

Beyond Market Losses: Wealth Succession Planning

Wealth Succession Insights

Summary

The stock markets have recently experienced a notable pullback. Watching paper gains evaporate—or even turn into unrealized losses—may rattle investors, particularly high-net-worth investors or retirees holding sizable equity positions.

From a tax and wealth succession planning perspective, however, depressed share prices present a timely opportunity to step back, reassess your gifting plans, and recalibrate your wealth transfer timeline. This does not mean rushing to gift assets the moment markets dip, but rather taking advantage of lower valuations to identify tailored succession strategies.

Analysis

1. Why Is a Market Pullback a Window for Gift Planning?

Under Taiwan's *Estate and Gift Tax Act*, gifted property is generally valued at its fair market value on the date of the gift. Gifting shares to your children when stock prices are trading at relative lows allows you to transfer the exact same number of shares at a lower taxable valuation.

For example, suppose a parent holds publicly traded shares whose market value has declined from NT$50 million to NT$40 million. Executing a pre-planned gift during this pullback not only reduces the total taxable gift amount, but also shifts any subsequent appreciation during a future rebound directly to the children—keeping that growth out of the donor's taxable assets. In short, you are locking in a lower valuation today while shifting future upside to the next generation.

2. Direct Stock Holdings vs. Investment Holding Companies

- **Directly Held Publicly Traded Shares:**
  This approach works well for utilizing Taiwan's annual gift tax exclusion of NT$2.44 million per donor (spouses with separate assets and independent plans may each apply their own annual exclusion, subject to actual ownership rules). Systematic annual gifting steadily reduces the size of your taxable estate over time.
- **Shares Held via a Privately Held Investment Company:**
  Here, the gifted asset is equity in the investment company rather than the underlying stocks. Beyond phased annual transfers, this structure gradually brings the next generation into family asset governance. Keep in mind, however, that shares of a privately held company are generally valued based on its net asset value (NAV) on the gift date, and underlying holdings—such as publicly traded securities and real estate—remain subject to statutory tax valuation adjustments. You cannot estimate the gift value based solely on stock market declines or book NAV.

3. Four Essential Considerations Before Moving Forward

While strategic gifting offers meaningful tax efficiencies, it should never be forced or rushed solely to save on taxes. Before taking action, we recommend confirming four key areas:

I. **Protect Your Own Liquidity and Lifestyle Needs:**
   A gift is an irrevocable transfer of ownership. Make sure you retain ample liquidity for retirement, healthcare, and long-term care so that tax planning never compromises your own standard of living.

II. **Calculate Valuations and Adjusted NAV Accurately:**
   Publicly traded shares are generally valued at the closing price on the gift date (or subject to average price rules during periods of sharp volatility). For privately held investment companies, NAV must be adjusted under tax regulations for real estate and investment portfolios to prevent undervaluation, which could trigger tax audits, reassessments, and penalties from Taiwan's tax authorities.

III. **Maintain Proper Legal Documentation and Governance:**
Execute formal gift agreements, update shareholder ledgers, and ensure fund flows and beneficial ownership align with your tax filings. When transferring investment company shares, be sure to address voting control, board seats, dividend policies, and family alignment.

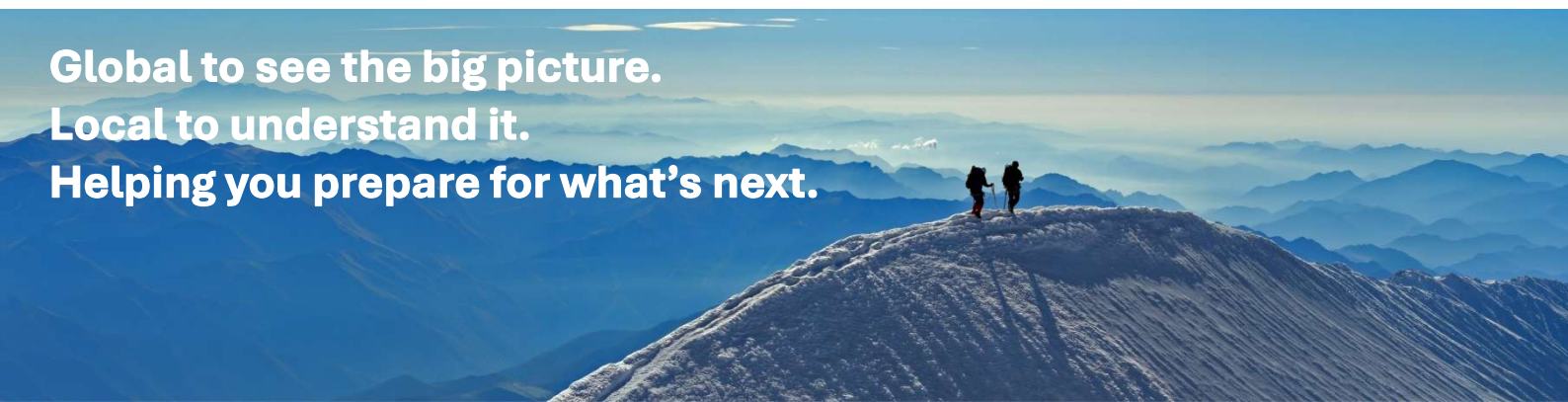
IV. **Evaluate Cross-Border Tax Exposure:**
If family members hold different citizenships or tax residencies, or if the investment company holds offshore assets, you must review gift, estate, and income tax implications across all relevant jurisdictions—not just Taiwan.

4. Take Stock Calmly at Lower Valuations and Pace Your Succession

We do not view a market downturn as an automatic trigger to gift assets, nor do we advocate liquidating or transferring wealth hastily just for a tax break. Yet if wealth succession is already on your radar, a market correction is an ideal catalyst for a strategic review. While valuations remain subdued, we suggest taking three measured steps:

- **Review Asset Allocation:** Audit the holdings across both personal portfolios and family investment companies.
- **Revisit Your Tax Roadmap:** Re-evaluate your multi-year gift and estate tax projections.
- **Set a Sustainable Pace:** Identify the right assets to transfer and move forward steadily without compromising your own financial cushion.

Markets move in cycles, whereas wealth succession requires long-term foresight. Rather than scrambling once the market rebounds, now is the time to calmly and methodically put your plan in place.



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