

Coach's Corner

Our latest commentary to help you elevate the success of your practice

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Working with the Wealthy

Prepare Your Clients for What Happens After an IPO

By: Holly Swan | September 27, 2023

A common misperception about initial public offerings (IPOs) is that they are an immediate liquidity event for both the company and its shareholders. Yet, more often than not, shareholders can be subject to sale restrictions and holding periods, and, if they have the ability to liquidate, they may not plan to do so.

Demonstrate your value as an After-Tax Advisor to employees of pre-IPO companies by helping them understand the factors to consider for diversifying shares.

Terms of the IPO (sale restrictions and holding periods)

When a company undertakes an IPO, the underwriters will ask the company's existing larger stockholders to enter into lock-up agreements. This prevents large amounts of stock from being sold into the market following the IPO. The restriction typically lasts for 180 days and may be longer for employees in possession of material non-public information (MNPI). Employees who wish to diversify and are regularly in possession of MNPI may need your guidance in putting a 10b5-1 plan in place.

Monetization Options

While many senior employees may choose to hold shares for an extended period of time due to their confidence in the company, others may wish to start the diversification process sooner rather than later. Ask your client what their plans are for their shares in order to gauge their interest in monetization.

Tax-Efficient Options for Diversification

In the event clients do not liquidate shares immediately, this will give them additional time to plan for optimal tax outcomes.

- Tax-loss harvesting. Clients may want to build up losses over time to help partially offset the gains from any shares.
- Charitable giving. Planned giving vehicles, such as split-interest giving, may be an option for clients who are looking for cash flow from the stock in addition to tax minimization strategies.

Bottom line: Demonstrate your value as an After-Tax Advisor to employees of pre-IPO companies by helping them understand the factors to consider for diversifying shares.

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