

— *The window before a liquidity event*

Before the Bell Rings

The decisions you make in the months before a liquidity event determine how much of what you've built you actually keep. This is the window—and it closes quietly.

WHAT'S INSIDE

A map of the planning window ahead.

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Coordinating the team around one timeline



Introduction

The math is exciting. It's also terrifying.

You've been at this company long enough to remember when the equity felt like a lottery ticket. Now it feels real. The IPO is on the calendar, or close enough that your finance team is acting differently, and you've started doing the math in your head at odd hours.

Somewhere between the excitement and the bank account is a window of time measured in months, sometimes weeks, where the decisions you make will determine how much of what you've built you actually keep. In a very specific, legally time-sensitive, "once this moment passes, it's gone" way.

01 · THE LOCKUP PROBLEM

The taxes don't wait until the lockup ends.

Most IPOs impose lockup periods of 90 to 180 days after listing. What catches people off guard is the timing of the tax. If your RSUs vest around the IPO, the IRS treats their value as ordinary income on the day they vest, not the day you sell.

If you exercise options, the tax event happens at exercise. In both cases, a meaningful tax bill can come due while your shares are still locked. You may owe six figures (or more) on gains you have not yet been able to convert into cash.

THE RISK MOST PEOPLE MISS

The stock could decline between vesting and the day you're finally allowed to sell and you would still owe the tax calculated at the higher vesting date value. Planning for this liquidity gap, through deliberate cash reserves or a securities-backed line of credit, is one of the most practical things you can do before an IPO.

What you own and what it means for your taxes.

Before any planning can happen, you need to understand how your equity is classified, because each type is taxed differently.

Restricted Stock Units RSU

RSUs vest and are taxed as ordinary income at the time of vesting, based on the share price that day. You don't choose when the tax event occurs; it happens automatically.

Nonqualified Stock Options NSO

NSOs generate ordinary income equal to the difference between the strike price and market value at exercise. The timing of exercise is within your control, which creates planning opportunities.

Incentive Stock Options ISO

ISOs are treated more favorably under the regular tax code; exercising doesn't create ordinary income. But the spread between strike and fair market value is included in the Alternative Minimum Tax (AMT), which can produce a bill that feels like it came out of nowhere.

Qualified Small Business Stock QSBS

This is a category with significant tax benefits for founders and early employees who acquired shares in qualifying companies. The rules changed materially in July 2025 and those changes deserve their own section (see next page).

“The sequencing of any future sales needs to account for which shares are subject to which rules.”

03 · THE JULY 2025 CHANGE

QSBS: What changed and why it matters now.

Section 1202 lets eligible shareholders exclude a portion of their gains from federal tax when they sell qualifying stock. For years the rule was binary: hold for five years, or receive no benefit at all. The **One Big Beautiful Bill Act**, signed in July 2025, changed that. For shares acquired after July 4, 2025, the rules now work in tiers:

3 yrs HOLDING PERIOD 50% excluded From federal tax on qualifying stock ~15.9% EFFECTIVE FED RATE	4 yrs HOLDING PERIOD 75% excluded From federal tax on qualifying stock ~7.95% EFFECTIVE FED RATE	5+ yrs HOLDING PERIOD 100% excluded The full exclusion, federally tax-free 0% EFFECTIVE FED RATE
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The exclusion cap also rose from **\$10 million to \$15 million per taxpayer** for post-July 2025 shares (indexed for inflation beginning in 2027). For shares acquired on or before July 4, 2025, the original \$10 million cap and the strict five-year requirement still apply. Many people hold both, which is exactly why sale sequencing matters.

A STRATEGY WORTH UNDERSTANDING

QSBS exclusions are *per taxpayer*. Gifting qualifying shares to separate non-grantor trusts for family members can allow each trust to claim its own exclusion up to \$15 million of excludable gain per trust for post-July 2025 stock. For a founder with a very large position, this can produce a far larger aggregate exclusion than any single taxpayer could capture alone.

04 · THE STRATEGY IN THE TIMING

Exercising early: the clock starts now.

One of the most effective things an option holder can do before an IPO is exercise options while the company's 409A valuation is still low. The 409A is the appraised value of a share of common stock, and while the company is private, it's typically a fraction of what the stock will be worth if the company goes public.

Exercising early locks in a smaller spread between strike price and market value, reducing both ordinary income and AMT. It starts the capital gains holding clock, which determines whether future profits are taxed at the lower long-term rate.

And for QSBS-qualifying shares, the holding period begins, setting which exclusion tier applies. For ISO holders, staging exercises across multiple tax years is often the right approach to avoid triggering a large AMT liability.

THE 30-DAY DEADLINE

For unvested shares exercised early, an **83(b) election** is typically filed alongside the exercise, telling the IRS to recognize income now at the low value rather than later at vesting. It carries a hard **30-day filing deadline** from the date of exercise. Missing it eliminates the benefit entirely.

A hypothetical (to illustrate the stakes)

An early founder holds **5 million pre-IPO shares** acquired at a \$1 per-share 409A valuation. The company later lists at **\$20 per share**. The founder now faces ordinary income or AMT exposure on exercises, a concentrated and largely illiquid position, and an estate that could substantially exceed the \$15 million federal exemption. The planning that could have addressed all three had a window. It closed as the valuation rose.

A NOTE ON SALT

The 2025 legislation raised the state & local tax deduction limit to \$40,400 for most 2026 filers. For high earners, the benefit phases out starting at \$500,000 in modified AGI and reaches a \$10,000 floor around \$600,000, making multi-state and entity-level planning relevant regardless.

Estate planning is a race against your own growth.

Most people think of estate planning as something to address *after* a liquidity event, once they know what they have. For pre-IPO equity, that instinct works against you.

\$15M

Federal estate & gift exemption per person, indexed for inflation

\$30M

Combined exemption for a married couple

40%

Federal estate tax on amounts above the exemption

That exemption is the amount a founder’s pre-IPO position can *exceed* between today and the IPO date. Every dollar of appreciation that occurs while shares are still in your name is appreciation that could face the 40% estate tax if the full position passes to heirs above the exemption.

“The goal is to move shares—or at minimum, the right to future appreciation—out of your estate before that growth occurs.”

Revocable Trusts & Foundational Documents

Essential infrastructure at this stage. A revocable trust keeps equity out of probate, gives you control if you become incapacitated, and creates a cleaner transfer path. Wills, powers of attorney, and healthcare directives belong in the same category.

Outright Gifts of Pre-IPO Shares

Use the lifetime gift tax exemption while the 409A is still low, moving all subsequent appreciation outside the taxable estate. Minority interest and lack-of-marketability discounts may further stretch the exemption’s reach.

05 · STRUCTURES THAT TRANSFER GROWTH

Building wealth designed to outlast a single generation.

Irrevocable Grantor Trusts IDGT · DYNASTY

These trusts allow shares to grow for the benefit of family or future generations outside the taxable estate, while the grantor continues to pay the income taxes on any gains. That ongoing tax payment is itself an additional transfer of wealth out of the estate without using any gift tax exemption. GST-exempt allocations extend the benefit across generations.

Grantor Retained Annuity Trusts GRAT

Particularly well-suited to volatile, fast-appreciating stock, a GRAT is funded with shares, pays the grantor an annuity for a set term, and passes any appreciation above a modest threshold rate to beneficiaries with minimal gift tax cost. For pre-IPO or newly public stock with significant upside, GRATs can efficiently transfer substantial value out of the estate.

FREEZING THE ESTATE

Sales to grantor trusts allow a founder or key employee to freeze the taxable estate at a fixed note value while all future appreciation builds inside the trust.

A NOTE FOR NEW YORK FILERS

New York maintains its own estate tax regime with a lower exemption than the federal level. State-level exposure needs to be planned for separately.

Why the timing and the vehicle both matter.

In 2026, two changes make timing and method more consequential than ever. Itemized charitable deductions are now subject to a **0.5% AGI floor**. For a founder with \$2M of income in an IPO year, the first \$10,000 of giving produces no deduction at all. Separately, for those in the 37% bracket, the benefit of itemized deductions is capped at **35 cents per dollar**. This rewards concentrated giving in high-income years.

Donor-Advised Funds DAF

Contributing a large block of appreciated shares in a high-income year generates a fair market value deduction, avoids capital gains on the donated shares entirely, and clears the 0.5% floor in a single transaction. Distributions to charities can be made over time; the tax benefit is captured in the contribution year.

Charitable Remainder Trusts CRT

CRTs allow appreciated stock to be contributed, sold inside the trust without triggering immediate capital gains, and paid out as income over a period of years. The remainder passes to charity at the end of the term; useful for those who want consistent income spread over time rather than a single taxable sale.

Private Foundations

Offering the most control of any charitable structure, a foundation can employ family members in a governance capacity, create a multi-generational philanthropic identity, and give the founder authority over grant decisions for decades. Deduction limits are lower than for a DAF and net investment income is subject to an excise tax; but for very large events, the governance and legacy benefits can outweigh those costs.

THE THROUGH LINE

In most cases, the most tax-efficient approach is to align a major charitable contribution with the highest-income year resulting from the liquidity event, and to plan that timing in advance rather than after the fact.

After the lockup: the instinct to hold.

The lockup expires and, for the first time, you can convert paper wealth into something real. The instinct for many is to wait; selling feels like a lack of faith in the company. That instinct is understandable. It has also cost people a great deal of money. Concentration in a single stock carries a risk profile no diversified portfolio carries. The question isn't whether to diversify, but *how*.

10b5-1 Sale Programs

The standard tool for corporate insiders selling stock in a public company, a 10b5-1 is a pre-established, formulaic selling schedule that operates independently of any concerns about trading on non-public information. Under SEC rules effective in 2023, directors and officers must observe a cooling-off period of at least **90 days** after adopting a plan (up to 120 days depending on earnings timing). For key employees who are not Section 16 officers, a **30-day** cooling-off period applies.

THE PRACTICAL IMPLICATION

These plans need to be established *well before* lockup expiration. Waiting until the lockup lifts to begin means weeks or months of additional delay before a single share can be sold.

Entity-Level Structures

LLCs and family limited partnerships can serve both asset-protection and estate-planning functions for the concentrated post-IPO position. For those thinking about the next generation, trust design matters here too; age- or milestone-based distribution provisions, co-trustee arrangements, and clear investment guidelines help ensure inherited positions are managed responsibly rather than liquidated under pressure.

One model. One timeline. One coordinating advisor.

The complexity in this guide doesn't resolve through a single conversation. Estate attorneys, tax advisors, financial planners, and corporate counsel all need to work from the same model and timeline. The gaps between them are where the costliest mistakes occur. **Next Capital's role is to coordinate that team:** the integrating advisor keeping the tax plan, gifting strategy, post-IPO sale schedule, and long-term investment plan working toward the same goals.



Next Vantage is an extension of Next Capital and built for this exact moment—an institutional process applied to a deeply personal set of decisions, brought to the pre-IPO window where timing is everything.

YOUR STARTING SEQUENCE

- 01 Identify your equity types and confirm your QSBS status including which shares fall under the pre- and post-OBBA rules.
- 02 Model your tax and AMT exposure across multiple liquidity scenarios, including the worst case.
- 03 Implement gifting or trust structures before a targeted valuation milestone. Appreciation already occurred cannot be transferred retroactively.
- 04 Layer in GRATs or grantor trust sales for additional upside transfer.
- 05 Establish your charitable strategy for the high-income year, aligned with the 0.5% AGI floor.
- 06 Set up a 10b5-1 plan well in advance of lockup expiration, accounting for the cooling-off period.

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Next Capital Management

Eleven Times Square, 15th Floor
New York, NY 10036
(212) 433-1111 · Fax (212) 382-2080
info@nextcapitalmgmt.com

nextcapitalmgmt.com

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