PKF O'CONNOR DAVIES
ACCOUNTANTS AND ADVISORS

Tax Planning and Exit Strategies: A Financial and Tax Planning Discussion

Presented by:
David M. Sullivan, CPA
Linda M. McLean, CPA

ROG + Partners Growth and Ownership Strategies Conference
November 5, 2026

KNOW GREATER VALUE®

PKF O'CONNOR DAVIES
ACCOUNTANTS AND ADVISORS

Credit(s) earned on completion of this course will be reported to AIA CES for AIA members. Certificates of Completion for both AIA members and non-AIA members are available upon request.

This course is registered with AIA CES for continuing professional education. As such, it does not include content that may be deemed or construed to be an approval or endorsement by the AIA of any material of construction or any method or manner of handling, using, distributing, or dealing in any material or product.

Questions related to specific materials, methods, and services will be addressed at the conclusion of this presentation.

PKF O'CONNOR DAVIES
ACCOUNTANTS AND ADVISORS



David M. Sullivan, Jr., CPA
Partner, A&E Industry Practice Leader
PKF O'Connor Davies

dmsullivan@pkfod.com
(O) 781-937-5351
(M) 617-460-0263



Linda M. McLean, CPA
Partner, A&E Industry
PKF O'Connor Davies

lmclean@pkfod.com
(O) 781-937-5322
(M) 781-589-1349

A&E Practice Overview

- Top 25 U.S. firm serving the Architecture & Engineering (A&E) industry
  - Dedicated A&E team of financial, tax, and business advisory professionals
  - Comprehensive expertise across assurance, tax strategy, and business consulting
- Tailored A&E Industry advisory services:
  - M&A advisory - Approximately 300+ transactions in the A&E space
  - Ownership transition advisory services
  - Tax strategies and structuring
  - Cyber / IT risk services
  - Benchmarking
  - Project management improvement
- Thought leadership for A&E industry
  - Annual A&E Industry Summit – Next event in Boston June 2027 and Philadelphia September 2027
  - Architectural Study and Engineering Study – See booth and links
  - Industry-focused educational programs

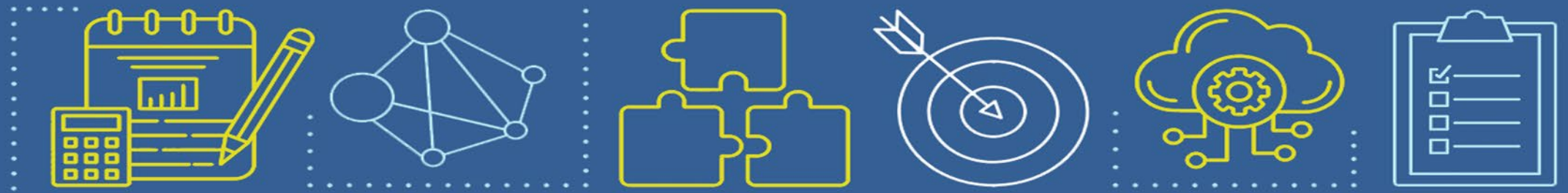
Course Description & Learning Objectives

- **Course Description:**
  - During this session we will discuss tax planning strategies for A&E firms to consider for 2026 and forward. We will also discuss the tax and financial matters which firms should be evaluating for their succession plans.

- **At the end of the course, participants will be able to:**
  - Identify and incorporate corporate and individual tax planning strategies.
  - Recognize key tax and financial considerations when developing a succession plan.
  - Compare differences between an internal ownership transition and an external sale.
  - Describe common M&A transaction structures and their effects on buyers and sellers.

Agenda

- Tax Planning Strategies
  - 2026 Tax Provisions
- Succession Planning / Exit Strategies



Tax Planning Strategies



TAX PLANNING PROCESS

Top 2026 planning considerations

1. Taxable income targets – cash versus accrual
2. Financial statement, FAR impact, and working capital targets
3. Passthrough Entity Taxes (PTET)
4. Energy efficiency tax deduction – 179D (sunset June 2026)
5. R&D tax credit considerations
6. Bonuses
7. Retirement plan contributions
8. Depreciation; Section 179/Bonus
9. Estate planning considerations
10. Transition / exit strategy impacts

Taxable Income Targets – Cash versus Accrual (Example)

	Bank Balance	Cash Basis Taxable Income	Accrual Basis Income	Working Capital
As of December 1, 2026	**$1,200,000**	**$1,500,000**	**$2,000,000**	**$4,000,000**
Cash collections	$800,000	$800,000	—	—
Additional billings	—	—	$900,000	$900,000
AP / Expense Invoices received	—	—	($50,000)	($50,000)
Payments on accounts	($30,000)	($30,000)	—	—
Retirement plan accrual	—	($100,000)	($100,000)	($100,000)
Bonuses accrued and paid	($500,000)	($500,000)	($500,000)	($500,000)
As of December 31, 2026	**$1,470,000**	**$1,670,000**	**$2,250,000**	**$4,250,000**
Section 179D deduction	**—**	**($300,000)**	**—**	**—**
Balances after, section 179D deduction	**$1,470,000**	**$1,370,000**	**$2,250,000**	**$4,250,000**
Targets	**$1,500,000**	**$1,400,000**	**$2,300,000**	**$4,300,000**

State and Local Tax Deduction

- Federally, pass through entity taxes (PTET) remain unchanged. Taxpayers who own pass through businesses may claim both (higher SALT cap and deduction taken at entity level).
- SALT cap, is $40,400 for 2026.
- The cap will increase 1% annually through 2029. In 2030, it reverts to $10,000.
- For 2026 deduction is reduced by 30% of income that exceeds $505,000 but not below $10,000 cap deduction.

Section 179D – Energy Efficient Tax Deduction

Overview

- Deduction sunsets for property with construction beginning after June 30, 2026
- Tax deduction available to designers of energy efficient buildings owned by federal, state or local governments or not-for profit organizations
- Below design components may qualify if certain ASHRAE standards are met:
  - Interior lighting (exterior lights do not qualify)
  - HVAC system
  - Building envelope (cladding, windows, roofing, etc.)
- Formal signoff still required from client
- Study required to certify energy efficiency achieved.
- Deduction available in the year certificate of occupancy obtained
- Up to a maximum of $5.94 / psf

Research and Development Tax Credits

Strategies around utilization of tax credits:

- Decrease net effective tax rate
- Current return of tax savings
- Reduce deferred tax liability / Improving working capital
- Shelter tax on repayment of debt
- Improve affordability of internal transition plan buyouts
- Carryover for future event
- Need to be aware of AMT limitations
- State decoupling issues - 174



2026 State Treatment of Research & Experimental Expenditures (Section 174 & 174A)

STATE TREATMENT	STATES	2026 RESULT
Conforms to federal current-year expensing	Alaska, Arizona, Colorado, Connecticut, Delaware, Idaho, Illinois, Indiana, Iowa, Kansas, Maryland, Massachusetts, Missouri, Montana, Nebraska, New Mexico, North Dakota, Ohio[5], Oklahoma, Oregon, Utah, West Virginia	New domestic research costs qualify for immediate expensing.
Phased conformity	Maine[1]	70% addback, with later recovery. Addbacks decline each year until full expensing allowed in 2030. Eligible small businesses are excepted.
Decoupled or not conformed	Florida, Hawaii, Kentucky, Michigan, Minnesota[2], New York, North Carolina, Pennsylvania[4] , Rhode Island, South Carolina, Virginia; District of Columbia.	2026 costs follow state amortization or addback and recovery rules.
Separate state expensing rules	Alabama, Arkansas, California, Georgia, Louisiana, Mississippi, New Hampshire, New Jersey[3], Tennessee, Vermont[1], Wisconsin, Texas	Expensing is available under state rules, with eligibility and election differences.

N/A: Nevada, South Dakota, Washington, Wyoming.

[1] Maine and Vermont provide eligible small-business exceptions.
[2] Minnesota generally conforms for pass-throughs.
[3] New Jersey has special rules for NJ research and related credits.
[4] Pennsylvania expensing treatment for individuals/passthroughs rules predates 2022
[5] Ohio generally conforms to individual passthrough owners

2026 Meal Deductibility

- Beginning January 1, 2026, employee meals furnished on business premises for the employer's convenience become nondeductible.
- Client meals and business travel meals generally remain 50% deductible. Qualifying employee social events generally remain 100% deductible.
- Business-purpose, substantiation, and meeting relevant tax rules still apply.

Expense	2026 deduction
Client or prospect business meals	**50%**
Meals during qualifying business travel *	**50%**
On-premises employee meals for employer convenience	**0%**
Qualifying employer cafeteria and associated costs *	**0%**
Qualifying employee holiday parties and picnics *	**100%**
*Percentages assume applicable requirements are met. Exceptions may apply.	

Charitable Contributions

- For taxable years beginning after December 31, 2025.
  - C Corporations
    - Limits total charitable contribution deduction for C Corporations to a floor of 1%, and a maximum of 10% of taxable income. Excess amounts are carried forward.
  - S Corporations and Partnerships
    - Charitable contributions flow through to Shareholders & Partners via K-1 (which has always been the case), where there is a new 0.5% floor at the individual level (for those that itemize).
    - If your AGI is $200,000, only total donations above $1,000 are deductible.
    - Top bracket (37%) taxpayers subject to 35% tax rate cap.
      - Ex: A donation of $10,000 will yield a $3,500 tax reduction instead of $3,700.

Estate and Gift Tax

- **2026 Annual Gift Tax Exclusion:** $19,000 per recipient, or $38,000 per recipient for married couples electing to split gifts.
- **Estate Exemption:** The current Federal exemption is $15 million per person ($30 million per married couple) starting January 1, 2026.
- Amounts will be indexed for inflation.
- Still need to consider Federal vs state exemption amounts.
  - 12 states and DC impose an estate tax; Connecticut, Hawaii, Illinois, Maine, Maryland, Massachusetts, Minnesota, New York, Oregon, Rhode Island, Vermont, and Washington.
  - Massachusetts – if taxable estate is less than $2 million then there is no Massachusetts estate tax.
  - Florida – Does not have an estate tax
- If you are considering a future sale, address estate planning before going to market to maximize opportunities to transfer value out of your taxable estate.

Internal and External Exit Strategies

EXTERNAL / INTERNAL TRANSITION STRUCTURE OPTIONS

External transition:

- Sale of stock
- Sale of assets
- Section 338(h) (10)
- F-Reorganization
- Merger of companies
- Initial Public Offering (“IPO”)

Internal transition:

- Stock redemption by company
- Stock sale between owners
- Stock / Deferred compensation models
- Employee stock ownership plan (ESOP)
  - (S-Corporation Roth ESOP)

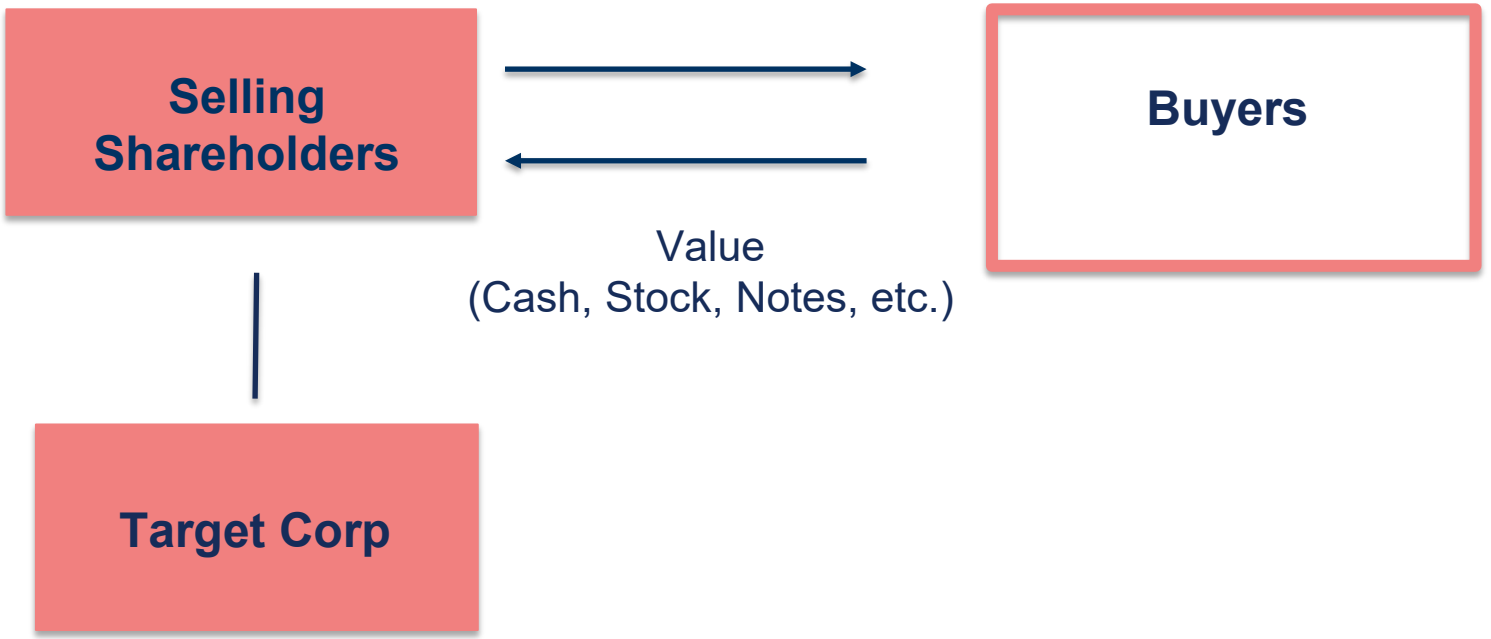
EXTERNAL TRANSITION STRUCTURE OPTIONS

External transition

- Sale of stock
- Sale of assets
- Section 338(h) (10)
- F-Reorganization
- Merger of companies
- Initial Public Offering (“IPO”)



SALE OF STOCK



External sale of stock

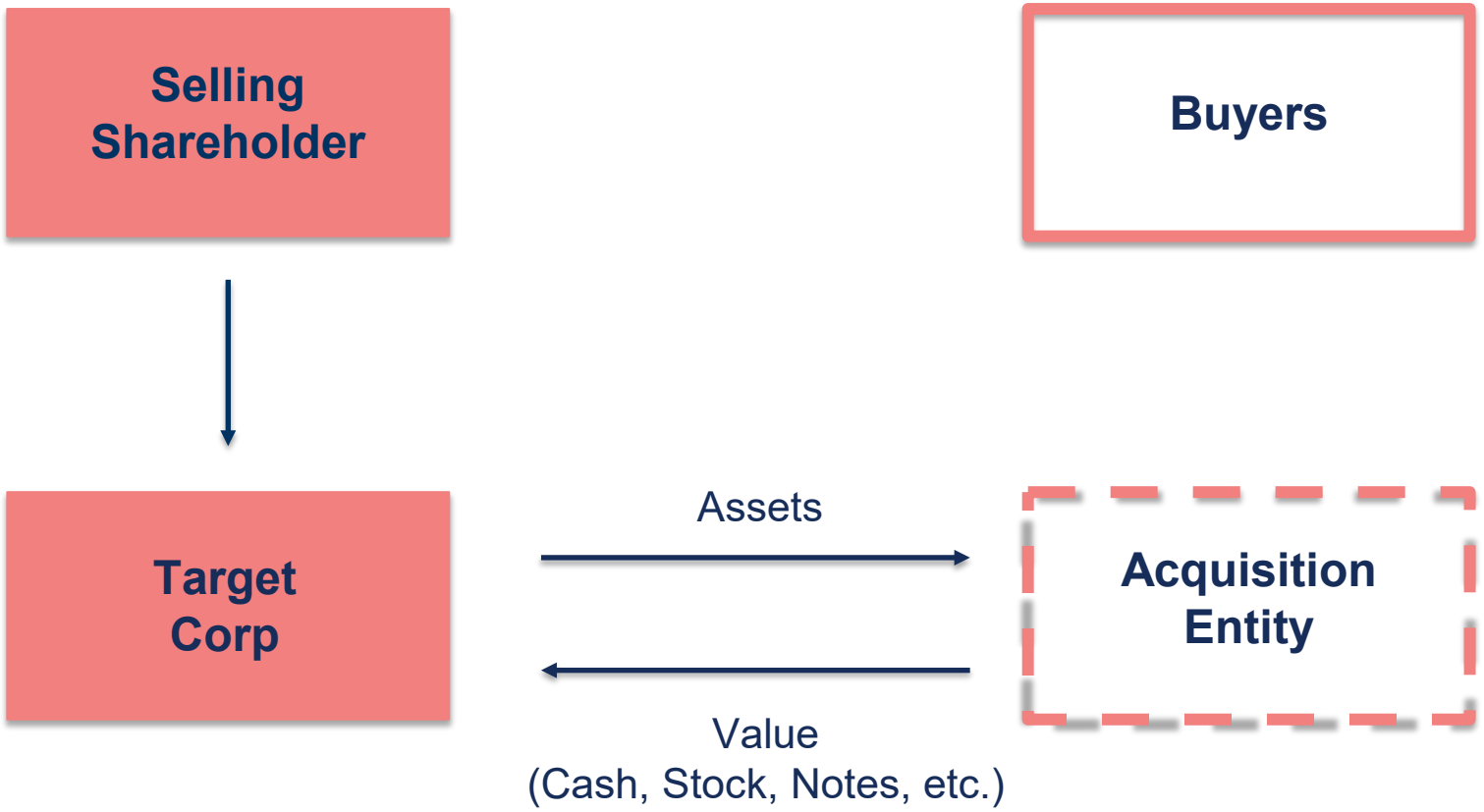
Sellers:

1. Selling shareholders receive long term capital gain treatment
2. Purchase price typically on a cash free/debt free basis (debt definitions important)
3. Purchase price assumes adequate level of working capital is delivered at closing
4. Consideration may be paid with a combination of Cash, Notes, Stock (Rollover equity), Earnout
5. Rollover equity terms important – tax deferred
6. Sale is subject to terms included in Stock Purchase Agreement (SPA)

Buyers:

1. Buyers receive basis in their shares (No current deduction)
2. Contracts, leases and legal agreements stay with the Company
3. Federal ID# and tax history stays with Company (Reps and warranties and indemnification terms will apply in SPA)

SALE OF ASSETS



External sale of assets

Seller and Seller shareholders

1. The Seller is the company
2. Purchase price typically on a cash free/debt free basis (debt definitions important)
3. Purchase price assumes adequate level of working capital is delivered at closing
4. Taxation depends upon the assets sold – typically a combination of ordinary income and capital gain Consideration may be paid with a combination of Cash, Notes, Stock (Rollover equity), Earnout
5. Rollover equity terms important – tax deferred
6. Sale is subject to terms included in Asset Purchase Agreement (APA)
7. Seller needs to wind down affairs of the business (tax planning is critical)

Buyers:

1. Buyers are purchasing assets and receive a step up in the basis of the assets that result in tax deductions typically over 1 – 15 years.
2. Contracts, leases and legal agreements have to be assigned
3. Federal ID# and tax history stays with Seller ; Buyer needs to move payroll, benefits, etc

338(H)(10) ELECTION

- Seller must be taxed as an S corporation
- Transaction is a sale of stock legally
- Transaction taxed like an asset sale – Elections needed
- Oftentimes, buyer will pay the selling shareholders the additional income taxes due to the asset vs. stock sale (and the tax on the tax)
- Rollover equity is typically not tax deferred

F-Reorganization

Overview of purpose, structure and general observations

F- Reorganization – High level overview

1 **Generally used when seller is an S-Corp and buyer is a partnership and the consideration is a combination of cash and rollover equity**

- Purpose of reorganization is to have the Seller set up to sell units in an LLC which contains the historical operating business- Partnership tax rules favorable when equity is included in the consideration

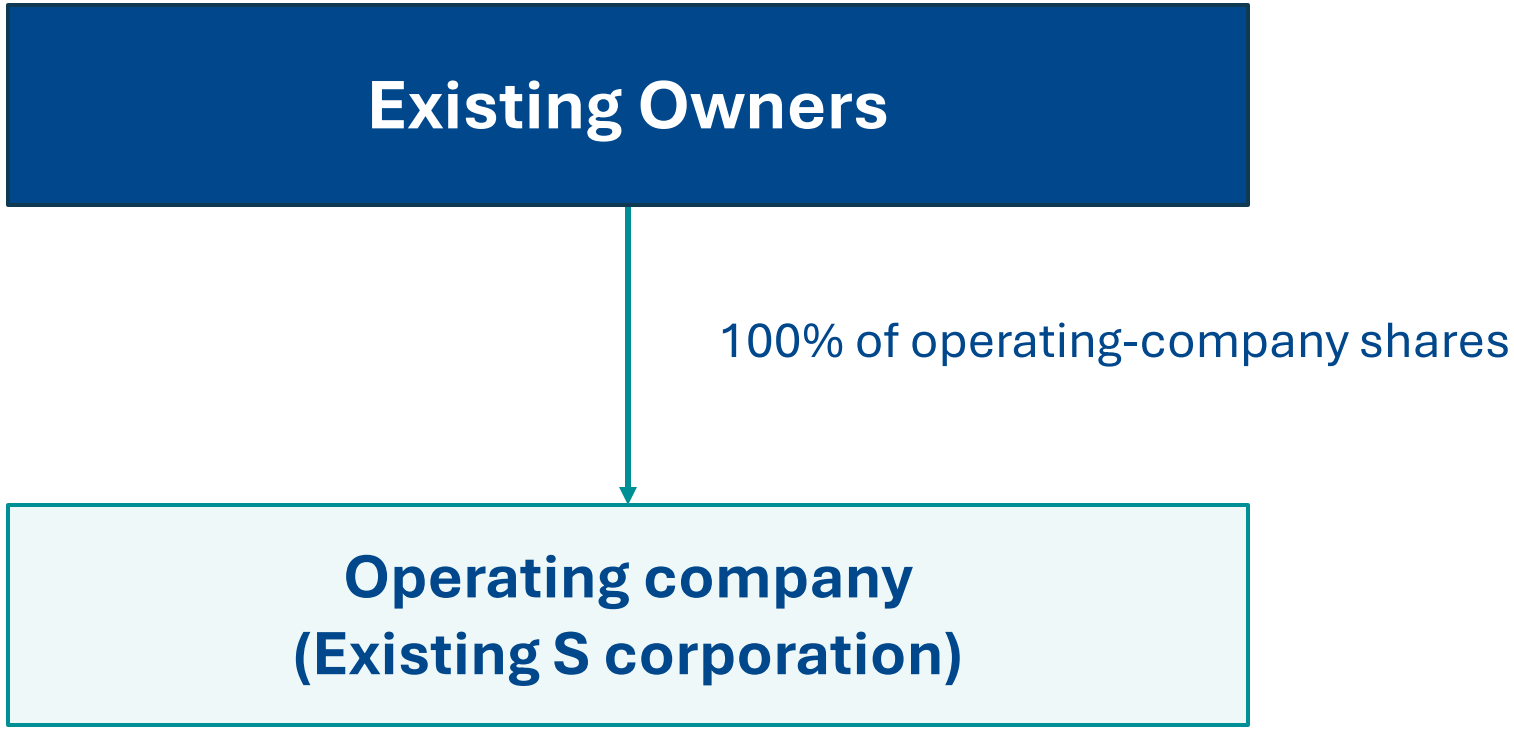
2 **Upon sale, the buyer owns the operating business which has been converted to an LLC**

- Legally – all contracts, leases etc. remain unchanged. Limited assignments typically needed
- The day after closing nothing changes except having a new owner of the business.
- For tax purposes – treated like an asset sale
  - Buyer receives a step up in basis of assets resulting in a tax deduction
  - Sellers receive combination of ordinary income and capital gain

3 **Equity rollover to sellers can be structured to be tax deferred in an F-Reorganization**

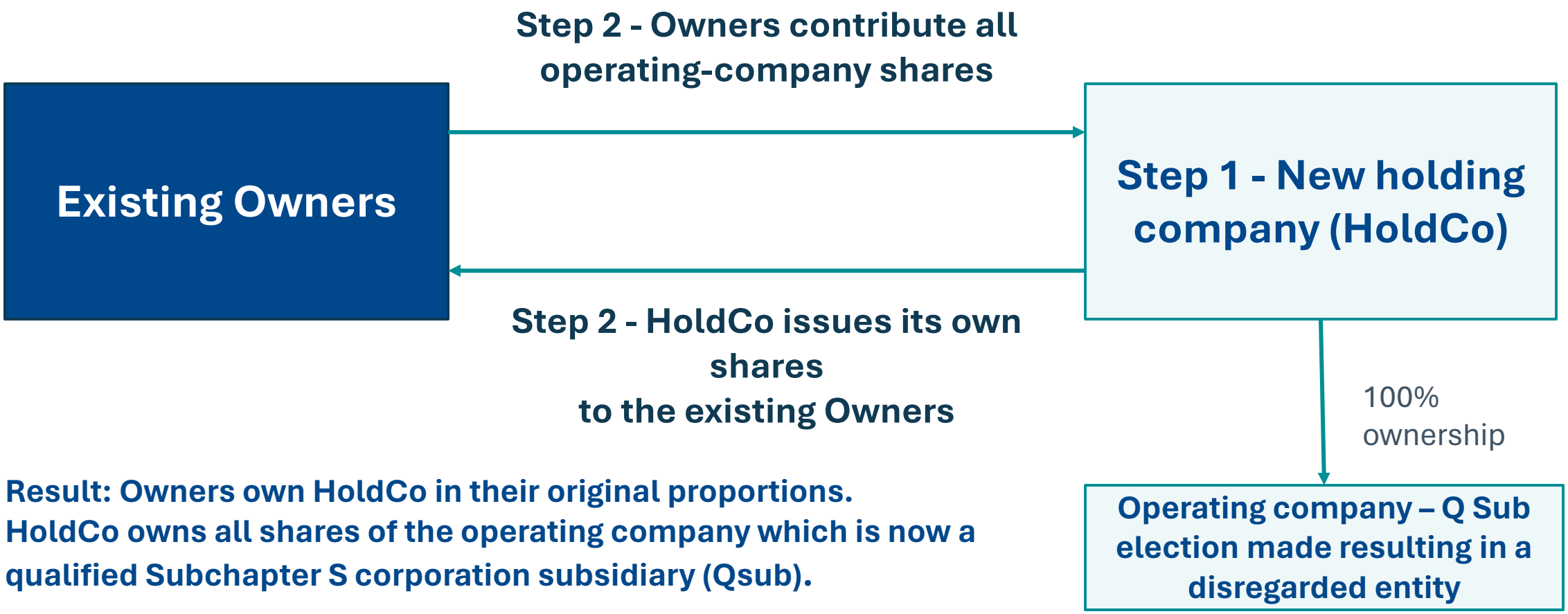
- The equity rollover needs to stay in the Holding Company set up in the reorganization
- Future maintenance of the holding company required

Beginning structure: owners hold the business directly



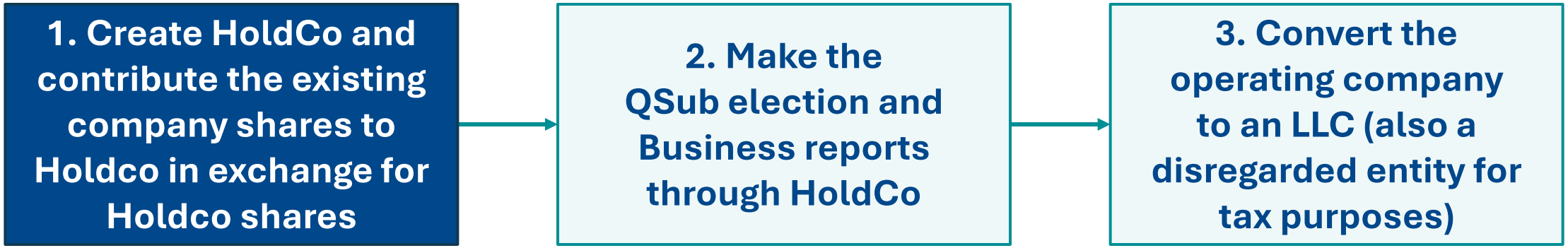
Each owner holds shares directly in the operating company.
HoldCo does not yet exist.

F-Reorg Step 1 and 2 – Set up of HoldCo and exchange of operating company shares for HoldCo shares



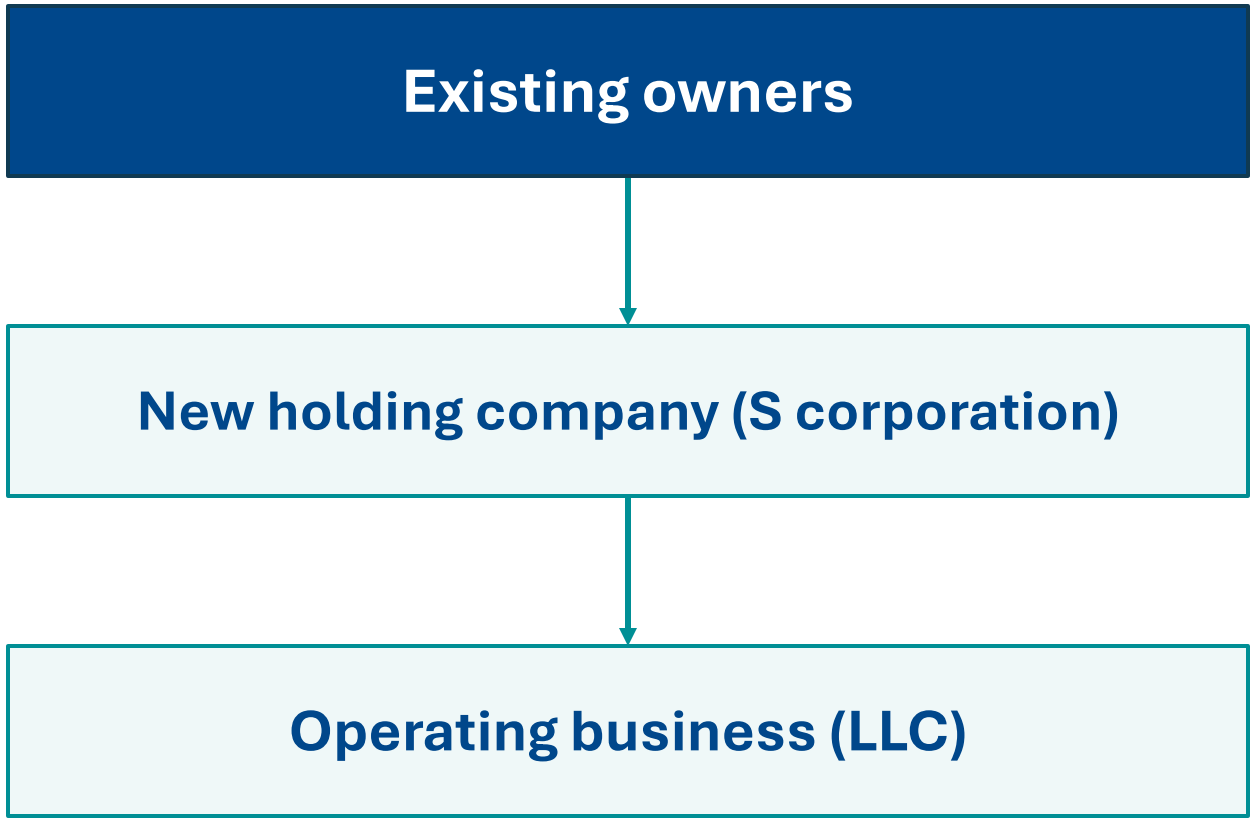
Result: Owners own HoldCo in their original proportions. HoldCo owns all shares of the operating company which is now a qualified Subchapter S corporation subsidiary (Qsub).

The F-reorganization



- Step 1 and 2 result in the newly formed HoldCo owning 100% of the shares of the historical S-Corp which is now a disregarded entity for tax purposes
- Step 3 is the F-Reorganization result once the Q-Sub makes an election to be treated as an LLC under state law
- The final result is the newly formed HoldCo owning 100% of the LLC which is the historical operating company.

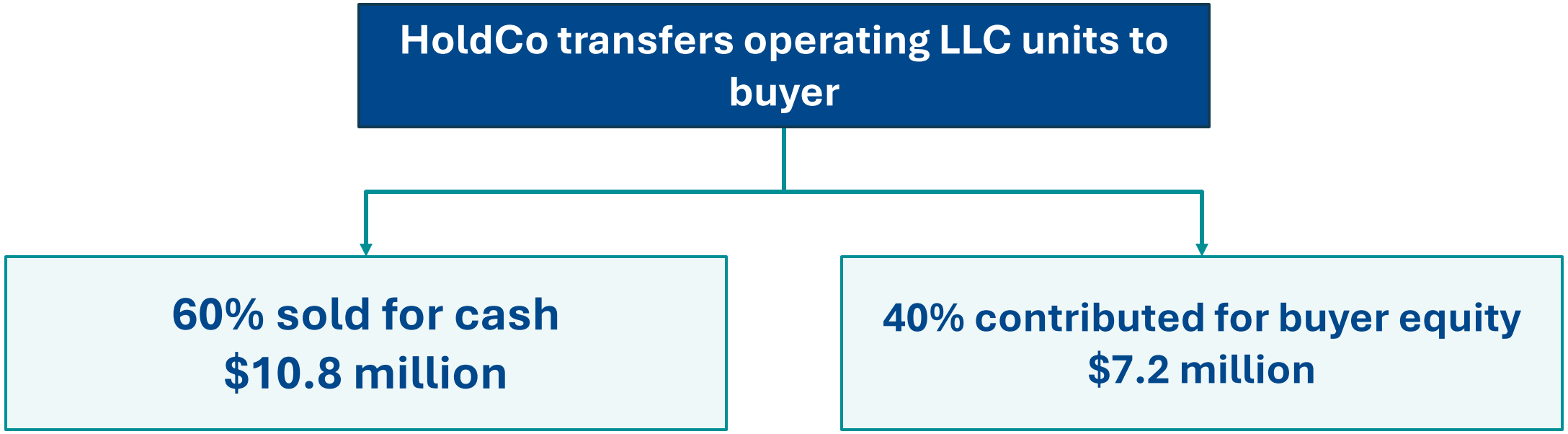
Ownership immediately before the sale



100% ownership
Same proportions

100% ownership

Closing example: $18 million transaction



Gain on the cash portion is taxable. Typically is a combination of ordinary income and capital gain but each transaction varies.

Tax may be deferred if the rollover meets the applicable requirements.

Illustration before debt, fees, adjustments and taxes. HoldCo receives the cash and rollover equity.

What business owners need to know

1 The restructuring comes before the sale

- Coordinate the legal documents and tax elections before closing.

2 The business continues through the new structure

- Contracts, licenses and any required third-party approvals
- Tax ID # follows the operating business

3 The final deal determines the tax outcome

- Model transaction taxes and confirm the rollover terms for each owner
- Ownership of HoldCo equals ownership of rollover. Disproportionate rollover needs additional planning steps but can be done.

INTERNAL TRANSITION STRUCTURE OPTIONS

- Stock redemption by company
- Stock sale between owners
- Deferred compensation models
- Employee stock ownership plan (ESOP)
  - (S-Corporation Roth ESOP)

S- Corporation Roth ESOP

1 | Beginning ownership of Naples, Inc

Current shareholders

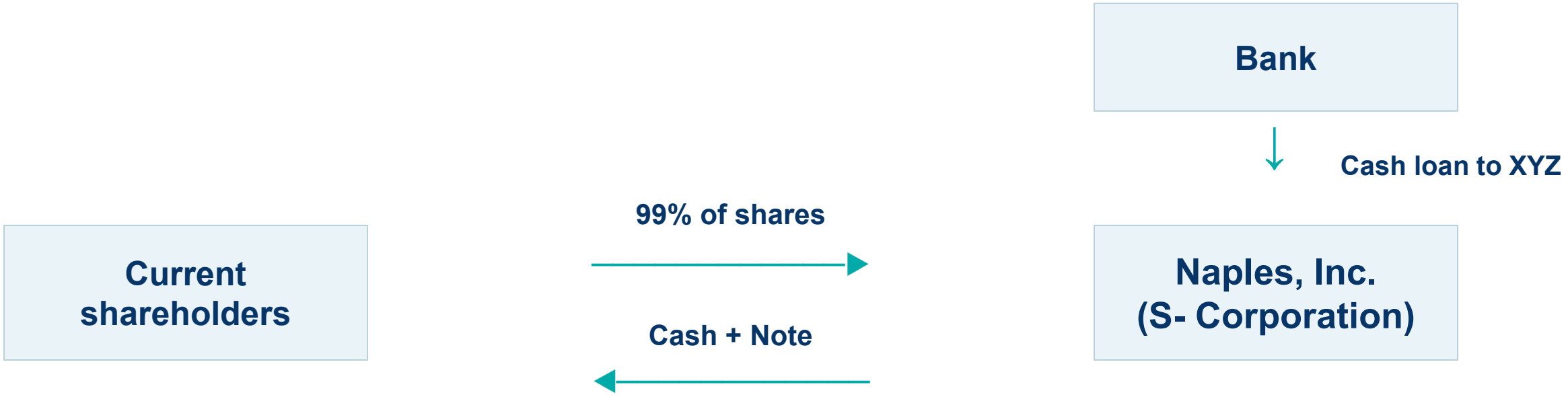
100% ownership



Naples, Inc. | S corporation

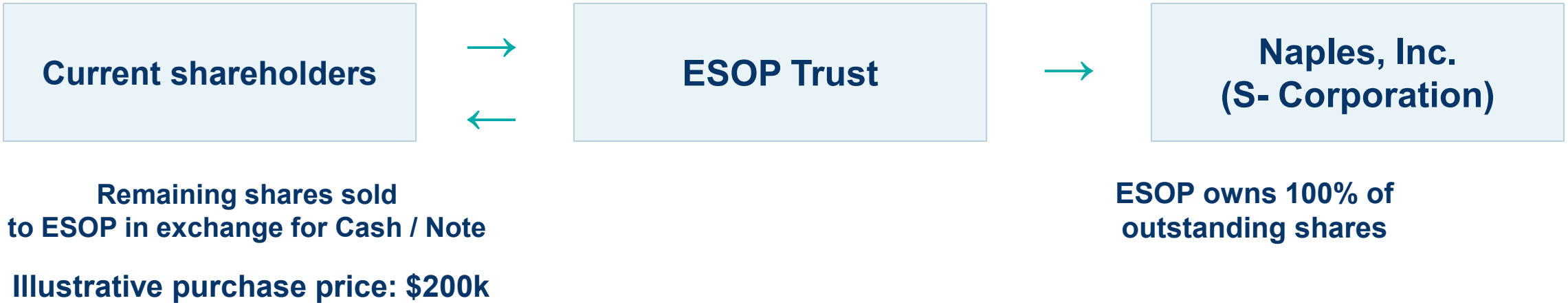
Assumed starting equity value: $20 million

2 | Naples, Inc redeems 99% of its shares from current shareholders



- Illustrative redemption price: $19.8 million
- Naples, Inc retires the redeemed shares. Seller note term: 5–10 years.
- Taxed at long- term capital gain rates when received
- Installment sale election recommended

3 | ESOP Trust purchases the remaining 1 % of shares



1. ESOP purchase price is $20MM less $19.8MM of cash/debt
2. The remaining shares and ESOP purchase price require an independent valuation.

4 | ESOP ownership and participant accounts

ESOP trust

↓

Naples, Inc. | 100% owned by ESOP S-Corporation

1. ESOP shares are allocated to eligible employee accounts under the plan.
2. Initial plan documents may provide for special allocation to key employees as long as discrimination and related ERISA rules are satisfied
3. Plan document should provide for Roth option
4. ESOP's are not subject to income tax. Therefore, any income passed through to the ESOP will not be taxed

5 | Illustrative Roth conversion

Eligible pre-tax ESOP account → **In-plan Roth conversion** → **Designated Roth account**

1. Roth option allows conversion of initial balances to Roth. The taxable amount converted is generally included in income.
2. As the debt is paid down for the redemption of shares, the net value of the firm increases.
3. Annual valuation increases and decreases are allocated to plan participants
4. Qualified future distributions as a Roth can be tax-free.

S-Corporation Roth ESOP – Other Considerations

Planning Considerations

1. Need to forecast payoff of debt and impact on cash flow for bonuses and overall affordability

2. Notes can be a combination of seller financed notes and bank debt

3. Need to evaluate annual costs and initial costs to set up the Plan
   - Annual testing and compliance
   - Annual valuation
   - Audit requirements

4. C-corporations may convert to S-corporations, additional planning considerations need to be discussed

S-Corporation Roth ESOP – Other Considerations

Results

1. Going forward, Naples, Inc is an S corporation Roth ESOP.

2. Growth in Naples, Inc value from operations and paydown of debt will be allocated to ESOP participants.
    a. Individuals who elect the Roth option will have tax free growth

3. No taxes on Naples, Inc income that is retained in the business.

4. No taxes to Plan participants who elect Roth when exiting from the Plan

Discussion and Questions



PKF O'CONNOR DAVIES
ACCOUNTANTS AND ADVISORS

PKF O'Connor Davies has a variety of resources available to A&E firms.

We will be at the conference through Friday and look forward to talking with you here or when you return to your office.





David M. Sullivan, Jr., CPA
Partner, A&E Industry Practice Leader
PKF O'Connor Davies

dmsullivan@pkfod.com
(O) 781-937-5351
(M) 617-460-0263

Linda M. McLean, CPA
Partner, A&E Industry
PKF O'Connor Davies

lmclean@pkfod.com
(O) 781-937-5322
(M) 781-589-1349

"PKF O'Connor Davies" is the brand name under which PKF O'Connor Davies LLP and PKF O'Connor Davies Advisory LLC, independently owned entities, provide professional services in an alternative practice structure in accordance with applicable professional standards. PKF O'Connor Davies LLP is a licensed CPA firm that provides attest services and PKF O'Connor Davies Advisory LLC and its subsidiary entities provide tax and advisory services. PKF O'Connor Davies is a member of the PKF International Limited network of legally independent firms and does not accept any responsibility or liability for the actions or inactions on the part of any other individual member firm or firms.

The following disclaimer is provided in accordance with the Internal Revenue Service's Circular 230 (21 C.F.R. Part 10). Any tax advice contained herein is intended to be preliminary, for discussion purposes only, and not final. Any such advice is not intended to be used for marketing, promoting or recommending any transaction or for the use of any person in connection with the preparation of any tax return. Accordingly, this advice is not intended or written to be used, and it cannot be used, by any person for the purpose of avoiding tax penalties that may be imposed on such person.