



Sentinel Trust
Together, families prosperSM

OnWatch



Aligning Insurance with **COMPLEX WEALTH**

Property and casualty insurance is often approached as a collection of individual policies, including homeowners, umbrella, auto, and a handful of specialty coverages. For many families, that approach works well early on. Over time, however, as wealth becomes more complex, that structure may no longer be sufficient.

In our experience, issues are rarely the result of too little coverage. More often, the challenge is that existing coverage no longer reflects how a family actually owns and manages its assets. As families introduce trusts, closely held entities, and properties across multiple jurisdictions, their insurance programs must evolve alongside them. When they do not, gaps can emerge that are not immediately visible.



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About Sentinel Trust Company

Sentinel Trust Company, LBA is an independent wealth management firm and multi-family office that provides comprehensive wealth and succession planning, fiduciary, investment management, philanthropic, and family office services to a select group of affluent families and their closely held entities and foundations. Founded in 1997 as the successor to two 40-plus-year-old single-family offices, Sentinel Trust currently serves more than 40 multi-generational families nationwide and is responsible for approximately \$7 billion in assets as of December 31, 2024.



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Below are several common issues we see:

- ▶ **Misalignment between ownership and insurance.** Families often hold real estate, aircraft, or other significant assets in LLCs or trusts for liability protection and estate planning. However, the related insurance policies may remain in an individual's name, may not reflect the current ownership structure, or may fail to include the appropriate entities as additional insureds. This disconnect can create uncertainty around coverage and, in some cases, affect how claims are handled.
- ▶ **Coverage that has not kept pace with asset complexity.** As balance sheets grow, insurance programs do not always keep up. We frequently see umbrella liability limits that are low relative to overall net worth. Real estate may also be insured based on outdated replacement cost estimates, particularly for custom or high-end homes where construction costs have increased materially.
- ▶ **Fine art, jewelry, and collectibles not properly scheduled.** These assets are often covered under blanket provisions rather than being appraised and scheduled individually. Blanket coverage may be subject to sublimits or exclusions, resulting in a lower recovery than expected. Scheduling high value items individually can provide more precise coverage and agreed values.
- ▶ **Fragmented programs across multiple properties and jurisdictions.** Families with homes in multiple states often accumulate policies over time across different carriers and advisors. This can result in inconsistent liability limits, varying deductibles, and gaps in catastrophe protection such as flood, wind, or wildfire.
- ▶ **Deductible structures that are not fully understood.** In higher risk regions, percentage-based deductibles tied to insured value are increasingly common. For

high value homes, this can translate into significant out of pocket exposure, even for partial losses. In addition, deductibles can vary by peril, meaning a loss from water, wind, or wildfire may trigger very different financial outcomes than expected.

- ▶ **Overlooked lifestyle exposures.** Domestic staff, including drivers, nannies, and property managers, may introduce liability considerations that are not fully covered. Workers' compensation coverage is often overlooked or inconsistently applied, particularly across multiple properties.

These issues typically develop gradually as assets are acquired, entities are formed, and family structures evolve. Insurance programs are not always revisited with the same level of coordination.

A More Integrated Approach

In today's environment, insurance is most effective when managed alongside the broader legal, investment, and governance structures of the family. As new entities are formed, trusts are funded, properties are acquired, or liquidity events occur, insurance should be reviewed to ensure it aligns with how assets are owned and managed.

Regular reviews are particularly important when a meaningful life event occurs, such as marriage, divorce, the birth of a child, retirement, a liquidity event, or a significant asset purchase like a second home or boat.

At Sentinel, we work with clients to facilitate these reviews and coordinate with insurance brokers to ensure that coverage remains aligned with the family's evolving structure. Over time, this integrated approach can help reduce the risk of unexpected gaps and provide greater confidence that coverage will respond as intended. ■

Pre-Liquidity Event Planning:

WHAT TO DO BEFORE THE DEAL CLOSES



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Business owners approaching a liquidity event face one of the most consequential financial moments of their lives. The proceeds from a transaction can represent decades of work, and the decisions made leading up to a liquidity event will directly impact how much value your family retains. Below is a high-level overview of four critical planning strategies that must be addressed before the transaction closes: earnout structuring, charitable giving, estate planning, and entity/ownership review.

Earnout Structuring: Ordinary Income vs. Capital Gains

Many business sale transactions include an earnout, a portion of the purchase price that is paid to the seller over time based on the future performance of the business. While earnouts are a common deal feature, the tax treatment of those future payments is often overlooked during negotiations. The difference between ordinary income tax treatment and long-term capital gains treatment can be substantial.

In 2026, the top federal ordinary income tax rate is 37%, while the top long-term capital gains rate is 20%. Whether an earnout qualifies for capital gains treatment depends on how it is structured and documented in the deal agreement not on what happens after closing. The following example illustrates the magnitude of this difference.

Assume a business owner negotiates a \$10 million earnout as part of a sale. If the earnout is characterized as ordinary income, the federal tax on that amount could be approximately \$3,700,000 at the top income tax rate. If the earnout qualifies for long-term capital gains treatment, the income tax would be approximately \$2,000,000 potential income tax savings of \$1,700,000. The characterization must be addressed in the deal documents before you sign. Once the agreement is executed, the opportunity to change the tax treatment of the earnout is substantially diminished.

It is important to engage your tax and legal advisors early in the transaction process so that earnout provisions can be reviewed and structured with tax efficiency in mind.

Charitable Giving: Eliminate Gains and Offset Income

A liquidity event often creates the highest-income year most business owners will experience. The significant income

creates an opportunity to make charitable gifts in a tax-efficient manner but only if those gifts are made before there is a signed Letter of Intent (LOI).

When appreciated business interests are donated to a qualifying charitable vehicle prior to the LOI, two significant tax benefits are realized:

1. The capital gains tax on the donated shares is eliminated. Because the shares are gifted rather than sold, no gain is recognized on the transfer.
2. The donor receives a charitable deduction equal to the fair market value of the donated interest, which offsets income in the transaction year if timed correctly.

Qualifying vehicles for this type of giving include a Donor Advised Fund (DAF), a Charitable Remainder Trust (CRT), or a private foundation. The following example illustrates the potential benefit.

Assume a business owner wishes to donate \$1,000,000 of appreciated company stock with a cost basis of \$100,000. If the stock is donated to a DAF before there is an executed LOI, the \$900,000 of embedded gain is eliminated. The owner also receives a \$1,000,000 charitable deduction in the year of the gift reducing taxable income. If the same \$1,000,000 gift is made post-closing with cash from the sale of the stock, the owner will pay capital gains tax on the \$900,000 embedded gain. The business owner can still claim a \$1,000,000 charitable deduction but missed out on an opportunity to eliminate income tax on the embedded gain, reducing the tax efficiency of the donation.

The timing of charitable giving relative to an executed LOI can result in meaningful tax savings, depending on the size of the gift, the embedded gain in the donated stock, and the owner's specific tax situation.

Estate Planning: Transfer Wealth at Lower Values

The period before the LOI is executed is one of the few times in a business owner's life when transferring interests to the next generation can be accomplished at a significantly reduced transfer tax cost. The reason is straightforward: your business interest is worth less before the LOI is executed than it will be at after signing, and the difference can be substantial.

Gifts and transfers made before an LOI use valuations which are generally lower and may also support valuation

discounts for lack of marketability or lack of control. Once there are signed documents with a willing buyer, those valuation advantages disappear. Several estate planning structures are particularly well-suited for pre-close transfers, including:

1. Grantor Retained Annuity Trusts (GRATs), which allow a business owner to transfer future appreciation out of their estate with little or no gift tax cost.
2. Irrevocable trusts, which remove transferred assets, and all future growth on those assets, from the taxable estate.
3. Family Limited Partnerships (FLPs) or Family Limited Liability Companies (FLLCs), which can consolidate business interests and support valuation discounts on transferred interests.

The following example illustrates the benefit of acting before there is an LOI. Assume a business owner's company is worth \$10,000,000 today and the owner believes the value will be \$18,000,000 in twelve months. A gift of a 10% interest today uses a \$1,000,000 valuation (potentially further discounted). The same transfer made in twelve months would be valued at \$1,800,000, an additional \$800,000 use of their lifetime gifting exemption. If the business passes with a taxable estate, the \$800,000 reduction in their lifetime exemption can result in \$320,000 of future estate tax by delaying the gift.

Pre-close estate planning requires sufficient lead time and coordination between your estate planning attorney, CPA, and financial advisor. It is best to begin this review before a transaction begins to take shape.

Entity and Ownership Review: Confirm Your Structure Before the Due Diligence Begins

How you own your business interest directly affects the tax consequences of a transaction and the personal liability exposure of everyone involved. It is critical to review the entity structure, ownership percentages, and tax elections in place well in advance of closing. The following are common issues that should be confirmed before the due diligence begins:

1. Holding entities are properly formed and documented, with operating agreements, meeting minutes, and ownership records up to date.
2. Ownership percentages are consistent across all legal, tax, and estate planning documents.
3. Related-party loans and promissory notes have been properly maintained and are adequately documented.
4. Tax elections, including S corporation elections, partnership classification, or qualified small business stock, are confirmed and aligned with the intended structure for the transaction.
5. Tax returns are all filed and taxes paid. This includes Federal income tax, state income tax, sales tax, property tax, and other taxes.

Gaps in any of these areas can cost you valuation discounts, generate unexpected tax liabilities, expose principals to personal liability, or delay the transaction closing. These issues are difficult to resolve once a deal is under contract and the closing timeline is compressed. A comprehensive entity review conducted with your attorneys and CPA can identify and address these issues before they become problems.

Timing: Withstand IRS Scrutiny

Perhaps the most critical aspect of pre-transaction planning is not strategy, but timing. Business owners who consider comprehensive planning twelve or more months before a significant liquidity event have meaningful options. The benefit of those options are reduced and possibly eliminated the closer they are executed to the LOI execution date. The IRS is also likely to take a closer look at planning completed near the LOI execution date, putting the planning at risk.

Conclusion

The planning strategies described above, earnout structuring, charitable giving, estate planning, and entity review, share one important characteristic: they must be implemented before the transaction closes. Once the deal is signed, many of these opportunities are no longer available. Business owners who begin the planning process early, with a coordinated team of tax, legal, and financial advisors working together, are consistently better positioned to protect their wealth. If you are considering or approaching a liquidity event, the most valuable conversation you can have with your team of advisors is not what to do with the proceeds it is about what to do today. ■





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Estate Planning Considerations WHEN YOUR CHILD TURNS 18

As families celebrate a child's 18th birthday, the milestone often comes with excitement, pride and a significant legal shift that is frequently overlooked. At age 18, a child becomes a legal adult, which means parents no longer have automatic authority to access medical information, make healthcare decisions, or manage financial matters on their behalf. This transition is an important opportunity to start the conversation around estate planning documents.

One of the most critical documents is a Durable Power of Attorney (POA). This document allows a parent or other trusted individual to handle financial and legal matters if the young adult becomes incapacitated or is otherwise unavailable. Without a POA, even routine tasks, such as accessing a bank account or signing a lease, can become unnecessarily complicated.

Equally important is a Medical Power of Attorney (MPOA). Once a child turns 18, healthcare providers are legally restricted from sharing medical information with parents without explicit authorization. An MPOA designates someone to make medical decisions if the young adult is unable to do so. This can be especially critical in emergency situations, where timely decisions are essential.

In conjunction with an MPOA, a HIPAA Authorization should also be executed. The Health Insurance Portability and Accountability Act (HIPAA) protects the privacy of medical information, but it can also create barriers for families during times of need. A HIPAA release ensures that parents or designated individuals can communicate with healthcare providers and stay informed about their child's medical condition.

Families should also consider an Advance Directive (or Living Will). While difficult to contemplate, this document allows a young adult to express their wishes regarding end-of-life care, including decisions about life-sustaining treatment. Having these preferences documented can provide invaluable guidance to loved ones and reduce uncertainty during emotionally challenging moments.

For college students, these documents are particularly important. Many young adults live away from home, sometimes in different states, which can complicate access and decision-making in urgent situations. Having the proper authorizations in place provides peace of mind for both parents and newly-independent children.

While these documents are relatively simple to prepare, they are foundational components of a broader estate plan. Families may also consider basic will documents for young adults, especially if they have assets, digital accounts, or specific wishes regarding personal property.

We encourage families to view this milestone not just as a celebration, but as a moment to ensure preparedness. Thoughtful planning at this stage can prevent unnecessary stress and legal hurdles in the future.

If your child is approaching 18, or has recently crossed that threshold, now is the time to act. A few proactive steps today can make a meaningful difference tomorrow. ■

Sentinel Trust Company is a family-owned, multi-family office focusing on the unique needs of affluent families and their closely held companies and foundations. Sentinel Trust provides advice on investment, tax, and estate strategies, serves as corporate trustee, and provides lifestyle services with a personal touch.

*Together, families prosper*SM

Founded in 1997 as the successor to two established, investment-focused single family offices, Sentinel Trust offers the stability of an institutional firm, the entrepreneurial spirit of a young firm, the personal feel of a family office, and the in-house technical skills of independent planning and investment management firms.

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