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WEALTH MANAGEMENT

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Monthly Insight

Tax and Estate Planning for 2020: A Roundup of Year-End Ideas

As the end of each year approaches, it is always wise to review your financial documents and strategies. This is the perfect time to evaluate your need for year-end giving, opportunities for tax-loss harvesting, and adjustments to your estate planning assumptions. But especially as we approach the end of this tumultuous year, it could be particularly important for high-net-worth (HNW) individuals and families to consider their positioning in these areas. With a change of administrations in the works, tax positioning, both in personal accounts and with regard to estate planning, could be a key consideration.

Of course, as we have written previously, any president must still gain the assent of a majority in Congress to enact changes in tax policy, whether that means increases or decreases. But planning ahead is still prudent, and it is always wise to have a strategy ready in the event of shifts in Washington, DC, the state capitol, or elsewhere. With that in mind, let's consider several useful tax- and estate-planning ideas that could prove helpful in light of current and potential future economic and political developments.

1. Review Your Current Planning Documents.

No matter the political makeup of the executive, legislative, or judicial branches of government, the global COVID-19 pandemic will continue to create economic and public health uncertainty, at least until an effective vaccine allows it to be brought under control. This makes it more important than ever to review your documents in light of your family's and business's security. Ensure that your will, revocable trust (if any), and power of attorney documents are up to date and aligned with your planning and personal strategies. If you don't have an advance directive in place, strongly consider rectifying this situation. While no one likes to contemplate the likelihood of an incapacitating illness or worse, having these documents up to date and in place will make things more manageable for your loved ones and close associates in the event of the unthinkable.

2. Using Your Lifetime Exemptions.

While the SECURE Act of 2019 significantly raised the exemptions for estate taxes, these are scheduled to sunset in 2025. Further, in the current political climate, it is by no means certain that the higher limits will remain in place that long. It may be wise for HNW individuals to utilize more of their exemptions now, in case the window for the higher exemptions begins to close.

3. Annual Gifting Strategy.

Currently, an individual may gift $15,000 annually ($30,000 for a couple filing a joint tax return) to any number of children or grandchildren. Especially for those with assets that may have declined in value, this can be a valuable means of getting assets out of the estate while their value is low, allowing for future appreciation for the benefit of the recipient. Also, remember that according to Internal Revenue Code (IRC) Section 2503(e), there is no limit on transfers of assets if the funds are paid directly to a medical provider or as tuition to an educational institution. For individuals wishing to aid family members who have been adversely impacted by the pandemic, this can be a beneficial way to both reduce the taxable estate and provide significant financial assistance to others.

4. Installment Sales to Grantor Trusts.

Especially in the current historically low interest rate environment, HNW entities may wish to consider selling assets to a grantor trust. The assets are sold in exchange for a promissory note bearing interest. Appreciation on the assets sold are removed from the seller's estate.

5. Grantor Retained Annuity Trust (GRAT).

Similarly, this tool can be advantageous in a low interest rate environment, especially for those who may have used most or all of their estate or gift tax exemptions. Assets placed in the trust are used to pay the grantor an annuity at or above a required "hurdle rate" established by the IRS (IRC Section 7520). The annuity hurdle rate for the duration of the trust is set at the time of funding; currently, the rate is 0.6%. As long as the value of the assets in the trust increases by more than the hurdle rate, the GRAT is successful. Upon expiry of the trust, the remaining assets pass to the trust beneficiary.

6. Charitable Lead Annuity Trust (CLAT).

This device operates in similar fashion to a GRAT, except that the annuity payments go to a charitable organization of the grantor's choosing. Any assets remaining in the trust at its expiry pass to a beneficiary without transfer taxes.

7. Year-End Philanthropy.

This device operates in similar fashion to a GRAT, except that the annuity payments go to a charitable organization of the grantor's choosing. Any assets remaining in the trust at its expiry pass to a beneficiary without transfer taxes.

This is the time of year to give careful consideration to whether it will be more advantageous to make a gift in 2020 or defer to the next year. Importantly, however, the Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020 permits individuals to gift up to 100% of their adjusted gross income (AGI) to qualified charities. This offers a significant opportunity to reduce the taxable estate in 2020 while supporting organizations important to the client.

Of course, each of these strategies requires careful planning and coordination with your tax, legal, and investment advisory team. Those considering any of these measures should allow ample time before the end of the calendar year to evaluate their options in light of their specific estate planning, tax, and investment strategies. We are eager to provide professional, fiduciary guidance, both to our clients and also to others who may be wondering if one or more of these options is a wise choice for their situation. We are here to listen, advise, and assist in any way that is appropriate.

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KIMBERLY FOSS

President, CFP®, CPWA®,
CFT-I™ Candidate

"We understand that every person we serve has distinct values and ambitions, and they each need their own plan for wealth management."