Facebook at 50 (Dollars A Share)

by James F. McDonough, Jr. on September 30, 2013

Facebook's Initial Public Offering (IPO) received a great deal of attention, especially after the price of its stock dropped shortly after its first day of trading. The decline in price dominated the news for weeks. While driving to the office this week, I listened to Bloomberg report that Facebook's stock price hit $50 a share on September 26, 2013. The Bloomberg report validated the planning strategies undertaken by the Facebook insiders and demonstrates that the timing of a transfer may yield incalculable benefits.

On June 4, 2012, I wrote about a Facebook insider who expatriated from the U.S. to Singapore. Mr. Eduardo Saverin relinquished his U.S. citizenship in September 2011, months before the public offering on May 18, 2012. The act of expatriation causes the departing United States citizen to recognize gain on a deemed sale of all of his assets. Assuming a market value of $25 per share at the time of expatriation, the timing of Mr. Saverin's departure appears to have saved him hundreds of millions of dollars in income and estate taxes. Given that the IPO price was not set and the sluggish economy, the figure actually used may have been lower than my estimate. After all, we were coming out of a recession and there were no other comparable transactions in the market. Any estimate of value in 2011 was tempered by doom and gloom of a moribund economy and an uninspired or non-existent IPO market. The timing of Mr. Saverin's departure worked to his advantage.

On June 11, 2012, I wrote about Grantor Retained Annuity Trusts (GRAT) and the various strategies one might put in place to hedge a decline in price. The news was filled with stories of Facebook insiders who remained U.S. citizens and utilized GRATs or rolling GRATs (as described in my blog on July 25, 2012). When we look back to May 2012, these insiders saved themselves an incredible amount of money. In our gift tax system, we must value the gift upon the date of transfer. The stock price has nearly doubled in value and approximately one-half of an insider's wealth may have been moved outside of the transfer tax system. Assume the transfer to the GRAT is valued at $26 per share and the value rises to $50, this means that $24 per share passes to the remainder without being subject to gift tax.

Corporate insiders and knowledgeable investors anticipate when stock and asset values will rise. In today's slow or low growth economy, each day brings us closer to more normal economic activity and increasing asset values. Thus, it appears that we should be able to anticipate escalating asset prices in the coming years. Now would be an ideal time to transfer appreciating assets to a GRAT in order to lock in the lower values for purposes of the computations required by the transfer tax system.