

INTEGRATION OF ESTATE AND INCOME TAX ISSUES IN SALE OF BUSINESS TRANSACTIONS

Advanced planning with IDGTs, BDITs, irrevocable trusts,
basis management, and Tennessee tax considerations

Presented by Bradley C. Sagraves, Esq.
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THE INTEGRATED PLANNING STANDARD

Plan before the deal
Coordinate both tax systems
Preserve family wealth

Introduction of Our Team

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What success looks like

INTEGRATE

Evaluate income, gift, estate, and GST tax consequences together.

TIME

Identify the planning window before a sale becomes practically certain.

COMPARE

Distinguish IDGT and BDIT structures, benefits, and tradeoffs.

EXECUTE

Build a coordinated pre-sale, closing, and post-sale checklist.

A sale is not only an income tax event

SALE TAX

Capital gain and
ordinary income

Depreciation
recapture

Installment and
earnout timing

TRANSFER TAX

Gift and estate tax

GST tax allocation

Valuation and
retained rights

FAMILY WEALTH

Basis and liquidity

Control and
governance

Asset protection
and legacy

****The objective is not the lowest single tax. It is the strongest combined after-tax result.****

The planning window narrows quickly



Planning principle

Complete ownership and trust planning early enough that the transfers have independent substance and are not merely assignments of sale proceeds.

Entity and deal form drive the tax result

C CORPORATION

Potential two-level tax in an asset sale; evaluate stock-sale and specialized exclusions.

S CORPORATION

Stock vs. asset sale; built-in gains history; election alternatives.

PARTNERSHIP / LLC

Outside vs. inside basis; hot assets; allocation and liability shifts.

SOLE PROPRIETORSHIP

Asset-by-asset character; recapture; goodwill and installment treatment.

Map the character before negotiating price

- Identify stock, partnership interest, or asset disposition
- Separate capital gain, ordinary income, and depreciation recapture
- Model goodwill, covenant, consulting, and employment allocations
- Evaluate installment payments, earnouts, escrows, and rollover equity
- Coordinate buyer and seller reporting, including purchase-price allocation

CHARACTER

TIMING

**BASIS
ALLOCATION**

What an irrevocable trust can accomplish

REMOVE

Shift future appreciation from the transferor's taxable estate.

PROTECT

Provide creditor and beneficiary protection under the governing instrument and law.

CONTROL

Define trusteeship, investment authority, distributions, and succession.

MULTIPLY

Create long-term family and GST planning opportunities.

**Critical design choices: grantor status | estate inclusion | powers of appointment
| trust situs | beneficiary access**

IDGT: transfer growth while the grantor pays the tax

1 Seed the trust

Support economic substance and liquidity

2 Sell business interest

Use a supported appraisal and bona fide note

3 Grantor pays income tax

Trust assets may compound without trust-level tax erosion

4 Retain the note

Freeze transferred value while excess growth remains in trust

Core tradeoff: estate exclusion can sacrifice a later basis adjustment if the transferred asset remains outside the gross estate.

BDIT: beneficiary grantor status with inherited trust design

STRUCTURE

A third party establishes and funds the trust. The beneficiary may hold powers intended to cause income-tax ownership without estate-tax ownership.

OBJECTIVES

Combine beneficiary access and management influence with asset protection, transfer-tax planning, and income-tax ownership.

SALE USE

The trust may acquire business interests from the beneficiary before a later third-party transaction, subject to timing, valuation, and debt-substance analysis.

IDGT and BDIT side by side

ISSUE	IDGT	BDIT
Income-tax owner	Transferor / grantor	Beneficiary
Initial trust creator	Business owner or transferor	Independent third party
Primary planning theme	Estate freeze and wealth shift	Beneficiary-controlled wealth platform
Sale to trust	Generally disregarded as to grantor	May be disregarded as to beneficiary
Key sensitivity	Basis step-up and grantor tax burden	Power design, estate inclusion, creditor rights

Estate exclusion versus basis adjustment

ESTATE TAX LENS

Move appreciation out early.

Leverage discounts and low interest rates.

Accept carryover basis if estate savings dominate.

INCOME TAX LENS

Preserve or restore estate inclusion when appropriate.

Swap high-basis assets for low-basis assets.

Model the basis benefit against estate exposure.

Do not optimize one tax in isolation.

Tools to revisit after the freeze

SUBSTITUTION

Swap assets of equivalent value when the trust instrument and facts permit.

GRANTOR STATUS

Evaluate whether and when grantor status should continue, terminate, or be toggled.

INCLUSION PLANNING

Consider carefully designed inclusion where basis benefit may exceed estate cost.

LIQUIDITY

Use note payments, insurance, and retained assets to fund tax and family needs.

Gift, sale, or coordinated transfer

GIFT

Uses exemption; removes future growth; carryover basis.

INSTALLMENT SALE

Freezes value in a note; requires valuation, credit support, and debt formalities.

PART GIFT / PART SALE

Combines seed capital with leverage; requires careful documentation.

Valuation is central: entity rights, control, marketability, transfer restrictions, and the anticipated transaction must be evaluated together.

Assignment of income and transaction certainty

-  **Binding obligation to sell**
-  **Board or shareholder approvals already complete**
-  **Buyer conditions largely ministerial**
-  **Trust receives cash instead of meaningful business risk**
-  **Documentation inconsistent with actual control**

State issues remain part of the closing plan

F&E TAX

Model entity-level consequences, nexus, and the Tennessee treatment of transaction gain.

SALES / USE TAX

Determine treatment of transferred tangible property and any applicable exclusions.

BUSINESS TAX

Address final returns, account closure, and transaction-related obligations.

SUCCESSOR LIABILITY

Use tax clearance, withholding, and closing protections appropriate to the transaction.

A coordinated IDGT and BDIT analysis

FACTS

Owner holds a highly appreciated closely held business.

A strategic sale is possible, but no binding agreement exists.

Family seeks access, protection, and multigenerational planning.

ALTERNATIVES

1. Retain and sell
2. Gift minority interest
3. Sell to IDGT
4. Use BDIT platform
5. Coordinate both structures

MODEL

Income tax at closing

Estate inclusion or exclusion

Basis at death

Note cash flow

Control, access, and risk

A four-phase planning process

1

DIAGNOSE

Entity, basis, value,
family goals

2

DESIGN

IDGT, BDIT, gift, sale,
or hybrid

3

IMPLEMENT

Trust, appraisal,
transfer, note,
governance

4

REASSESS

Sale terms, basis,
liquidity, post-sale
investments

The integrated transaction checklist

- ✓ Confirm ownership, basis, and tax classification
- ✓ Obtain defensible valuation and entity documents
- ✓ Model retained sale versus trust alternatives
- ✓ Complete trust design and transfer documentation
- ✓ Review assignment-of-income and step-transaction risk
- ✓ Coordinate purchase agreement, allocations, and elections
- ✓ Plan estimated taxes, liquidity, and note service
- ✓ Revisit basis and estate exposure after closing

The appraisal connects estate and income tax planning

ENTITY RIGHTS

Voting, distribution, redemption, and transfer provisions affect value.

DISCOUNTS

Lack of control and marketability require fact-specific support.

SALE EVIDENCE

Offers, negotiations, and transaction probability must be disclosed and evaluated.

DOCUMENTATION

Appraisal date, assumptions, projections, and governing documents must align.

A promissory note must operate like real debt

- Use an interest rate appropriate to the transaction and applicable federal rate framework
- Establish payment dates, maturity, security, and enforcement rights
- Demonstrate trust liquidity, seed capital, and repayment capacity
- Coordinate note cash flow with expected distributions and sale proceeds
- Document payments and administration consistently after closing

DEBT SUBSTANCE

**Capitalization
Terms
Security
Payments
Enforcement**

The grantor tax payment is part of the wealth shift

THE EFFECT

The grantor reports trust income for federal income-tax purposes while trust assets remain invested.

THE BENEFIT

Payment of the trust-related income tax can reduce the grantor's estate without reducing trust principal.

THE LIMIT

The grantor must retain sufficient liquidity and the plan should address an unsustainable tax burden.

Powers, access, and administration must work together

INCOME-TAX OWNERSHIP

Draft beneficiary powers intended to create grantor-trust treatment as to the beneficiary.

ESTATE TAX

Avoid powers or retained benefits that create unintended gross-estate inclusion.

ACCESS

Define distributions, trustee roles, and beneficiary participation without collapsing protection.

ADMINISTRATION

Observe separate accounts, records, fiduciary process, and transaction formalities.

A trust transfer changes the ownership table

VOTING

Who votes the transferred interest before a sale?

DISTRIBUTIONS

How are tax distributions and operating cash handled?

TRANSFER RESTRICTIONS

What consents, rights of first refusal, or buy-sell terms apply?

FIDUCIARY PROCESS

How will trustees evaluate and approve a third-party sale?

Prepare the trust-owned interest for buyer diligence

CAP TABLE

Reconcile legal ownership, percentages, options, and transferred interests.

AUTHORITY

Provide trust, trustee, and entity approvals required for the transaction.

TAX FORMS

Coordinate taxpayer identification, withholding certifications, and reporting roles.

PROCEEDS

Direct closing payments among owners, trusts, escrow, and note obligations.

Coordinate charitable objectives before the sale

CHARITABLE GIFT

A completed pre-sale charitable transfer may support philanthropic goals and shift the tax profile of the transferred interest.

TRUST COORDINATION

Charitable and family trust planning should be modeled together to avoid competing liquidity and control assumptions.

TIMING

Assignment-of-income analysis remains critical when a third-party transaction is developing.

The planning continues when the business becomes cash

- Reconcile closing proceeds, escrows, rollover equity, and purchase-price adjustments
- Track installment-note payments and trust distributions
- Invest trust liquidity under the governing standard and family objectives
- Review grantor tax burden, estimated payments, and liquidity reserves
- Reassess basis, estate exposure, insurance, and beneficiary planning

A successful pre-sale structure requires disciplined post-sale administration.

Match each planning benefit with its principal risk

APPRECIATION SHIFT

Valuation and assignment of income

INCOME-TAX DISREGARD

Grantor-status design and administration

BASIS PLANNING

Unintended estate inclusion or lost step-up

ASSET PROTECTION

Beneficiary control and creditor-rights law

INSTALLMENT LEVERAGE

Debt substance and repayment capacity

The transaction requires a single integrated workstream

OWNER / FAMILY

Goals, access, governance, and legacy

TRANSACTION COUNSEL

Deal terms, approvals, diligence, and closing

TAX / ESTATE COUNSEL

Structure, trusts, reporting, and doctrine

CPA / MODELER

Basis, projections, returns, and cash flow

VALUATION PROFESSIONAL

Appraisal, discounts, and transaction evidence

TRUSTEE / ADVISORS

Administration, investments, and beneficiary process

Key takeaways

PLAN EARLY

The strongest options usually exist before a sale is practically certain.

INTEGRATE

Income tax, estate tax, basis, liquidity, and control belong in one model.

CHOOSE PURPOSEFULLY

IDGTs and BDITs solve different ownership and access problems.



QUESTIONS & DISCUSSION

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