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Working with the Wealthy

Five Tax-Aware Questions to Ask Before Major Wealth Events

By: Holly Swan | March 20, 2024

Let's explore five open-ended questions you can ask clients undergoing major wealth events—such as an inheritance, business sale or large asset transfer. These questions allow for deeper discovery and can help you ensure their tax planning strategies and financial goals are aligned.

1. What are your objectives and goals? Your clients' answers will provide insight into their long-term plans, financial aspirations and desired outcomes for the wealth event. You can then work with their broader tax team to create a tailored tax planning strategy that meets their needs.

2. What's your understanding of how the funds will be taxed? How the proceeds are taxed largely depends on how the assets are received. For example:

- Business sales are typically subject to taxation as either ordinary income or capital gains, depending on how the sale is structured.
- Assets received through an inheritance generally receive a step-up in basis while assets received as gifts don't.
- Assets received in trust are taxed differently depending on how the trust is structured.

You can then help clients evaluate the impact on their overall financial situation and explore strategies to minimize the tax burden.

3. What are the timing and structure options you've considered?

Timing and structure play a significant role in tax planning for major wealth events and can help you identify potential tax advantages or disadvantages. For example, delaying a sale until the next tax year or structuring a transaction as a stock purchase rather than an asset purchase may result in substantial tax savings.

4. What estate planning considerations should we consider, if any?

Major wealth events often have implications for estate planning. By identifying any existing estate plans, you can help clients determine if updates or revisions are necessary and explore if advanced transfer strategies might help lessen estate tax consequences down the road. Collaborating with an estate planning attorney can ensure a comprehensive approach to tax planning and wealth transfer.

5. To what extent are you charitably inclined?

Charitable giving can be an effective tax planning strategy for transferring wealth while minimizing tax liabilities. Understanding clients' philanthropic goals can help identify tax-efficient ways to support causes they care about.

Bottom Line: Ask existing and prospective clients these five questions. Then you can partner with their broader tax team to tailor advanced planning strategies to help achieve objectives while minimizing tax liabilities.

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