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Strategic Tax Planning in a Down Market: Turning Volatility into Long-Term Leverage

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Sharp declines in the equity markets often create anxiety and uncertainty, but for families with significant wealth, they can also present a rare opportunity to execute sophisticated planning strategies with amplified impact. Lower valuations, combined with historically high exemption amounts and an approaching legislative sunset, create a confluence of factors that make now an ideal time to take strategic action. For ultra-high-net-worth families, there are two primary areas of focus during market dislocations: maximizing the efficiency of lifetime gifting and deploying investment-related strategies that reduce future tax burdens.

From a wealth transfer perspective, a declining market opens the door to enhanced gifting. When asset values are temporarily depressed, families can transfer significantly more shares or units without increasing their use of exemption. This magnifies the long-term benefit of the gift by allowing the subsequent market recovery to occur outside the taxable estate. Given that the estate and gift tax exemption is scheduled to drop by roughly half at the end of 2025, this is not simply a tactical opportunity—it's a structural one, with the potential to lock in planning benefits that may never be available again.

While direct gifts of securities or partnership interests can be impactful, the benefit can be further enhanced by using irrevocable trusts. Strategies such as spousal lifetime access trusts (SLATs) and intentionally defective grantor trusts (IDGTs) allow for the transfer of depressed assets in a manner that freezes future appreciation, removes the asset from the estate, and—when structured properly—provides flexibility around access and control. Funding these trusts during a market downturn allows families to shift more equity at a lower transfer cost and positions the trust for long-term compounding without additional estate tax drag. With SLATs, spouses can retain indirect access to the assets, offering liquidity and adaptability even as the assets move outside the estate. With IDGTs, income taxes are paid by the grantor, allowing the trust to grow unimpeded and effectively enabling further wealth transfer through the tax "burn."

By contrast, grantor retained annuity trusts (GRATs) aim to transfer asset appreciation with little or no use of the gift or estate tax exemption. While SLATs and IDGTs focus on using the lifetime exemption, GRATs instead capture any growth above the IRS Section 7520 rate, passing that excess value to heirs free of gift tax.

The grantor receives fixed annuity payments over a set term; at the end of that term, any appreciation above the Section 7520 rate goes to beneficiaries tax-free. This strategy works especially well when an asset is expected to rebound strongly over a short-to-medium time frame—such as after a market correction—because that rebound can be efficiently captured. However, GRATs offer little benefit if the asset's value does not recover, so choosing the right asset and timing the contribution carefully are crucial for success.

In parallel with gifting strategies, market volatility also creates an opening for tactical investment-related tax planning. Tax-loss harvesting becomes a high-value exercise in this environment, allowing families to recognize capital losses that can offset realized gains elsewhere in the portfolio or from other income-generating transactions such as the sale of a business or real estate. These losses can be banked for future use or applied against current gains; in addition, up to $3,000 of excess capital losses can serve as an income tax deduction each year. When executed thoughtfully, loss harvesting also offers an opportunity for portfolio repositioning—enabling a shift toward a more strategic asset allocation while mitigating tax consequences.

Periods of dislocation likewise present an opportune moment to address concentrated stock positions, a common dynamic among ultra-high-net-worth families. Legacy holdings, pre-liquidity equity, or large single-stock positions create disproportionate risk, and the tax impact of diversifying often deters action. In a down market, however, trimming these positions becomes more efficient. Harvested losses elsewhere in the portfolio can offset gains, reducing the net tax impact of diversification. Beyond the arithmetic, having a long-term plan in place for systematically reducing concentration brings discipline to what is often an emotionally complex decision.

Roth conversions represent another compelling strategy during market downturns. Converting assets from a traditional IRA to a Roth IRA when valuations are low results in a lower tax bill on the conversion itself, while positioning the assets for tax-free growth as the market recovers. For families focused on multi-generational planning, this can be a valuable way to lock in long-term tax efficiency—especially in light of the post-SECURE Act framework, where inherited IRAs must be fully distributed within ten years. Roth assets passed to heirs continue to enjoy tax-free growth and can be distributed with far greater flexibility than traditional retirement assets. Since recharacterizations are no longer permitted, careful coordination with a CPA and advisory team is essential to determine the right conversion amount relative to one's income and tax bracket targets.

For charitably minded investors who like the idea of giving cash, there remain opportunities to support the charitable organizations they care about during a down market. If you have stock trading at a loss and plan to sell, consider donating the cash proceeds, since any deduction for donating the shares directly would be limited to the lesser of cost basis or fair market value. If you continue to hold assets with significant appreciation—even after months of market volatility—donating some of your portfolio gains can help avoid capital gains tax while offsetting earned income. Needs may be higher, and the impact of giving is often greatest during unpredictable market cycles. This moment can also prompt a values-alignment conversation within the family to reaffirm philanthropic goals, review budgets, and address any emotional or ideological tensions.

Executing these strategies during a downturn requires conviction, coordination, proactive family communication, and a long view. Yet the rewards for those who act can be substantial: greater wealth preserved for future generations, a more tax-efficient investment structure, and a durable estate plan that takes advantage of opportunities many investors overlook. Market volatility isn't simply something to endure. For families who plan intentionally, it's a chance to reallocate, restructure, and reaffirm a long-term strategy using tools that prove most powerful when markets are under pressure.

If you're evaluating how best to position your estate and portfolio amid today's volatility, now is the time to act. Work closely with your advisory team—financial, legal, and tax professionals—to ensure you're maximizing this window of opportunity. These periods don't last forever, but the benefits, if seized, can compound for decades.

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