

# Strategic Borrowing Helps Manage Unexpected Tax Bill

## The Situation

Bill and Veronica fulfilled their dream more than three decades ago when they founded a business in the manufacturing sector. While the small, family-run shop endured peaks and valleys of growth and industry demand, it finally grew to become a successful, billion-dollar company with more than 100 employees. In fact, it was so successful, Bill received multiple offers over the past three years.

After Bill suffered an unexpected heart attack, the couple decided to reevaluate things: the long hours and stress from the business, the importance of family, their health. As a result, their decision to sell the company seemed to come at just the right time. Relieved by the decision to start a new chapter, the sale gave rise to a number of new questions.

- *Will there be tax implications and how can we address them?*
- *How should we invest the proceeds from the sale?*
- *When is the right time to develop a philanthropic plan?*
- *What changes can we afford to make to our short-term spending?*
- *How do we leave a legacy for our children and grandchildren?*

While all of these questions are worth considering, the query into resulting tax implications is the most critical due to an impending deadline for payment to the IRS. The couple's attorney referred them to his contact at BNY Mellon, giving assurance that their questions would be answered.

## How We Helped

The BNY Mellon Wealth team was introduced to Bill and Veronica and over the course of several months, they conducted a series of meetings. The team listened and gathered information, asked questions about family and lifestyle and learned about the couple's long-term goals for philanthropy and wealth transfer. With \$20 million+ net worth, plus the substantial windfall expected from the sale of the business, the team spent time with Bill and Veronica reviewing BNY Mellon's Active Wealth framework, including the five practices used to help clients achieve long-term financial success.

During one of the meetings, BNY Mellon's private banker raised a simple, three-word question: What about taxes? That reminded the couple that one of the more pressing issues had yet to be addressed. They then discussed the significant impact the business sale would have on their tax situation. The banker recommended utilizing an Investment CreditLine<sup>1</sup> (ICL) to pay the taxes when due. Not only did the flexibility of a secured line of credit allow them to meet tax demands from the business sale, but at a later date, if they needed capital to make a major purchase, meet an unexpected expense, or participate in a timely investment opportunity, it would also be available. As business owners, the couple understood leverage and completely agreed with this approach. Other borrowing solutions for meeting

tax obligations include taking out a mortgage or refinancing an existing mortgage; however, in this case, neither would be recommended due to subsequent 60-to-90-day application/closing processes.

The meeting was a turning point for the couple who proceeded to award BNY Mellon their entire financial relationship. No other firm — they met with half a dozen — had offered comprehensive advice that spanned both sides of their balance sheet.

## The Value of Advice

The team presented a customized strategy for all five practices of BNY Mellon's Active Wealth framework, designed to create and sustain wealth over generations. In doing so, the team was able to leverage the couple's investment portfolio to pay the impending tax bill while addressing their need for investment and estate planning strategies.

Borrowing strategically can add value to an individual's wealth and help increase the probability of achieving a client's long-term goals and objectives. Leverage isn't always beneficial; however, in this scenario, utilizing a secured line of credit to fund a significant tax obligation and keep assets invested proved to be the best option. Strategically applying leverage when the cost of funds is low relative to expected forward return can minimize additional taxes and generate excess returns above the cost of borrowing.

Given BNY Mellon's comprehensive investment and lending capabilities and the team's timely and thoughtful recommendations, the couple welcomed a single source — a full team of experts, including a private banker — to actively coordinate and monitor their wealth plan.

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