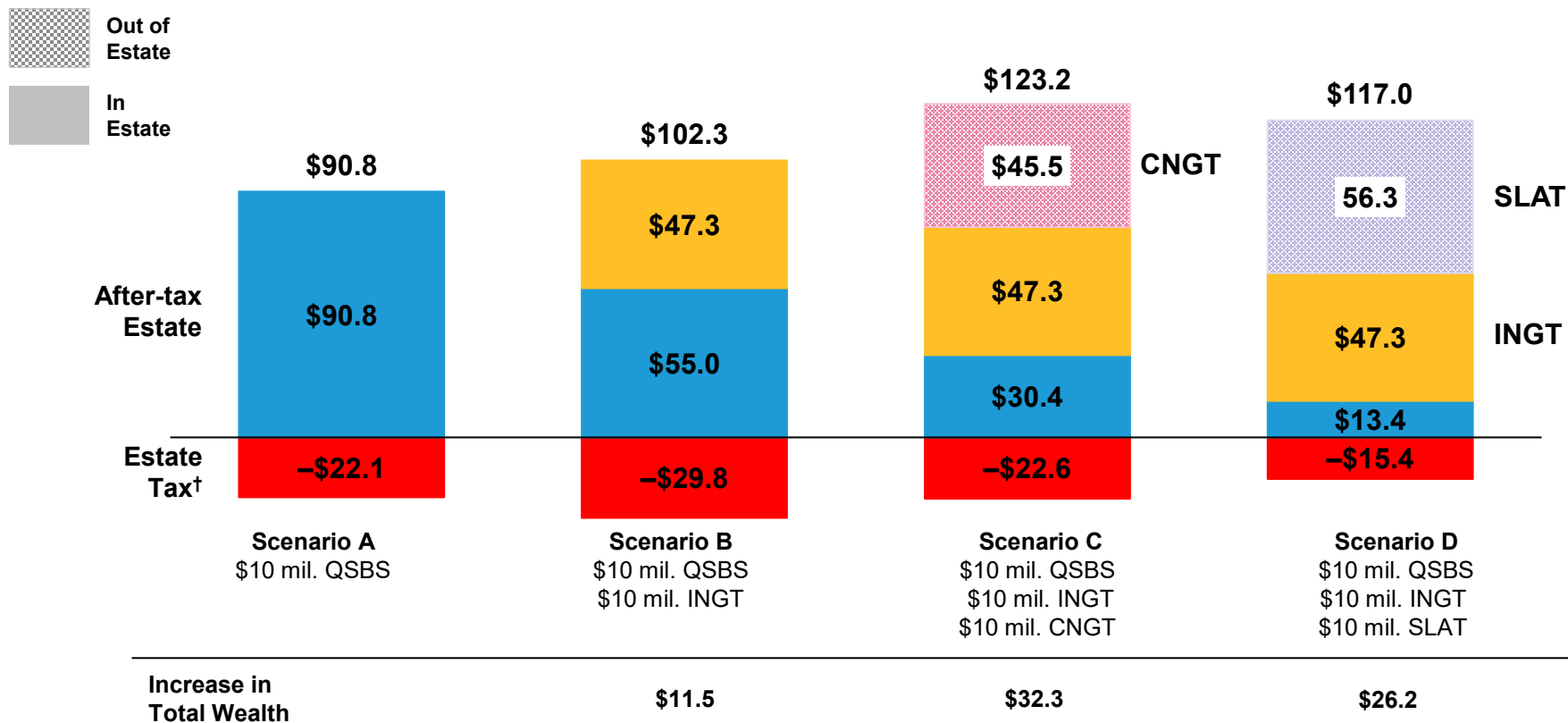
\*Detailed assumptions are provided on slides 7, 9–10, 24–25. In Scenario D, grantor pays income taxes on behalf of SLAT and its beneficiaries for 20 years. To account for the economic benefit of the step-up in basis at death accorded to personal (all scenarios) and ING trust (Scenario B) assets, all unrealized gains in the CNG trust (Scenario C) and SLAT (Scenario D) are realized in year 30. Projections based on AB's estimates of the range of returns for the applicable capital markets over the periods analyzed. **Data do not represent past performance and are not a promise of actual future results or a range of future results.** See Notes on Wealth Forecasting System in the Appendix for further details. Bernstein does not provide valuation, tax, legal, or accounting advice. Consult qualified professionals in these areas to discuss your individual circumstances before making decisions.

Source: AB

# ...Which in This Case Overcomes the Estate Depletion Benefit of a SLAT

Projected after-estate-tax wealth, year 30 (USD millions, nominal)\*

\$40 million sale



\*Detailed assumptions are provided on slides 7, 9–10, 24–25. In Scenario D, grantor pays income taxes on behalf of SLAT and its beneficiaries for 20 years. To account for the economic benefit of the step-up in basis at death accorded to personal (all scenarios) and ING trust (Scenario B) assets, all unrealized gains in the CNG trust (Scenario C) and SLAT (Scenario D) are realized in year 30.

†“Estate tax” assumes a “flat” federal rate of 40% and a gift and estate tax exclusion of \$15.0 million per person in 2026, adjusted by chained-inflation thereafter.

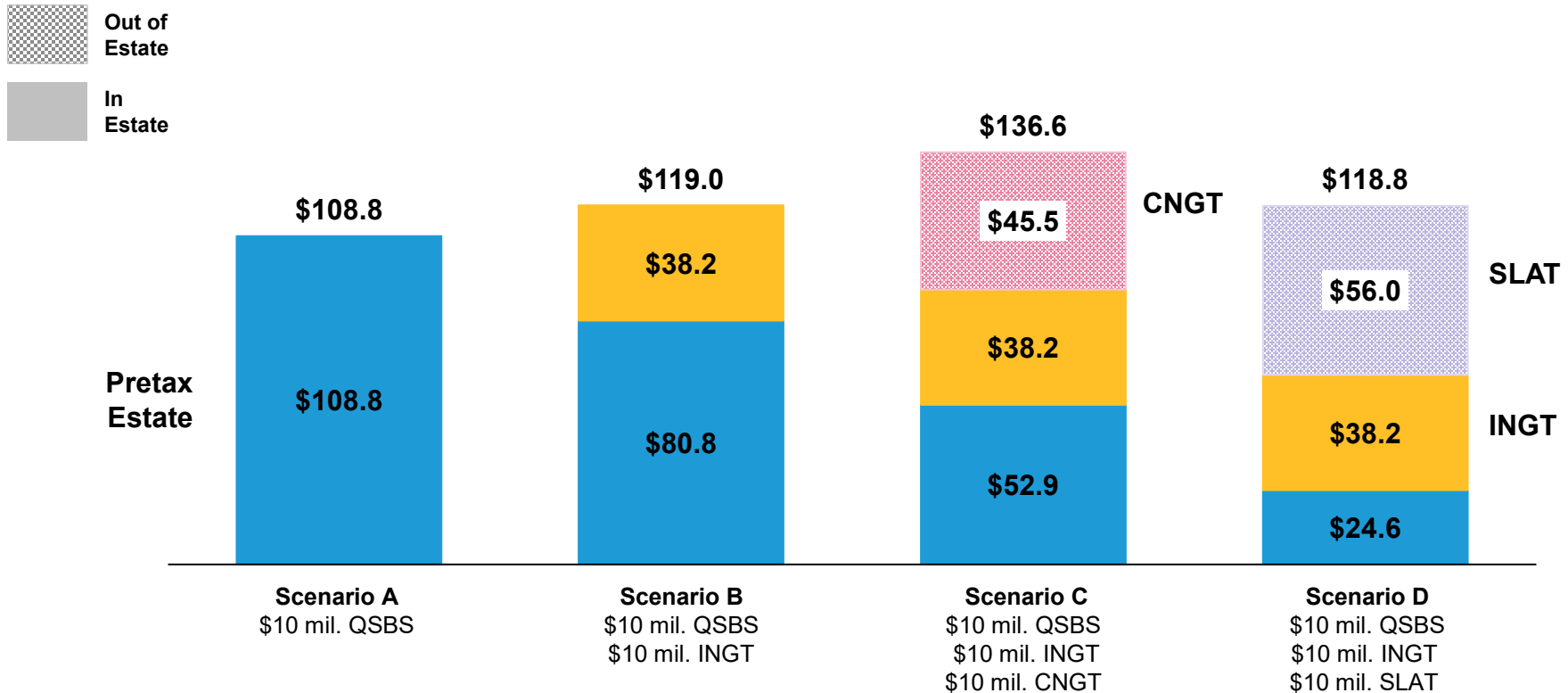
Projections based on AB’s estimates of the range of returns for the applicable capital markets over the periods analyzed. **Data do not represent past performance and are not a promise of actual future results or a range of future results.** See Notes on Wealth Forecasting System in the Appendix for further details. Bernstein does not provide valuation, tax, legal, or accounting advice. Consult qualified professionals in these areas to discuss your individual circumstances before making decisions.

Source: AB

# Even in a “Nonconforming” State, Stacking Can Be Effective...

Projected pre-estate-tax wealth, year 30 (USD millions, nominal)\*

\$40 million sale, domiciliary state does not conform to Section 1202\*\*



\*Detailed assumptions are provided on slides 7, 9–10, 24–25. In Scenario D, grantor pays income taxes on behalf of SLAT and its beneficiaries for 20 years. To account for the economic benefit of the step-up in basis at death accorded to personal (all scenarios) and ING trust (Scenario B) assets, all unrealized gains in the CNG trust (Scenario C) and SLAT (Scenario D) are realized in year 30.

\*\*In this iteration, we assume that the Riveras' hypothetical state of domicile (1) disallows any QSBS exclusion and (2) treats an ING (but not a CNG) trust as a grantor trust for state income tax purposes.

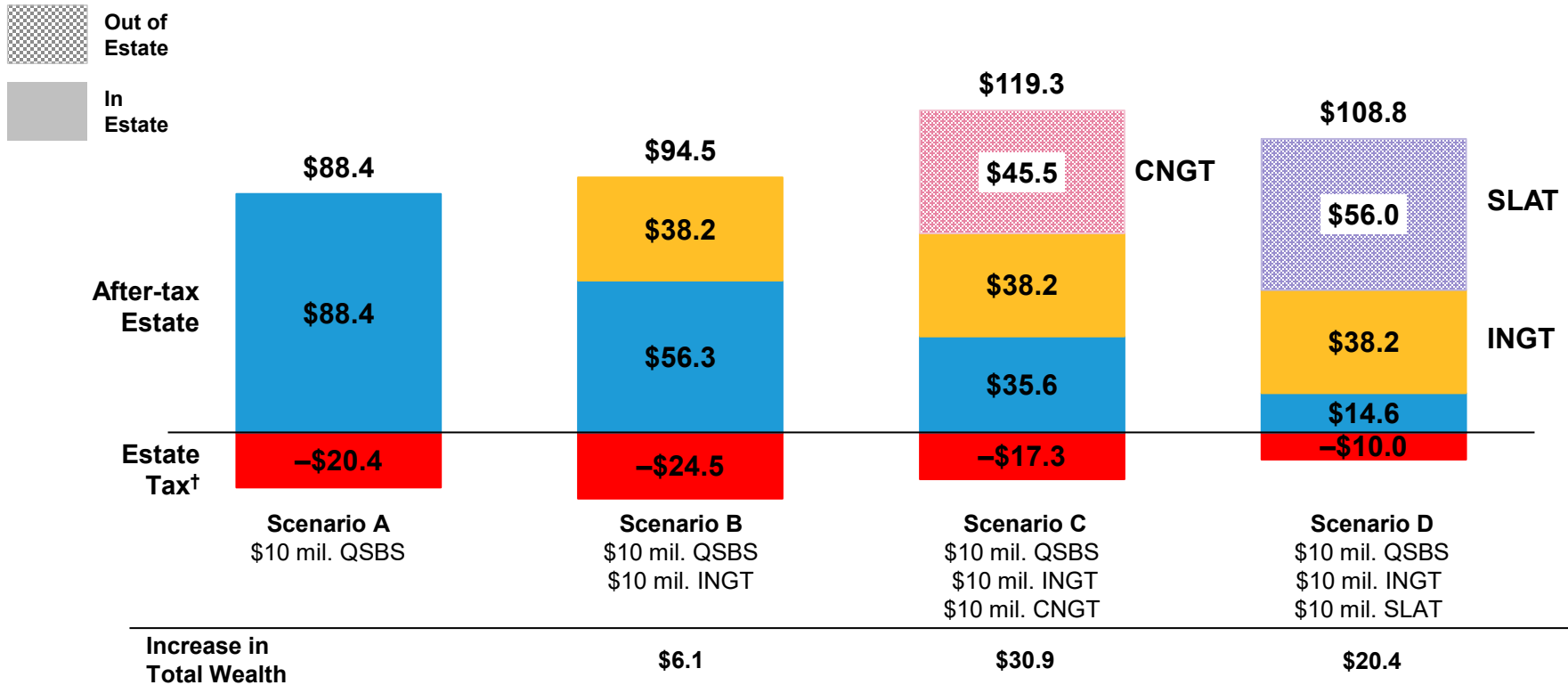
Projections based on AB's estimates of the range of returns for the applicable capital markets over the periods analyzed. **Data do not represent past performance and are not a promise of actual future results or a range of future results.** See Notes on Wealth Forecasting System in the Appendix for further details. Bernstein does not provide valuation, tax, legal, or accounting advice. Consult qualified professionals in these areas to discuss your individual circumstances before making decisions.

Source: AB

# ...Both Before and After Accounting for Estate Tax

Projected after-estate-tax wealth, year 30 (USD millions, nominal)\*

\$40 million sale, domiciliary state does not conform to Section 1202\*\*



\*Detailed assumptions are provided on slides 7, 9–10, 24–25. In Scenario D, grantor pays income taxes on behalf of SLAT and its beneficiaries for 20 years. To account for the economic benefit of the step-up in basis at death accorded to personal (all scenarios) and ING trust (Scenario B) assets, all unrealized gains in the CNG trust (Scenario C) and SLAT (Scenario D) are realized in year 30.

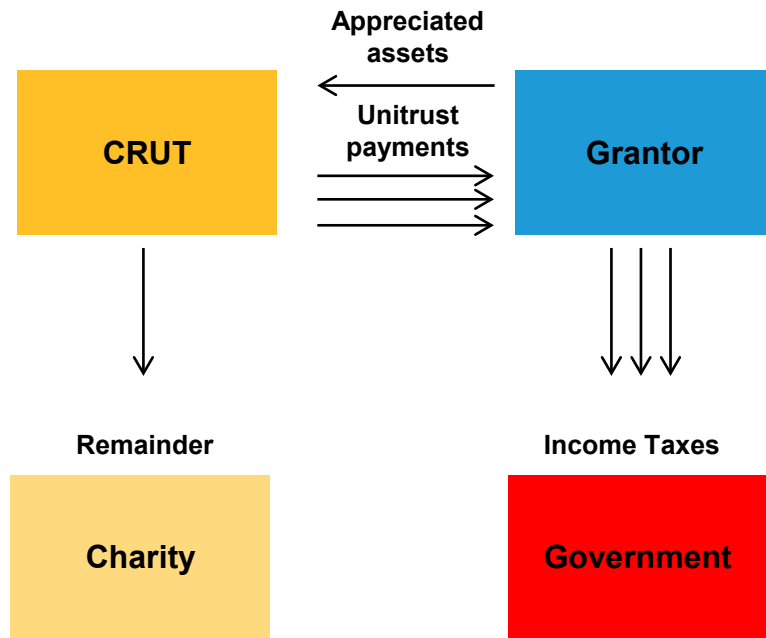
\*\*In this iteration, we assume that the Riveras' hypothetical state of domicile (1) disallows any QSBS exclusion and (2) treats an ING (but not a CNG) trust as a grantor trust for state income tax purposes.

†“Estate tax” assumes a “flat” federal rate of 40% and a gift and estate tax exclusion of \$15.0 million per person in 2026, adjusted by chained-inflation thereafter.

Projections based on AB's estimates of the range of returns for the applicable capital markets over the periods analyzed. **Data do not represent past performance and are not a promise of actual future results or a range of future results.** See Notes on Wealth Forecasting System in the Appendix for further details. Bernstein does not provide valuation, tax, legal, or accounting advice. Consult qualified professionals in these areas to discuss your individual circumstances before making decisions. Source: AB

# Charitable Remainder Unitrust (CRUT)

# How a Charitable Remainder Unitrust Works



## Key points:

- Grantor transfers appreciated assets to a CRUT
- Trustee sells assets and invests in a diversified portfolio—no immediate income tax consequence\*
- Each year, the CRUT distributes a percentage of its asset value to grantor for life (or grantor and grantor’s spouse for their joint lives) or for a fixed term\*
- Each year, grantor recognizes taxable income (including some previously deferred capital gain)\* in connection with those distributions
- At death or upon termination of the fixed term, any remaining CRUT assets will be distributed to charity

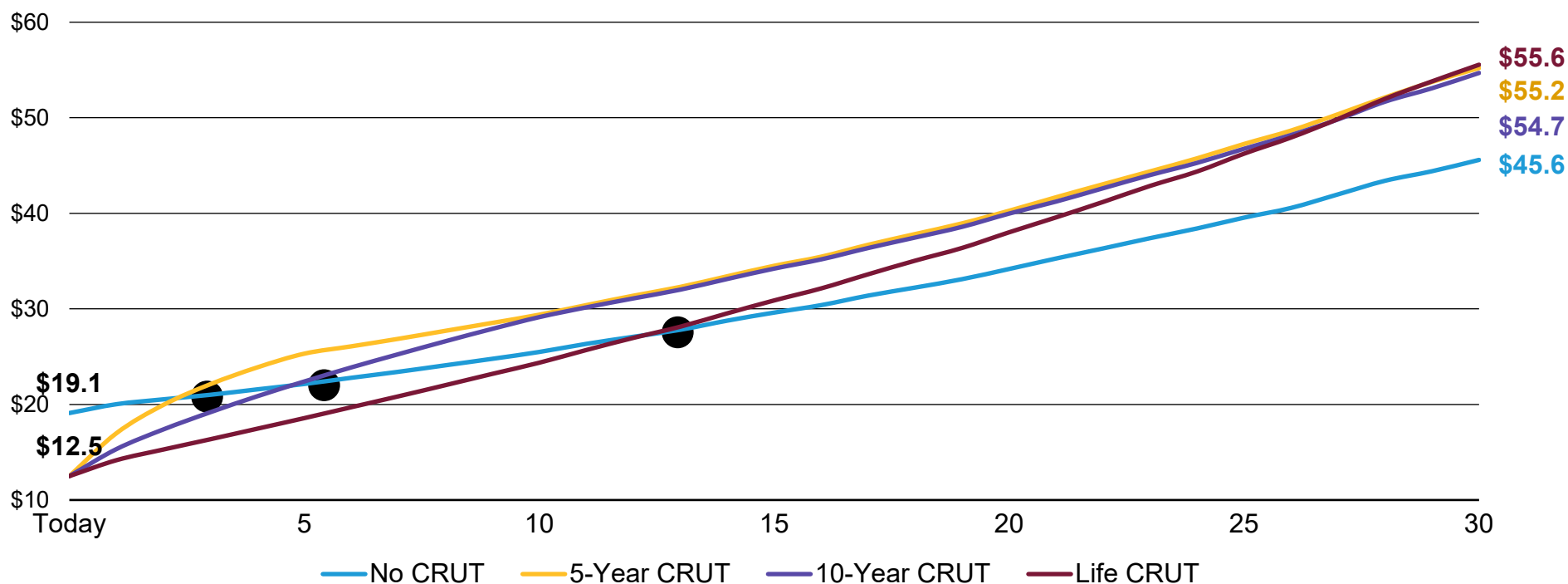
\*Tax accounting rules for charitable remainder trusts are complicated and should be fully understood before embarking on this strategy for funding core. Bernstein’s analysis suggests that funding core partly with a CRUT may optimize personal wealth—especially when investment horizon is long and state income tax rate is high. If grantor does not live as long as anticipated, charity could receive a “windfall” from the CRUT. Family may mitigate that risk with life insurance or other mortality hedging strategy.

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Source: AB

# If the CRUT Qualifies for a QSBS Exclusion, How Long Does It Take to Capture the Economic Benefit?

Accumulated personal wealth (USD millions, nominal)\*



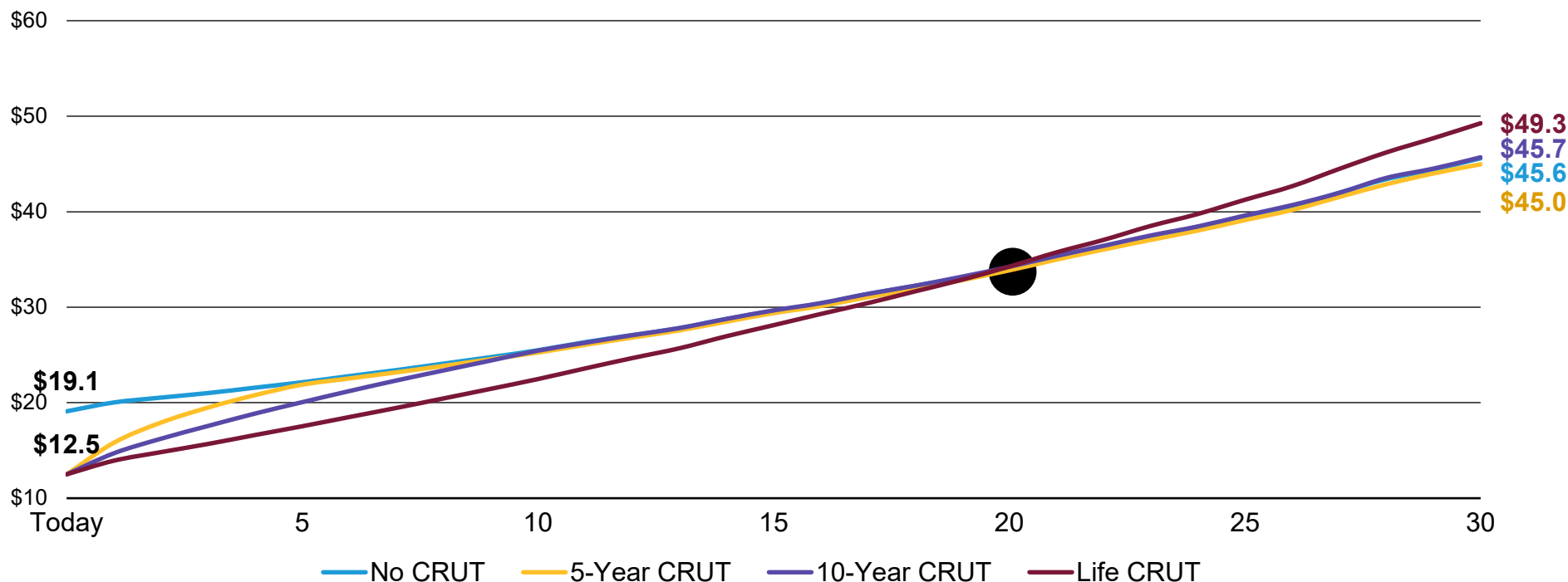
\*Detailed assumptions are provided on slides 7, 9–10, 24–25. Crossover (represented by a black dot) means the point at which one accumulates more personal wealth by creating the CRUT than by selling and diversifying without the CRT. Further assumptions: (1) payouts reinvested 80% in global stocks, 20% in bonds; (2) portfolio income taxed at top marginal rates; and (3) CRUT shares qualify as QSBS.

Based on Bernstein's estimates of the range of long-term returns for the applicable capital markets. **Data do not represent past performance and are not a promise of actual future results or a range of future results.** See Notes on Wealth Forecasting System in the Appendix for further details. Bernstein does not provide valuation, tax, legal, or accounting advice. Consult qualified professionals in these areas to discuss your individual circumstances before making decisions.

Source: AB

# What If the CRUT Does Not Qualify for a QSBS Exclusion?

Accumulated personal wealth (\$millions, nominal)\*



\*Detailed assumptions are provided on slides 7, 9–10, 24–25. Crossover (represented by a black dot) means the point at which one accumulates more personal wealth by creating the CRUT than by selling and diversifying without the CRT. Further assumptions: (1) payouts reinvested 80% in global stocks, 20% in bonds; (2) portfolio income taxed at top marginal rates; and (3) CRUT shares do not qualify as QSBS.

Based on Bernstein's estimates of the range of long-term returns for the applicable capital markets. **Data do not represent past performance and are not a promise of actual future results or a range of future results.** See Notes on Wealth Forecasting System in the Appendix for further details. Bernstein does not provide valuation, tax, legal, or accounting advice. Consult qualified professionals in these areas to discuss your individual circumstances before making decisions.

Source: AB

# Threading the Needle: Charitable Strategies for Business Owners

# Four Key Factors Strongly Influence the Potential for Success

## Timing

Donate shares before signing a legally binding sale agreement—with an expectation that the deal may not close

## Valuation

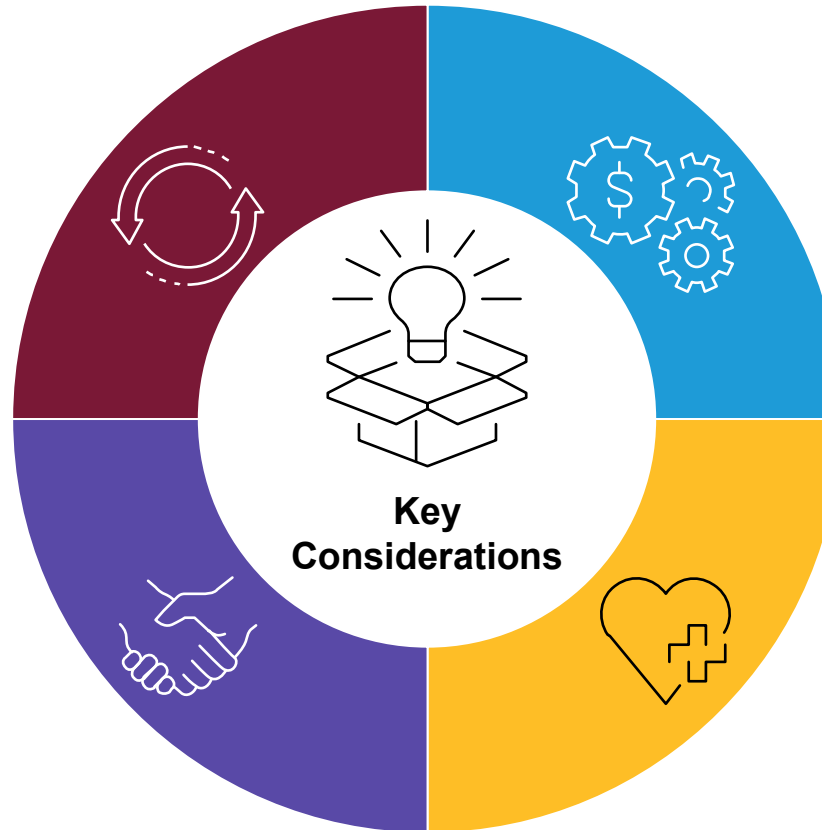
Obtain an independent valuation from a qualified appraiser to substantiate the charitable deduction

## Type of Company

Determine whether any restrictions exist on the transferability of an owner's interest

## Charitable Intent

Recognize that once the business interest is given to charity, it cannot be reversed



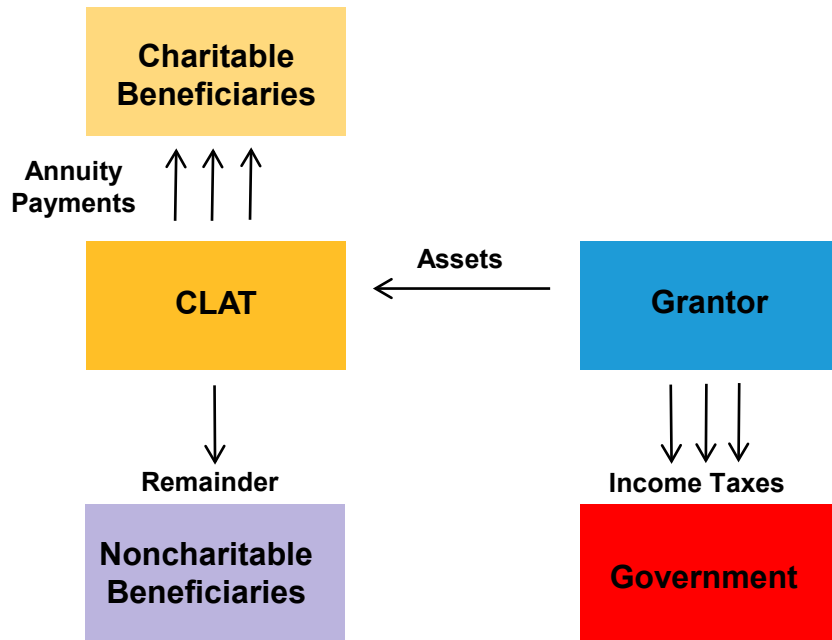
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Source: AB

# Advance Planning Is Needed—Even for “Simple” Gifts

	Cash	Marketable Securities	Private Securities
Overview	Simplest for donors to give and for not-for-profit to receive	Simple; can avoid embedded capital gain by giving to not-for-profit	Require qualified appraisals; may not be suitable for some strategies
Deductions	Yes	Generally based on fair market value of gift, if held for one year	Generally based on fair market value of gift, if held for one year
Public Charity	60% of adjusted gross income (AGI)	30% of AGI	30% of AGI
Private Operating Foundation	60% of AGI	30% of AGI	30% of AGI
Private Non-Operating Foundation	30% of AGI	20% of AGI	Deduction limited to lesser of fair market and adjusted basis <u>and</u> 20% of AGI
Valuation Required?	No	Generally, no	Yes, if deduction > \$5,000
Exceptions	N/A	Donor cannot realize embedded loss=>use appreciated securities	May be complicated collateral issue if company is taxed as an S corporation or partnership

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Source: AB

# How a Grantor Charitable Lead Annuity Trust (CLAT) Works



Extent to which assets pass to Remainder Beneficiaries at end of annuity term is highly dependent on Section 7520 rate as of date of contribution<sup>†</sup>

## Key points:

- Grantor transfers assets to CLAT
- If CLAT is zeroed-out,\* Grantor generally\*\* receives current-year income tax charitable deduction equal to fair market value of assets contributed
- Charity receives annuity payments from trust during annuity term
- Grantor pays all income taxes on behalf of CLAT during annuity term
- If CLAT assets grow faster than Section 7520 rate, excess passes to noncharitable beneficiaries (often, Grantor's children or a trust for their benefit) at end of annuity term free of gift tax
- If properly structured, assets should avoid estate tax at Grantor's death

\*If present value of annuity stream equals value of assets contributed to trust, Grantor makes no gift for gift tax purposes; CLAT is said to be "zeroed out."

\*\*Exception: If nonmarketable securities are contributed and the current beneficiary is a private nonoperating foundation, Grantor's income tax deduction may be limited to her or his adjusted basis.

†"Section 7520 rate as of date of contribution" typically means the lowest of the Section 7520 rates for the month of the contribution and the preceding two months.

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Source: AB

# Managing the Process

# Managing the Risk of Overplanning

When there's more to the story than just taxes

## Important Transfer Tax Strategy Considerations

### Liquidity Concerns

- Will the transfer leave behind sufficient liquid assets?
- Does the transfer increase the liquidity needs of the transferor through rental payments, income tax liabilities, or insurance premiums?
- Has the transferor accounted for future extraordinary expenses?

**Tax planning strategies must be evaluated in the context of the financial goals and futures of all parties involved**

### Transferor's Intended Impact

- Might the transferred wealth grow to a size that encourages beneficiary dependence and undermines personal ambition?
- Does the trust allow for the addition of future, perhaps even charitable, beneficiaries?
- Do the beneficiaries understand the values and intent of the transferor? Do they have the knowledge to be good stewards of the wealth?

Source: AB

# Family Governance Is Key to Preserving Family Wealth and Unity

Encourage family unity by establishing a common vision for the family



## Documentation

Documents and structures should reflect the values and priorities that define the family

- Show appreciation for family history and source of wealth
- Define the purpose of the wealth
- Identify family's future aspirations
- Document specific initiatives to achieve family goals



## Roles and Responsibilities

Designating roles and responsibilities is essential to producing effective decisions

- Identify skills and education required to handle duties
- Establish family expectations and involvement standards
- Help regulate family relationships and reduce misunderstanding and conflict



## Succession Planning

Postponing until death can be detrimental to the family's legacy

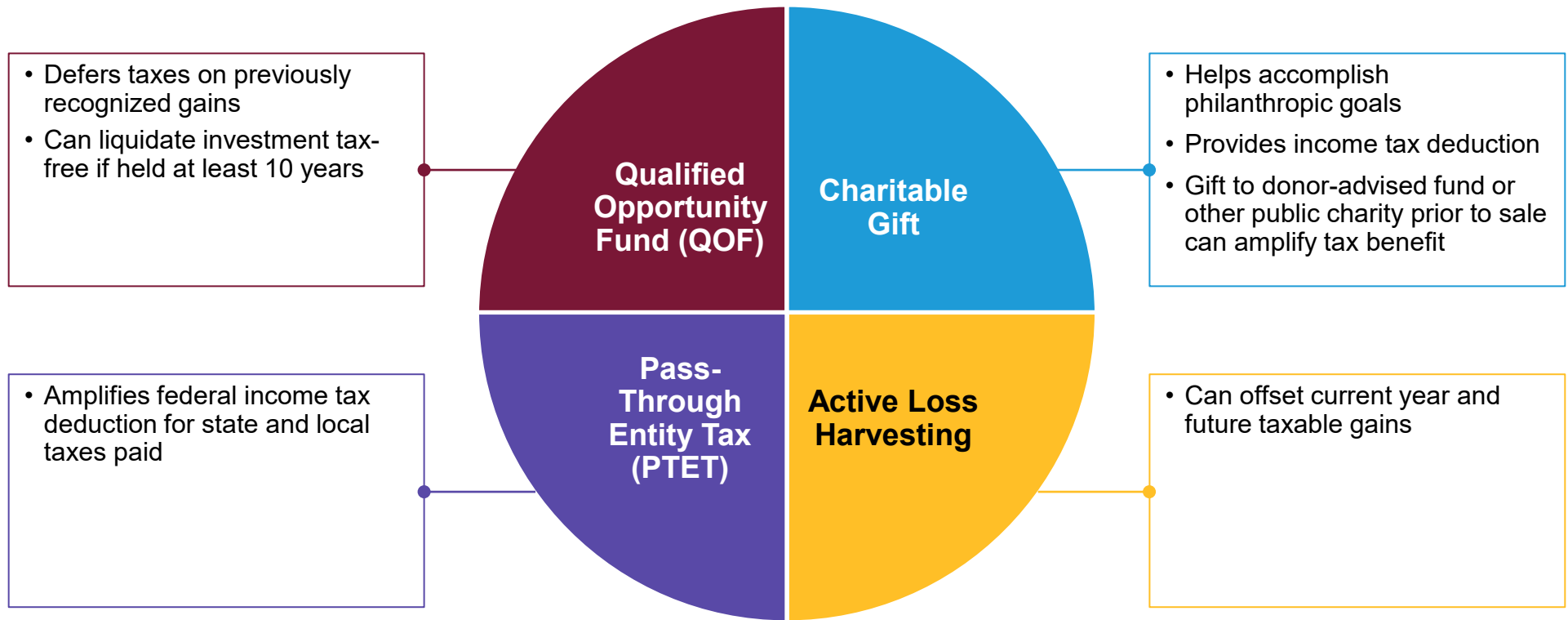
- Establish the groundwork for transferring control of family assets early
- Involve the rising generation in wealth stewardship
- Allow rising generation to occupy leadership roles within the family

By increasing family engagement and aligning priorities, a governance system that matures over time will help **protect wealth and relationships**—and pave the way for continued family success.

Source: AB

# Appendix

# Post-Transaction Planning Strategies



For illustrative purposes only; not an advertisement and not an endorsement of any particular wealth transfer strategy. Bernstein does not provide valuation, tax, legal, or accounting advice. Consult qualified professionals in these areas to discuss your individual circumstances before making decisions.  
Source: AB

# What Else Should You Be Thinking About Today?



## Management Equity Plan

- Employee option pool
- Phantom stock plan



## Balance Sheet Enhancements

- Convert from cash to accrual basis accounting
- Adopt generally accepted accounting principles (GAAP)



## Third-Party Review of Finances

- Quality of earnings (QOE) reporting
- Audited financial statements



## Retirement Plan Review

- Evaluation of plan design
- Coordination of service providers
- Education and advice for plan participants



## Business Owner Peer Community

- Entrepreneur networking organizations
- Forums and events
- Personal board of advisors



## Deal Team

- Corporate attorney
- Trust and estate attorney
- Accountant
- Strategic consultant
- Investment banker
- Financial advisor



## Qualified Small Business Stock (QSBS)

- Potential to exclude realized gain upon sale of stock, if eligible under Section 1202 of the Internal Revenue Code



## State Income Tax Planning Strategies

- Relocate to a lower income tax state
- Establish non-grantor trusts in zero-income-tax states (e.g., DE, NV, WY)

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Source: AB

## Different Flavors of “Original Issuance”

Type	QSBS Qualification Test	Sell at Least 3 Years After
Stock Options	Upon date of exercise*	Date of exercise
Restricted Stock	Upon Section 83(b) election** or date of vesting	Date of Section 83(b) election or date of vesting
Restricted Stock Units (RSUs)	Upon date of vesting	Date of vesting
Convertible Preferred Stock	Upon date of preferred investment	Date of preferred investment
Convertible Debt	Upon date of conversion	Date of conversion

\*In the case of unvested options, company must allow early exercise. Taxpayer must make Section 83(b) election within 30 days after exercise. Incentive stock options (ISOs) must be converted to non-qualified stock options (NQSOs) to make Section 83(b) election available for regular income tax purposes.

\*\*Must elect within 30 days after restricted stock grant or option exercise into restricted stock

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Source: IRC § 1202

# Exchange Funds



## Pros

- Full value diversification
- Tax deferral on exchange
- Daily liquidity (not all funds)
- Annual withdrawals of contributed stock basis can provide tax-free income

## Cons

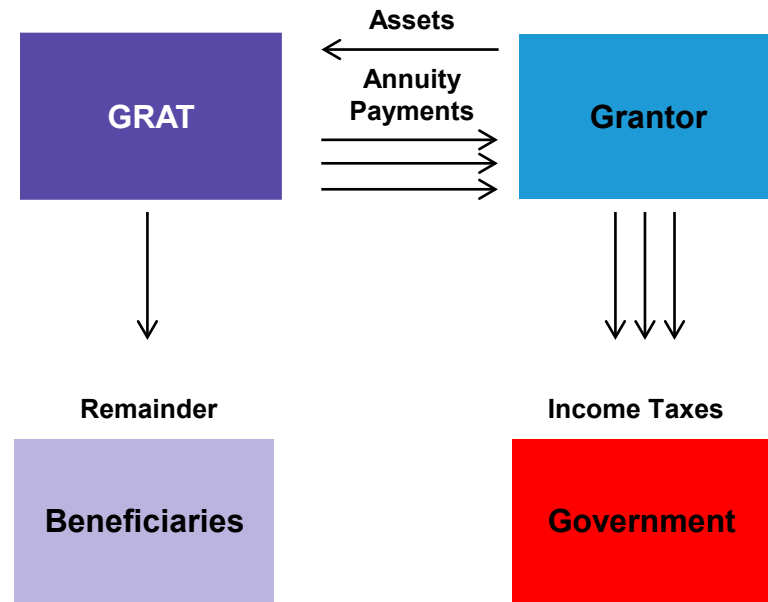
- Not all stock positions will be accepted
- >20% of portfolio is invested in illiquid assets—often real estate\*
- Little to no current income
- Investment returns vary widely
- Tax laws may change

\*Exchange funds typically borrow to finance this purchase. Refer to the fund's private placement memorandum for more information.

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Source: AB

# How a Grantor Remainder Annuity Trust (GRAT) Works



## Key points:

- Grantor transfers assets to GRAT
- Grantor receives tax-free annuity payments from trust during annuity term
- Grantor pays all income taxes on behalf of GRAT and its beneficiaries during annuity term
- If GRAT assets grow faster than Section 7520 rate, excess passes to beneficiaries at end of annuity term free of gift tax
- If properly structured, assets should avoid estate tax at Grantor's death

If Grantor fails to survive annuity term, full date-of-death value of GRAT assets may be subject to estate tax

\*If present value of annuity stream retained by grantor equals value of assets contributed to trust, Grantor makes no gift for gift tax purposes; GRAT is said to be "zeroed out," meaning that the transfer is not a gift for federal gift tax purposes.

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Source: AB

# Capital Markets Projections: Next 30 Years

	Median 30-Year Growth Rate	Mean Annual Return	Mean Annual Income	1-Year Volatility	30-Year Annual Equivalent Volatility
Municipal Cash	2.5%	2.7%	2.7%	0.4%	8.1%
Cash Equivalents	3.3%	3.6%	3.7%	0.5%	11.6%
Int.-Term Diversified Municipals	3.6%	3.8%	3.5%	4.9%	8.4%
Int.-Term Taxables	4.3%	4.7%	4.9%	5.9%	9.5%
Global Int. Taxable Bonds Hedged	4.1%	4.4%	4.6%	4.9%	9.7%
US Diversified	6.2%	7.9%	2.3%	19.2%	20.6%
US Value	6.4%	8.0%	2.5%	18.8%	20.2%
US Growth	5.9%	8.0%	2.0%	21.3%	22.0%
US SMID	6.2%	8.4%	2.0%	21.8%	22.8%
US Low Vol Equity	6.6%	7.7%	2.7%	17.0%	17.3%
Developed International	7.3%	9.4%	3.2%	21.1%	21.3%
Emerging Markets	7.6%	11.0%	3.7%	25.7%	21.1%
High-Risk Int'l	7.4%	10.5%	2.2%	25.9%	25.5%
Inflation	2.8%	3.3%	n/a	1.7%	12.2%

Based on 10,000 simulated trials each consisting of 30-year periods. Reflects AB's estimates and the capital market conditions as of June 30, 2025. For hedge fund asset classes, "Mean Annual Income" represents income and short-term capital gains. Does not represent any past performance and is not a guarantee of any future specific risk-levels or returns, or any specific range of risk-levels or returns.

# Projected Correlations

	Municipal Cash	Cash Equivalents	Int.-Term Diversified Municipals	Int.-Term Taxables	Global Int. Taxable Bonds Hedged	US Diversified	US Value	US Growth
Municipal Cash	1.00	0.83	-0.75	-0.58	-0.39	0.00	0.00	0.00
Cash Equivalents	0.83	1.00	-0.56	-0.65	-0.36	0.02	0.02	0.02
Int.-Term Diversified Municipals	-0.75	-0.56	1.00	0.68	0.56	0.01	0.00	0.02
Int.-Term Taxables	-0.58	-0.65	0.68	1.00	0.81	0.22	0.20	0.21
Global Int. Taxable Bonds Hedged	-0.39	-0.36	0.56	0.81	1.00	0.28	0.26	0.27
US Diversified	0.00	0.02	0.01	0.22	0.28	1.00	0.95	0.96
US Value	0.00	0.02	0.00	0.20	0.26	0.95	1.00	0.84
US Growth	0.00	0.02	0.02	0.21	0.27	0.96	0.84	1.00
US SMID	0.01	0.04	0.00	0.19	0.25	0.87	0.86	0.82
US Low Vol Equity	-0.04	-0.03	0.07	0.24	0.30	0.81	0.77	0.79
Developed International	-0.01	0.00	0.01	0.20	0.24	0.75	0.72	0.73
Emerging Markets	0.00	0.05	0.01	0.20	0.27	0.69	0.68	0.65
High-Risk Int'l	0.01	0.02	-0.01	0.17	0.21	0.66	0.61	0.65
Inflation	0.41	0.39	-0.39	-0.40	-0.42	-0.06	-0.07	-0.06

Based on the first year of each of 10,000 simulated trials. Reflects AB's estimates and the capital market conditions as of June 30, 2025. Does not represent any past performance and is not a guarantee of any future specific risk-levels or returns, or any specific range of risk-levels or returns.

# Projected Correlations

	US SMID	US Low Vol Equity	Developed International	Emerging Markets	High-Risk Int'l	Inflation
Municipal Cash	0.01	-0.04	-0.01	0.00	0.01	0.41
Cash Equivalents	0.04	-0.03	0.00	0.05	0.02	0.39
Int.-Term Diversified Municipals	0.00	0.07	0.01	0.01	-0.01	-0.39
Int.-Term Taxables	0.19	0.24	0.20	0.20	0.17	-0.40
Global Int. Taxable Bonds Hedged	0.25	0.30	0.24	0.27	0.21	-0.42
US Diversified	0.87	0.81	0.75	0.69	0.66	-0.06
US Value	0.86	0.77	0.72	0.68	0.61	-0.07
US Growth	0.82	0.79	0.73	0.65	0.65	-0.06
US SMID	1.00	0.71	0.66	0.74	0.72	-0.05
US Low Vol Equity	0.71	1.00	0.61	0.56	0.53	-0.09
Developed International	0.66	0.61	1.00	0.66	0.86	-0.04
Emerging Markets	0.74	0.56	0.66	1.00	0.71	-0.02
High-Risk Int'l	0.72	0.53	0.86	0.71	1.00	-0.02
Inflation	-0.05	-0.09	-0.04	-0.02	-0.02	1.00

Based on the first year of each of 10,000 simulated trials. Reflects AB's estimates and the capital market conditions as of June 30, 2025. Does not represent any past performance and is not a guarantee of any future specific risk-levels or returns, or any specific range of risk-levels or returns.

# Notes on Wealth Forecasting System

## 1. Purpose and Description of Wealth Forecasting System

AB's Wealth Forecasting Analysis is designed to assist investors in making their long-term investment decisions as to their allocation of investments among categories of financial assets. Our planning tool consists of a four-step process: (1) Client-Profile Input: the client's asset allocation, income, expenses, cash withdrawals, tax rate, risk-tolerance level, goals and other factors; (2) Client Scenarios: in effect, questions the client would like our guidance on, which may touch on issues such as when to retire, what his/her cash-flow stream is likely to be, whether his/her portfolio can beat inflation long-term, and how different asset allocations might impact his/her long-term security; (3) The Capital-Markets Engine: our proprietary model that uses our research and historical data to create a vast range of hypothetical market returns, which takes into account the linkages within and among the capital markets, as well as their unpredictability; and finally (4) A Probability Distribution of Outcomes: based on the assets invested pursuant to the stated asset allocation, 90% of the estimated ranges of probable returns and asset values the client could experience are represented within the range established by the 5th and 95th percentiles on "box-and-whiskers" graphs. However, outcomes outside this range are expected to occur 10% of the time; thus, the range does not guarantee results or establish the boundaries for all outcomes. Estimated market returns on bonds are derived taking into account yield and other criteria. An important assumption is that stocks will, over time, outperform long bonds by a reasonable amount, although this is in no way a certainty. Moreover, actual future results may not meet AB's estimates of the range of market returns, as these results are subject to a variety of economic, market and other variables. Accordingly, the analysis should not be construed as a promise of actual future results, the actual range of future results or the actual probability that these results will be realized. The information provided here is not intended for public use or distribution beyond our private meeting. Of course, no investment strategy or allocation can eliminate risk or guarantee returns.

## 2. Retirement Vehicles

Each retirement plan is modeled as one of the following vehicles: Traditional IRA, 401(k), 403(b), Keogh, or Roth IRA/401(k). One of the significant differences among these vehicle types is the date at which mandatory distributions commence. For traditional IRA vehicles, mandatory distributions are assumed to commence during the year in which the investor reaches the age of 72. For 401(k), 403(b), and Keogh vehicles, mandatory distributions are assumed to commence at the later of (i) the year in which the investor reaches the age of 72 or (ii) the year in which the investor retires. In the case of a married couple, the retirement accounts are assigned an owner and the dates are based on that owner's date of birth. The minimum mandatory withdrawal is estimated using the Minimum Distribution Incidental Benefit tables as published on [www.irs.gov](http://www.irs.gov). For Roth IRA/401(k) vehicles, there are no mandatory distributions. Distributions from Roth IRA/401(k) that exceed principal will be taxed and/or penalized if the distributed assets are less than five years old and the contributor is less than 59.5 years old. All Roth 401(k) plans will be rolled into a Roth IRA plan when the investor turns 59.5 years old to avoid Minimum Distribution requirements.

## 3. Rebalancing

Another important planning assumption is how the asset allocation varies over time. We attempt to model how the portfolio would actually be managed. Cash flows and cash generated from portfolio turnover are used to maintain the selected asset allocation between cash, bonds, stocks, REITs and hedge funds over the period of the analysis. Where this is not sufficient, an optimization program is run to trade off the mismatch between the actual allocation and targets against the cost of trading to rebalance. In general, the portfolio allocation will be maintained reasonably close to its target. In addition, in later years, there may be contention between the total relationship's allocation and those of the separate portfolios. For example, suppose an investor (in the top marginal federal tax bracket) begins with an asset mix consisting entirely of municipal bonds in his/her personal portfolio and entirely of stocks in his/her retirement portfolio. If personal assets are spent, the mix between stocks and bonds will be pulled away from targets. We put primary weight on maintaining the overall allocation near target, which may result in an allocation to taxable bonds in the retirement portfolio as the personal assets decrease in value relative to the retirement portfolio's value.

## 4. Expenses and Spending Plans (Withdrawals)

All results are generally shown after applicable taxes and after anticipated withdrawals and/or additions, unless otherwise noted. Liquidations may result in realized gains or losses, which will have capital-gains tax implications

# Notes on Wealth Forecasting System

## 5. Modeled Asset Classes

The following assets or indexes were used in this analysis to represent the various model classes:

Asset Class	Modeled as:	Annual Turnover Rate
Municipal Cash	Municipal money-market securities	100%
Cash Equivalents	3-month Treasury bills	100%
Intermediate-Term Diversified Municipals	AA-rated diversified municipal bonds of 7-year maturity	30%
Intermediate-Term Taxables	Taxable bonds with maturity of 7 years	30%
US Diversified	S & P 500 Index	15%
US Value	S & P/Barra Value Index	15%
US Growth	S & P/Barra Growth Index	15%
US Low Vol Equity	MSCI US Minimum Volatility Index	15%
Developed International	MSCI EAFE Unhedged	15%
Emerging Markets	MSCI Emerging Markets Index	20%
US SMID	Russell 2500	15%
High-Risk Intl	Country Fund	15%
Global Intermediate Taxable Bonds Hedged	7-year 50% Sovereign and 50% Investment Grade Corporate Debt of Developed Countries	30%

## 6. Volatility

Volatility is a measure of dispersion of expected returns around the average. The greater the volatility, the more likely it is that returns in any one period will be substantially above or below the expected result. The volatility for each asset class used in this analysis is listed on the Capital-Market Projections page at the end of these Notes. In general, two-thirds of the returns will be within one standard deviation. For example, assuming that stocks are expected to return 8.0% on a compounded basis and the volatility of returns on stocks is 17.0%, in any one year it is likely that two-thirds of the projected returns will be between (8.9)% and 28.8%. With intermediate government bonds, if the expected compound return is assumed to be 5.0% and the volatility is assumed to be 6.0%, two-thirds of the outcomes will typically be between (1.1)% and 11.5%. AB's forecast of volatility is based on historical data and incorporates AB's judgment that the volatility of fixed income assets is different for different time periods.

## 7. Technical Assumptions

AB's Wealth Forecasting System is based on a number of technical assumptions regarding the future behavior of financial markets. AB's Capital Markets Engine is the module responsible for creating simulations of returns in the capital markets. These simulations are based on inputs that summarize the current condition of the capital markets as of June 30, 2025. Therefore, the first 12-month period of simulated returns represents the period from June 30, 2025, through June 30, 2026, and not necessarily the calendar year of 2025. A description of these technical assumptions is available on request.

# Notes on Wealth Forecasting System

## 8. Tax Implication

Before making any asset allocation decisions, an investor should review with his/her tax advisor the tax liabilities incurred by the different investment alternatives presented herein including any capital gains that would be incurred as a result of liquidating all or part of his/her portfolio, retirement-plan distributions, investments in municipal or taxable bonds, etc. AB does not provide tax, legal, or accounting advice. In considering this material, you should discuss your individual circumstances with professionals in those areas before making any decisions.

## 9. Tax Rates

AB's Wealth Forecasting Analysis has used the following tax rates for this analysis:

Taxpayer	Start Year	End Year	Federal Income Tax Rate	Federal Capital Gains Tax Rate	State Income Tax Rate	State Capital Gains Tax Rate	Tax Method Type
Client	2025	2054	see below	see below	10.0%	10.0%	Top Marginal Rates

The federal income tax rate represents AB's estimate of either the top marginal tax bracket or an "average" rate calculated based upon the marginal rate schedule. The federal capital gains tax rate is represented by the lesser of the top marginal income tax bracket or the current cap on capital gains for an individual or corporation, as applicable.

Federal tax rates are blended with applicable state tax rates by including, among other things, federal deductions for state income and capital gains taxes. The state income tax rate represents AB's estimate of the 'average' rate calculated based upon the applicable state's marginal tax schedule. Where an applicable state tax code permits the exclusion of a portion of capital gain income from gross income for purposes of calculating state income tax such exclusions have been included in the calculation.

## 10. Taxable Trust

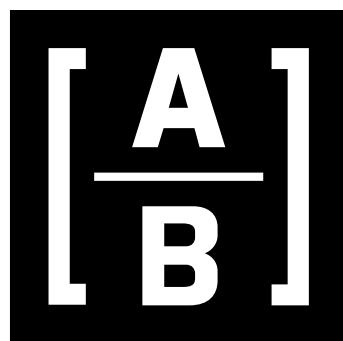
The Taxable Trust is modeled as an irrevocable tax-planning or estate-planning vehicle with one or more current beneficiaries and one or more remainder beneficiaries. Annual distributions to the current beneficiary may be structured in a number of different ways, including 1) an amount or a percentage of fiduciary accounting income (FAI) (which may be defined to include part or all of realized capital gains); 2) FAI plus some amount of principal, expressed as a percentage of trust assets or as an amount; 3) an annuity, or fixed dollar amount, which may be increased annually by inflation or by a fixed percentage; 4) a unitrust, or annual payment of a percentage of trust assets, based on the trust's value at the beginning of the year or averaged over multiple years; or 5) any combination of the above four payout methods. The annuity / fixed dollar amount payout method can be set to distribute a pretax or after-tax amount. After-tax amounts increase the distribution from the trust to achieve the specified amount after-taxes for the beneficiary. The other payout methods all allow for minimum and maximum parameters that also may be set as pretax or after-tax amounts. The trust will pay income taxes on retained income and will receive an income distribution deduction for income paid to the current beneficiaries. Capital gains may be taxed in one of three ways, as directed: 1) taxed entirely to the trust; 2) taxed to the current beneficiaries to the extent the distributions exceed traditional income; or 3) taxed to the current beneficiaries on a pro rata basis with traditional income.

## 11. Intentionally Defective Grantor Trusts (IDGTs)

The Intentionally Defective Grantor Trust (IDGT) is modeled as an irrevocable trust whose assets are treated as the grantor's for income tax purposes, but not for gift or estate tax purposes. Some income and transfer-tax consequences associated with transfers to and the operation of an IDGT remain uncertain, and the strategy may be subject to challenge by the IRS. Hence, this technique requires substantial guidance from tax and legal advisors. The grantor may give assets to the trust, which will require using gift tax exemptions or exclusions, or paying gift taxes. The IDGT is modeled with one or more current beneficiaries, and one or more remainder beneficiaries. Distributions to the current beneficiaries are not required, but the system permits the user to structure annual distributions in a number of different ways, including 1) an amount or a percentage of fiduciary accounting income (FAI) (which may be defined to include some or all realized capital gains); 2) FAI plus some principal, expressed either as a percentage of trust assets or as a dollar amount; 3) an annuity, or fixed dollar amount, which may be increased annually by inflation, or by a fixed percentage; 4) A unitrust, or annual payment of a percentage of trust assets, based on the trust's value at the beginning of the year, or average over multiple years; or 5) any combination of the above four payout methods. Because the IDGT is modeled as a grantor trust, the system calculates all taxes on income and realized capital gains that occur in the IDGT portfolio each year, based on the grantor's tax rates and other income, and pays them from the grantor's personal portfolio. The IDGT may continue for the duration of the analysis, or the trust assets may be distributed in cash or in kind at a specific point in time or periodically to (1) a non-modeled recipient, (2) a taxable trust, or (3) a taxable portfolio for someone other than the grantor. If applicable, an installment sale to an IDGT may be modeled as a user-entered initial 'seed' gift followed by a sale of additional assets to the trust. The system will use one of two methods to repay the value of the sale assets plus interest (less any user-specified discount to the grantor): 1) user-defined payback schedule, or 2) annual interest-only payments at the applicable federal rate (AFR) appropriate for the month of sale and the term of the installment note, with a balloon payment of principal plus any unpaid interest at the end of the specified term.

# Disclosures and Important Information

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