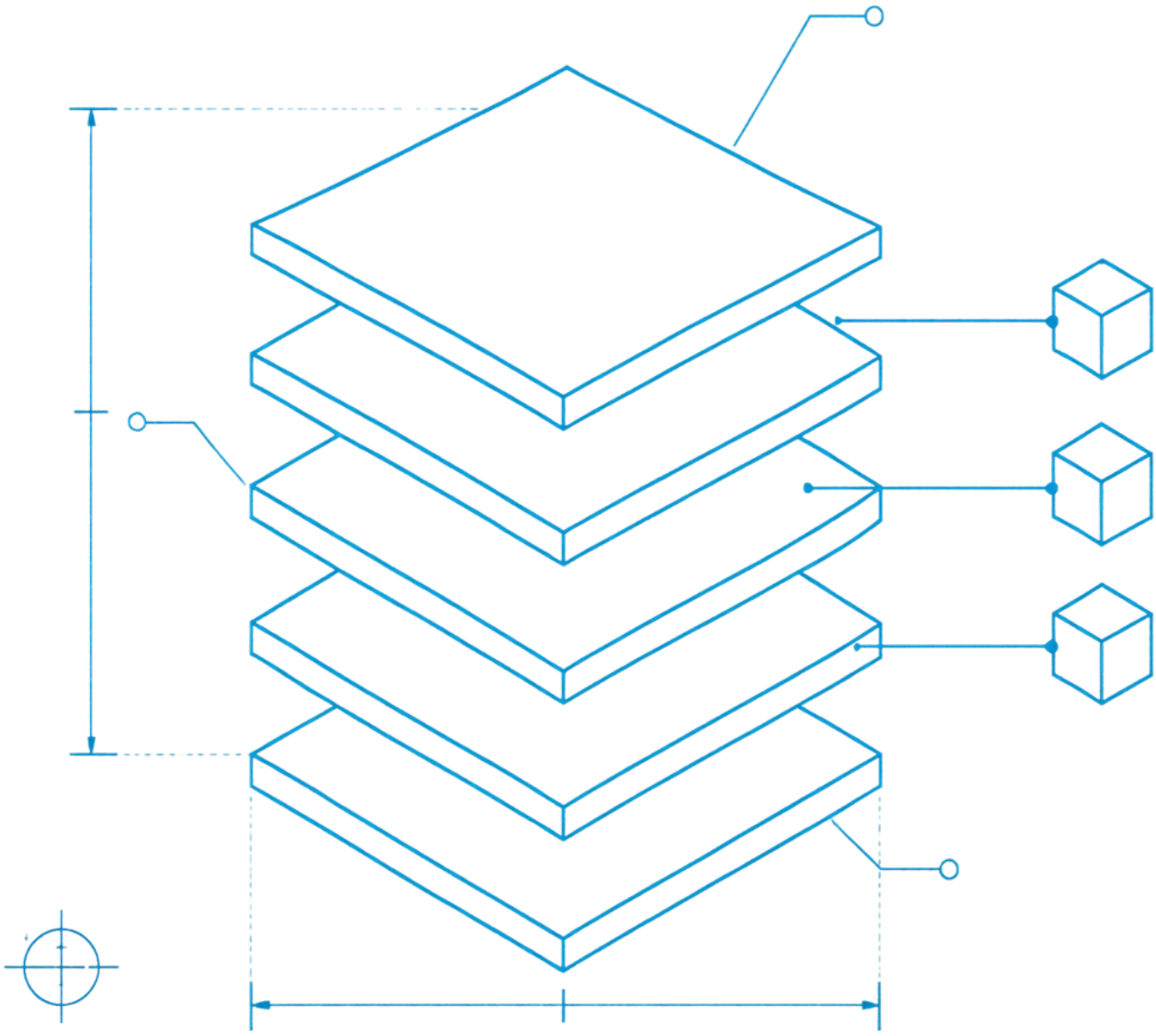
EYE
ENGINEERING YOUR EXIT

THE FOUNDER'S

TAX MITIGATION BLUEPRINT

Keeping more of what you've built when it matters most



ADVANCED TAX ARCHITECTURE FOR FOUNDER LIQUIDITY EVENTS

CENTRAL THESIS

Valuation is the headline. Retained capital is the outcome. Advanced tax planning should begin years before a liquidity event and integrate transaction structure, tax capacity, personal wealth architecture, implementation sequencing, documentation, and defensibility before an LOI narrows the available choices.

Purpose of this paper

This whitepaper converts the planning concepts in Secret #6 of Engineer Your Exit, the Founder's Tax Mitigation Blueprint, and the EYE planning workstreams into a disciplined founder-tax framework. It is intentionally strategy-aware but product-neutral: the objective is to identify where tax planning may create value, then subject each concept to taxpayer-specific technical, economic, implementation, reporting, and examination-readiness review.

IMPORTANT NOTICE

Educational and discussion material only. This paper is not tax, legal, accounting, investment, insurance, or financial advice; it is not a tax opinion; and it is not intended to be relied upon to avoid penalties. No strategy is appropriate for every taxpayer. Results depend on facts, current law, economics, implementation, documentation, and independent professional review.

EXECUTIVE SUMMARY | ENGINEER THE TAX OUTCOME BEFORE THE EXIT

Secret #6 identifies the central founder problem: a business owner can spend a decade or more building enterprise value and still allow tax planning to become a closing-stage exercise. By the time an LOI is signed or the transaction is substantially negotiated, strategies that depend on timing, independence, valuation, holding periods, residency facts, charitable intent, estate transfers, or installment-sale architecture may already be impaired or unavailable.

For a founder, the relevant metric is not purchasing price alone. It is retained capital: what remains after federal and state tax, transaction structure, recapture, liquidity constraints, implementation cost, investment risk, and the founder's post-exit objectives are considered together. Advanced planning therefore belongs inside transaction readiness, not at the end of it.

> **CHIEF TAX POSITION**
> Tax planning begins with facts, not products. Before a strategy is considered, the tax team should know the baseline liability, transaction form, income character, basis, tax capacity, liquidity requirement, timing, jurisdiction, business purpose, and the client's post-exit objectives.

The baseline model

- Transaction economics: enterprise value, equity value, inside and outside basis where relevant, expected closing date, stock versus asset sale, purchase-price allocation, rollover equity, earn-outs, escrows, seller financing, and contingent consideration.
- Tax exposure: capital gain and ordinary-income components, IRC Section 1411 where applicable, depreciation recapture, entity-level tax, state and local exposure, sourcing, residency, and transfer-tax considerations.
- Tax capacity: whether a projected deduction, loss, or credit can actually be used in the intended year after basis, at-risk, passive-activity, character, carryforward, and other limitations.
- Personal architecture: estate and gift objectives, charitable intent, liquidity needs, concentration risk, insurance design, family governance, and where post-exit assets will ultimately reside.

The three-to-five-year runway

The source material repeatedly uses a three-to-five-year horizon because planning quality depends on runway. QSBS files must be reconstructed before diligence. Residency changes need facts, not a mailing address. Presale transfers must precede a binding sale. Charitable and estate structures require valuation and assignment-of-income analysis. Installment structures require sequencing before constructive receipt. The earlier the tax team enters the process, the more choices remain available.

TRANSACTION READINESS | STRUCTURE BEFORE STRATEGY

Qualified Small Business Stock - IRC Section 1202

QSBS should be treated as a transaction-readiness workstream, not a closing checklist. Eligibility turns on the issuer, original issuance, gross assets, qualified trade or business activity, holding period, redemptions, reorganizations, and other statutory conditions. The Chief Tax file should preserve the evidence needed to support the position before the sale process begins.

- Maintain capitalization history, issuance documents, tax returns, gross-asset support, business-activity evidence, redemption history, reorganizations, acquisitions, and prior tax analyses.
- Evaluate Section 1045 where potentially applicable and coordinate any pre-sale gifting or trust planning with assignment-of-income principles and transaction status.

Entity architecture and functional separation

The EYE planning list includes "entity stacking." At a Chief Tax level, the better framing is functional separation supported by real business purpose. Operating activities, real estate, intellectual property, management services, investment assets, and family ownership may warrant different entities, but complexity without substance can increase state-tax, basis, related-party, step-transaction, assignment-of-income, and governance risk.

Location and residency planning

Location planning is evidentiary. Domicile, statutory residency, source rules, trust residency, entity nexus, and the jurisdictional treatment of intangible gain can all matter. A founder changing residence before a significant liquidity event should expect the jurisdiction losing revenue to examine the factual record. The tax file should be built as though that examination will occur.

Parallel personal planning and the asset map

Secret #6 makes an important point: business tax strategy and personal tax strategy are one strategy. The founder's post-exit asset map should show where proceeds are expected to land, why each "bucket" exists, its tax treatment, liquidity profile, control, investment risk, and the event that causes recognition, recapture, or distribution. This allows PPLI, taxable liquidity, charitable structures, trusts, installment receivables, and investment accounts to be evaluated as an integrated architecture rather than isolated ideas.

> **PLANNING DISCIPLINE**
> Do not create a tax story after the transaction. Build the facts, documents, economics, and implementation sequence that support the intended treatment before the transaction becomes binding.

THE FIVE CORE TOOLS IN SECRET #6

1. Transferable tax credits - IRC Section 6418

The supplied chapter presents transferable credits as a statutory mechanism that can allow eligible credits to be transferred for cash. The opportunity is not simply "buying tax at a discount." The tax team must verify the credit, the transferor's entitlement, registration and election requirements, project qualification, calculation, recapture exposure, seller representations, indemnification, insurance, documentation, and the transferee's ability to use the credit.

2. Private Placement Life Insurance (PPLI)

Secret #6 positions PPLI as an institutional or high-net-worth structure rather than a retail insurance product. Proper analysis includes policy qualification, funding, diversification, investor-control limitations, carrier strength, investment menu, fees, underwriting, liquidity, policy loans, estate coordination, and the consequences of a policy failing to perform or remain in force. The insurance wrapper should serve a genuine wealth-planning purpose.

3. Private equity convertible bond / loss structures

The source describes a convertible-bond interest in an entity that may pass through deductible losses. That description is a diligence starting point, not a return conclusion. The tax team should identify the legal form, actual economics, basis, debt, Section 465 exposure, Section 469 classification, partnership allocations where relevant, profit potential, valuation, counterparties, and the precise authority supporting the character and use of the claimed tax items.

4. Leveraged equipment leasing

The chapter describes equity plus financing used to acquire a larger equipment base, with depreciation potentially arising under Sections 168(k) and 179. The analysis must separately test ownership, qualified use, placed-in-service status, debt economics, depreciable basis, business purpose, Section 465 at-risk limits, Section 469, material participation, disposition, and recapture. A large deduction is not valuable if the taxpayer cannot lawfully use it.

5. Deferred Sales Trust / installment-sale structures

The supplied chapter anchors the concept in Section 453: the objective is deferral, not elimination, of gain. Review should address actual and constructive receipt, economic benefit, related-party rules, depreciation recapture, imputed interest, security arrangements, trustee or intermediary independence, note economics, step-transaction principles, liquidity, and the timing of buyer negotiations. Analyze the structure from the statute outward, not from a product label inward.

THE EYE STRATEGY UNIVERSE | OPPORTUNITY REQUIRES A DILIGENCE GATE

The Founder's Tax Mitigation Blueprint supplied for this project extends beyond the five tools in Secret #6. It identifies ARP, Capital Gains Deferral, EquipLease, EquiShare, Leveraged Charitable Deduction, Partnership Special Allocation, Small Advantage, and Transferable Tax Credits. Those descriptions identify planning concepts; they do not, by themselves, establish technical authority, client eligibility, deductibility, credit usability, or a supportable reporting position.

> **CHIEF TAX RULE**
> A strategy appearing in a marketing deck, book, or planning list is a diligence trigger - not a tax conclusion. Before it enters a client recommendation, reduce it to authority, facts, economics, tax capacity, implementation requirements, reporting, recapture/disallowance exposure, and exit mechanics.

STRATEGY	SUPPLIED CONCEPT	CHIEF TAX DILIGENCE FOCUS
ARP	Qualified-plan distribution / wealth concept.	Plan qualification; distribution mechanics; authority; actuarial/economic assumptions; fees; prohibited-transaction exposure; reporting; independent plan review.
Capital Gains Deferral	Sale to an intermediary trust facilitating a later sale.	Section 453; constructive receipt; intermediary independence; step transaction; note economics; liquidity; security; recapture; timing.
EquipLease / EquiShare / Small Advantage	Fractional equipment, motorhome, or portable-home acquisitions paired with financing and depreciation benefits.	Real ownership and business use; Sections 168/179; basis; debt; Sections 465/469; participation; disposition; recapture.
Leveraged Charitable Deduction	Charitable contribution combined with contractual or infrastructure economics.	Qualified organization; property/contract rights; valuation; substantiation; appraisal; quid-pro-quo concerns; economic substance; independent review.
Partnership Special Allocation	Series LLC interest with a stated Schedule K-1 loss concept.	Section 704 allocation economics; capital accounts; basis; debt; Sections 465/469; business purpose; substantial economic effect; reporting.
Transferable Tax Credits	Acquisition of transferable credits at a stated discount.	Section 6418 eligibility; registration/election; project diligence; documentation; credit usability; recapture; pricing; seller creditworthiness.

Additional EYE workstreams

The EYE planning list also includes ROBS, the Augusta Rule, short-term rentals with cost segregation, opportunity zones, exchange-fund comparisons, and GBX. Each should be developed as its own technical workstream. The supplied materials do not provide enough technical detail to state a tax conclusion for GBX; it should remain behind the diligence gate until the structure, legal documents, economics, and claimed tax treatment are identified.

DEPRECIATION, MATERIAL PARTICIPATION & TAX CAPACITY

EYE

Short-term rentals and cost segregation

Short-term-rental planning is often discussed as though a cost-segregation study automatically converts depreciation into a current offset against unrelated income. It does not. The analysis begins with the rental-activity classification rules, average customer-use period, taxpayer participation, grouping where applicable, depreciable basis, placed-in-service date, business use, at-risk amount, and recapture. Cost segregation accelerates the timing of depreciation; it does not override Section 469 or create basis.

Material participation is a factual conclusion

Secret #6 specifically emphasizes the need for real engagement and participation records in leveraged equipment structures. That principle applies more broadly. Material participation should be tested under the applicable regulatory standards using the taxpayer's actual conduct, not a year-end narrative constructed to reach a desired result.

> **EVIDENCE STANDARD**
> Hours should be supportable by calendars, communications, work product, meeting records, operational decisions, travel records, and other contemporaneous evidence. Material participation is established by conduct and evidence - not by a year-end label.

ROBS, Augusta Rule, opportunity zones and exchange funds

These EYE workstreams should not be collapsed into one "tax strategy" bucket. A ROBS structure implicates qualified-plan and prohibited-transaction concerns; an Augusta Rule analysis depends on actual rental use, fair-market rent, and substantiation; opportunity-zone planning requires vintage-specific statutory and fund-level review; and an exchange fund is fundamentally a diversification and liquidity structure rather than a direct substitute for an installment sale. Each requires its own eligibility, economics, reporting, and exit analysis.

Tax capacity must be modeled separately

A projected tax benefit is not the same thing as an available tax benefit. Before presenting a deduction, loss, or credit as economically meaningful, the tax team should model whether it can be used in the intended year and what happens if it is suspended, carried forward, recaptured, or otherwise deferred.

THE DEFENSIBILITY STANDARD | ECONOMIC SUBSTANCE & GOVERNANCE

Economic substance - IRC Section 7701(o)

Secret #6 makes economic substance a central guardrail. Where the doctrine is relevant, the transaction must meaningfully change the taxpayer's economic position apart from federal income-tax effects and reflect a substantial non-tax purpose. Technical form is not enough if the underlying economics, risk, return, and intent do not support the transaction.

The authority hierarchy

The tax team should distinguish primary authority from sales material. The analytical hierarchy should begin with the Internal Revenue Code, Treasury Regulations, published administrative guidance, and relevant judicial authority, then move to taxpayer-specific legal opinions, valuation work, and other professional analyses. Promoter materials and projections may explain a structure, but they do not substitute for authority.

The examination-ready file

FILE COMPONENT	WHAT IT SHOULD ESTABLISH
Authority	Code, regulations, published guidance, relevant case law, and material uncertainty.
Economics	Real capital, genuine risk, expected return, fees, financing, counterparties, and non-tax purpose.
Eligibility	Taxpayer-specific basis, holding period, participation, entity, income character, jurisdiction, and timing.
Execution	Contracts, elections, registrations, appraisals, substantiation, logs, closing sequence, and return reporting.
Exit / audit	Disposition and recapture, unwind mechanics, record retention, promoter dependencies, indemnities, and the position the team can defend years later.

Escalation triggers

- Tax benefits materially exceed real economic exposure, and the non-tax return is difficult to articulate.
- The promoter controls the opinion, appraisal, financing, entity, or reporting position with limited independent review.
- Participation, valuation, debt, basis, or business purpose is not supported by contemporaneous evidence.
- The transaction is already substantially negotiated or binding, yet the proposed strategy depends on earlier sequencing.
- The client is told the structure is "IRS approved," "audit proof," or guaranteed to produce a specific result.

PLANNING TIMELINE | WHAT MUST HAPPEN WHEN

The practical value of early planning is optionality. The following timeline converts the source material's three-to-five-year message into an operating sequence for the tax team.

WINDOW	TAX FUNCTION	PRIMARY RISK
5+ years / early optionality	Build multiyear projections; reconstruct QSBS file; review entity architecture; establish residency objectives; map estate/charitable goals; begin personal asset map.	Maximum flexibility; facts and track record can develop naturally.
3-5 years	Model likely exit forms; activate presale estate/charitable planning; evaluate PPLI and long-horizon structures; screen DST/installment viability; diligence credits and institutional strategies.	Implementation runway exists, but sequencing begins to matter.
12-24 months	Refresh valuation/basis; test buyer structure scenarios; document residency; finalize governance and ownership changes; stress-test liquidity and tax capacity.	Avoid changes that create transaction-readiness friction or assignment-of-income concerns.
Pre-LOI / active buyer discussions	Re-test QSBS; compare stock vs. asset economics; confirm installment/DST timing; lock down charitable/estate transfers already in process; prepare credit strategy if appropriate.	Some planning may already be narrowing; legal sequencing becomes critical.
Closing / filing	Validate executed documents, cash flows, elections, valuations, participation, basis, reporting positions, and disclosures.	No "papering over" facts after the transaction.
Post-close	Monitor installment payments, recapture, policy compliance, credit exposure, entity obligations, carryforwards, and audit file retention.	Planning becomes administration, reporting, and defense.

Exit 911 - when the transaction is already close

Secret #6 recognizes that a founder months from closing has fewer options, but not zero. Triage should model the actual deal scenarios; compare stock and asset treatment; quantify state exposure; verify QSBS; determine whether transferable credits are usable; evaluate whether installment treatment remains viable before constructive receipt; and identify planning that can still be completed without manufacturing facts after the transaction is effectively fixed.

> **EXIT 911 RULE**
> Late-stage planning should salvage lawful options that still exist. It should not attempt to recreate timing, intent, independence, participation, or business purpose after those facts have already been fixed.

ILLUSTRATIVE FOUNDER CASE STUDY | FROM PURCHASE PRICE TO RETAINED CAPITAL

The following is intentionally hypothetical. It illustrates the analytical sequence; it is not a projection, recommendation, or representation of expected tax savings.

Facts assumed for illustration

- Founder owns a closely held operating company and is considering a liquidity event in approximately three years.
- Illustrative enterprise value: $50 million. Actual equity value, tax basis, debt, transaction costs, purchase-price allocation, and state exposure are not assumed to be known.
- Founder wants meaningful post-close liquidity, diversification, family wealth planning, and flexibility for a second business venture.
- The company's stock, entity history, and operations require a fresh QSBS review; no eligibility conclusion is assumed.

Chief Tax workstream

STEP	ILLUSTRATIVE ANALYSIS
1. Baseline	**Model stock and asset-sale scenarios, ordinary vs. capital components, recapture, state sourcing/residency, rollover equity, earn-outs, and after-tax liquidity.**
2. Eligibility	**Reconstruct QSBS support; identify basis and tax attributes; determine passive/at-risk capacity; review ownership and entity history.**
3. Presale architecture	**Coordinate estate/charitable objectives, residency facts, entity changes, and any trust or transfer planning before a sale becomes binding.**
4. Strategy screen	**Evaluate Section 6418 credits, installment/DST concepts, PPLI, equipment/depreciation strategies, opportunity-zone exposure, and other EYE concepts only if facts and economics fit.**
5. Asset map	**Allocate expected proceeds among immediate liquidity, taxable investment assets, insurance/trust structures, charitable capital, installment receivables, and future-business capital.**
6. Validate and defend	**Before closing and filing, reconcile intended treatment to executed documents and preserve authority, valuations, calculations, elections, logs, agreements, and reporting rationale.**

WHAT THE CASE STUDY DEMONSTRATES

The tax answer is not "use every available strategy." The answer is to compare the baseline with a limited set of strategies that fit the founder's facts, economics, timing, liquidity, and risk tolerance - then implement only those that can be supported and administered.

IMPLEMENTATION, MONITORING & EXAMINATION READINESS

Implementation package

- Written fact pattern and assumptions, including unresolved facts and reliance on other professionals.
- Baseline-versus-strategy model showing tax timing, cash required, liquidity, fees, non-tax economics, and downside scenarios.
- Authority memorandum identifying the intended treatment, relevant limitations, uncertainty, and required disclosures or elections.
- Executed agreements, entity/trust/policy documents, registrations, valuations/appraisals, financing, substantiation, participation records, and proof of cash flows.
- Return-position package reconciling the implemented transaction to the reporting position and identifying who is responsible for each filing item.

Annual monitoring

Some strategies do not end when the transaction closes or the first return is filed. The tax team should identify ongoing conditions and assign responsibility for monitoring them. Depending on the structure, that can include participation, policy compliance, credit recapture exposure, installment payments, basis and at-risk changes, entity operations, state residency evidence, charitable substantiation, depreciation recapture, carryforwards, and disposition events.

Promoter and third-party strategy protocol

Where a third party originates a strategy, the tax team should separate explanation from verification. Obtain the full legal structure, contracts, tax opinion, financial model, financing terms, valuation methodology, fees, exit mechanics, reporting instructions, and identification of all related parties. Determine which professionals are independent, what assumptions drive the claimed benefit, what facts the client must satisfy, and who bears economic loss if the expected tax result is denied.

> **INDEPENDENCE STANDARD**
> A third-party opinion can be part of diligence. It should not replace the tax team's own understanding of the facts, authority, economics, implementation, and return position.

Professional standards

Advanced planning should be integrated with the standards governing the professionals who implement and report it. Circular 230 due diligence, applicable return-preparer standards, AICPA Statements on Standards for Tax Services where applicable, valuation and substantiation rules, and taxpayer recordkeeping should be treated as implementation requirements rather than post-closing cleanup.

THE EYE ADVANCED PLANNING PROCESS

A sophisticated tax department should be able to explain not only what a strategy is, but why it fits this taxpayer, why it fits now, how it interacts with the transaction, what can invalidate it, and what must be preserved for the return and a later examination.

STAGE	TAX FUNCTION	REQUIRED OUTPUT
01 Diagnose	Establish ownership, basis, entity history, income character, tax attributes, residency, estate plan, liquidity and expected transaction.	**Fact pattern + missing-data list.**
02 Model	Build the federal/state baseline and compare deal forms, timing, cash taxes, recapture and after-tax liquidity.	**Baseline vs. alternatives model.**
03 Screen	Test statutory eligibility, tax capacity, economics, liquidity, conflicts, timing, audit risk and client suitability.	**Go / no-go strategy matrix.**
04 Architect	Integrate transaction, income tax, estate, charitable, insurance, investment and entity planning.	**Coordinated asset map + implementation sequence.**
05 Implement	Complete entities, trusts, policies, registrations, valuations, elections, contracts and funding before critical deadlines.	**Execution checklist + accountable professionals.**
06 Validate	Re-test intended treatment against executed documents, actual cash flows, participation and current law.	**Pre-closing / pre-filing tax sign-off.**
07 Defend	Maintain authority, business purpose, economics, eligibility, substantiation and reporting rationale.	**Examination-ready permanent file.**

Questions every founder should ask before approving a strategy

- What Code or other authority supports the intended treatment, and what material uncertainty remains?
- What is the non-tax economic return, what capital is genuinely at risk, and what fees or financing drive the economics?
- What client-specific facts must remain true for the tax result to work?
- What causes suspension, recapture, disallowance, acceleration, or an unexpected taxable event?
- Who is providing the tax opinion, valuation, appraisal, financing, insurance, or legal documentation - and who is independent?
- Who will report the position on the return, what substantiation will they require, and what would we want in the file if the return is examined five years later?

EYE CALL TO ACTION

If a liquidity event is even a remote possibility within the next five years, commission the multiyear tax projection now. If an exit is probable within three years, move transaction form, QSBS, residency, estate/charitable planning, transferable-credit diligence, installment-sale analysis, and the post-exit asset map into active implementation review.

CONCLUSION

Retained capital is the measure that matters

The strongest founder tax plan is rarely one product, deduction, or year-end transaction. It is an integrated architecture built early enough to preserve optionality, modeled against the actual transaction, coordinated with the founder's personal wealth plan, and implemented with enough technical and evidentiary discipline to support the return position years later.

That is the role of the Chief Tax function in advanced planning: establish the baseline; identify the available planning lanes; reject strategies that do not fit the taxpayer; coordinate the strategies that do; control sequencing and implementation; monitor continuing obligations; and preserve the documentation necessary to explain the result to the client, the return preparer, outside counsel, and, if necessary, a taxing authority.

> **FINAL PRINCIPLE**
> Advanced tax planning is not measured by the size of the projected deduction. It is measured by the amount of legally supportable wealth retained after accounting for tax, economics, liquidity, implementation risk, and the taxpayer's ability to defend the position years after the transaction closes.

TAKE THE NEXT STEP

If you're interested in learning more about whether your current advisory relationship is still built for where your financial life is headed, or which advisory model could better coordinate your tax, estate, and investment strategy, book a 30-minute virtual meeting with our Founder and CEO of Strategic Wealth Partners, Mark Tepper.

▶ **Schedule your 30-minute conversation at EngYourExit.com .**

SOURCE FRAMEWORK & DISCLOSURE

Source framework

This whitepaper was developed from the materials supplied for the EYE project: Engineer Your Exit, Secret #6, "Start Your Tax Planning Early to Engineer an Optimal After-Tax Outcome" (supplied book PDF, pp. 115-129); the Founder's Tax Mitigation Blueprint; and the EYE planning workstreams provided for this assignment. Strategy names and descriptions drawn from those materials are presented as planning concepts for diligence, not as endorsements or tax conclusions.

Selected technical framework

IRC Sections 1202, 168(k), 179, 453, 465, 469, 6418, 6662, and 7701(o), together with applicable Treasury Regulations, published guidance, judicial authorities, state law, and professional standards. Current law and administrative guidance must be re-verified for the client's implementation and filing year.

Disclosure

This material is for educational and discussion purposes only and does not constitute tax, legal, accounting, investment, insurance, or financial advice. It does not create an attorney-client, accountant-client, fiduciary, or other professional relationship. No representation is made that any strategy will produce a particular result. Tax outcomes depend on individual facts, applicable law, economic substance, documentation, implementation, and subsequent events. Independent qualified tax and legal professionals should review any proposed strategy before implementation. References to third-party structures or commonly used strategy names are descriptive only and are not endorsements. This material is not intended or written to be used, and cannot be used, for the purpose of avoiding penalties under the Internal Revenue Code.