10 Best Estate and Gift Tax Planning Ideas After Tax Reform

Belfint Briefing

December 12, 2018

Presented by:

Jordon Rosen, CPA, MST, AEP® - Director

Karly Laughlin, CPA - Manager

BELFINT • LYONS • SHUMAN
Certified Public Accountants

1. Tax Cuts and Jobs Act Increases Estate/Gift Tax Exclusion

- From $5 million to $10 million for those dying in 2018-2025, indexed for inflation occurring after 2011
  - Rate remains at 40%
  - 2018 Exclusion = $11,180,000 per person for estate, gift and generation skipping tax purposes
  - Most individuals will not pay federal estate taxes
  - Funding non-grantor or defective grantor trusts to max
  - Review old estate documents to avoid unanticipated results

BLS
BELFINT • LYONS • SHUMAN
Certified Public Accountants

2. Why Estate Planning is Still Important

- Provide for surviving spouse and other heirs (minor children)
- Provide for a special needs individual
- Charitable Intent
- Closely held business makes up a large portion of estate
- Asset protection
- Family dynamics
    - Drug/alcohol abuse
    - Children in bad relationship
- Blended family (2nd, 3rd or 4th marriage)
- Future education

BELFINT • LYONS • SHUMAN
Certified Public Accountants

Why Estate Planning is Still Important - Continued

- State exclusion is less than federal amount
- Divorce
- Valuation issues
- Tangible property disposition
- Planning for pets

BELFINT • LYONS • SHUMAN
Certified Public Accountants

3. It's All About the Basis, Baby!

- Most individuals will not be subject to the estate tax
- New law retains the basis step-up on inherited assets
- Heir will be more concerned with the income tax aspect, especially those in the higher tax brackets
- Passing along the "right assets" is important
    - Roth accounts and Roth IRAs
    - Tax-exempt bonds
- Passing along the "wrong assets" will cost your heirs
    - Traditional retirement accounts and IRAs*
    - Taxable bonds
    - U.S. bonds*
        - Special election to report accrued interest on decedent's final income tax return if at a lower rate than heirs.

*Income with respect of a decedent - no basis step up

BELFINT • LYONS • SHUMAN
Certified Public Accountants

4. Portability of Deceased Spouse's Unused Exemption

- Allows unused portion of $11.8 million exclusion of deceased spouse to be transferred to surviving spouse
  - Can be used to offset future gifts
  - Can be added to surviving spouse's exclusion amount
- Requires Estate Return(Form 706) to be filed even though there is no taxable estate

BELFINT • LYONS • SHUMAN
Certified Public Accountants

4. Portability of Deceased Spouse's Unused Exemption - Continued

- Benefits
  - 2nd basis step-up at surviving spouse's death
  - Ultimate federal and state capital gains savings
  - Could save/avoid 3.8% net investment income tax
  - Provides surviving spouse with control
  - Keeps open surviving spouse's rollover option for IRA's and retirement plans
  - Allows for stretch IRAs for non-spouse beneficiaries
  - Lower administrative expenses

BLS
BELFINT • LYONS • SHUMAN
Certified Public Accountants

4. Portability vs. Traditional Credit Shelter Trust Planning

- CST
  - No second basis step-up, but
  - Avoids inclusion in surviving spouse’s estate
  - Provides asset protection (generally not available with DSUE)
- Use of QTIP offers some of the best attributes of both portability and CST planning (great in second marriage situations)

BLS
BELFINT • LYONS • SHUMAN
Certified Public Accountants

5. Roth Conversions

- Pay tax up front in year of conversion, but distributions are tax-free if requirements are met
- No required minimum distribution (RMD) for owner
- Beneficiaries have to take required distributions, but they are TAX-FREE!
- Great asset to leave your heirs
- Consider conversion in year when income is low and/or can be offset with losses or large deductions
- Do not have to convert all in one year
- If you have a taxable estate, the tax paid upfront is out of your estate

BLS
BELFINT • LYONS • SHUMAN
Certified Public Accountants

6. Charitable Bequests

- Any type of giving technique used during lifetime can be utilized at death
- Reduces taxable estate for those with larger estates
- Can be used to pass down personal values to future generations
- Charitable Remainder Trusts are making a comeback as interest rates rise
- Donor advised funds-contribute and get the deduction now – and decide later where to distribute funds
- Life insurance policies
- Real estate
- Leave IRA/Employer Plan(all or portion) to charity
    - Individual beneficiary would pay tax on distributions, but
    - Charity is tax-exempt

BELFINT • LYONS • SHUMAN
Certified Public Accountants

7. 529 Plans

- Up to $15,000 each year
- Election to prepay 5 years (up to $75,000) in a single year *
  - Consider $15,000 by the end of 2018
  - Then $75,000 in January 2019
- Not included in owner's estate*
- Funds can be taken back
- Can change beneficiaries
- Qualified distributions are tax-free
- Covers secondary education tuition, books, fees, housing (including off-campus) and computers
- New tax law permits withdrawal up to $10,000 <u>per year</u>, <u>per beneficiary</u> for K-12 tuition (only)

*partial if donor dies within 5 years

BLS
BELFINT • LYONS • SHUMAN
Certified Public Accountants

8. Change of Residency/Domicile

- Current documents may be valid, but
- Know the rules when moving to another state/country
  - FL – No estate tax
  - PA maximum inheritance tax is 15%
- Rules for changing domicile (you can only have one)

BLS
BELFINT • LYONS • SHUMAN
Certified Public Accountants

9. Gifting to Family and Friends

- Annual exclusion in 2018= $15,000
- Gifts in excess of annual exclusion reduce $11 million lifetime exclusion
- Shifts future appreciation and income
- Carryover basis and holding period
  - No basis step-up as with inherited assets
  - Consider gifts of high-basis assets
- “Kiddie tax” considerations
- Gifting to older generation rather than children
- Generation skipping transfer (GST) tax considerations
- Payments that completely avoid gift tax consequences
  - Education paid directly to institution
  - Medical paid directly to provider
- Gifting real estate and business interests/valuation issues
- Use of family trusts

BLS
BELFINT • LYONS • SHUMAN
Certified Public Accountants

10. Long-term Care Insurance

- Who should consider ?
- Why LTC insurance should be considered
- Cost of coverage vs. value
- Factors determining premiums
    - Age
    - Elimination period
    - Inflation
    - Type of care
- Do your kids have skin in the game?

BELFINT • LYONS • SHUMAN
Certified Public Accountants