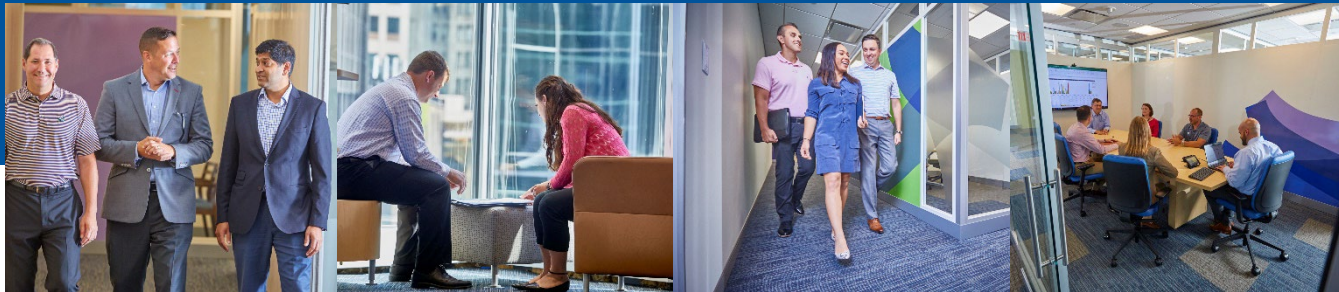




Estate Planning Opportunities Created by the COVID-19 Pandemic



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Big Thinking. Personal Focus.

The Presenters



Greg Allison, JD, CPA/PFS, CFP®



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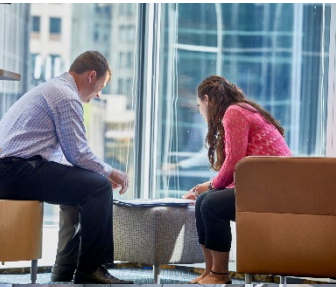
Introductory Matters

❖ Requirements for CPE

- ❖ Polling Questions
- ❖ Evaluation
- ❖ CPE Certificates Emailed

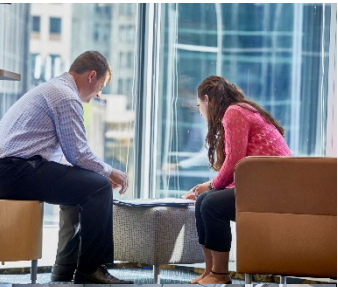
❖ Questions

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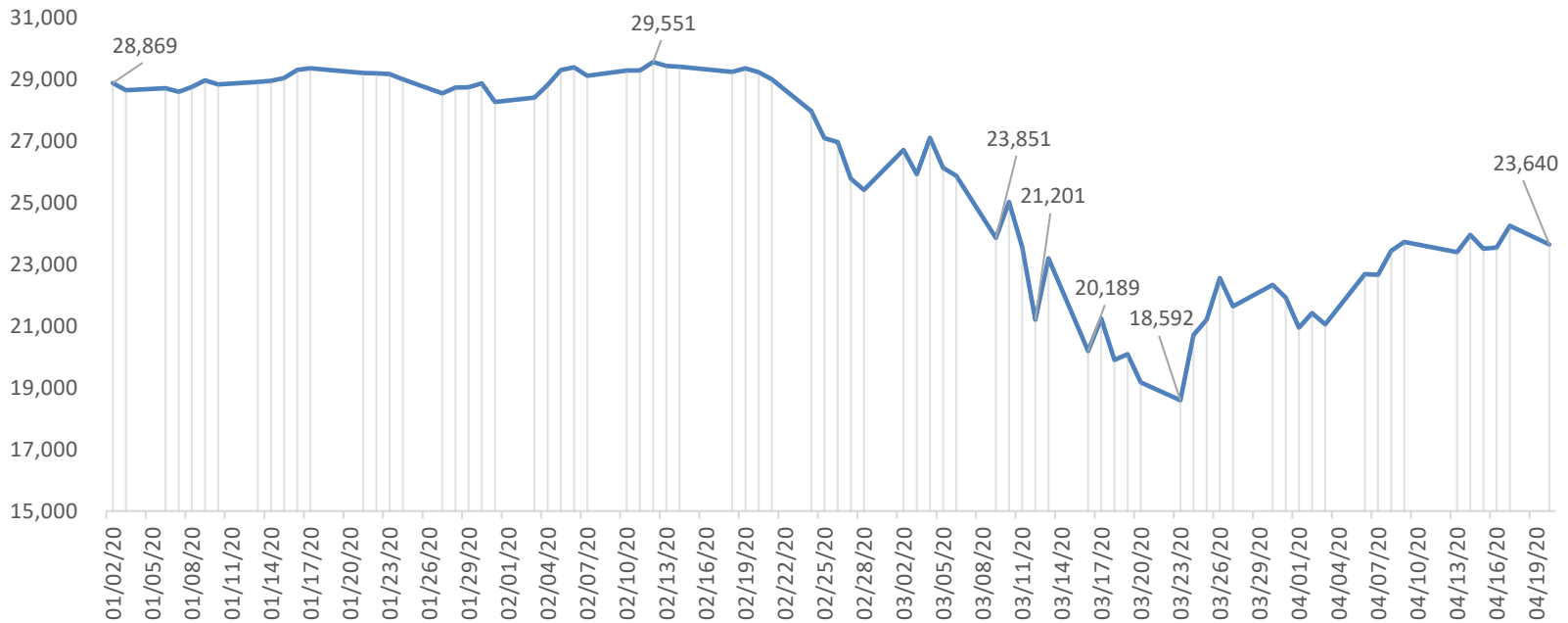
Agenda

- What's Happening To Create These Opportunities?
- “Small” Gifting Strategies
- “Large” Gifting Strategies
- Revisiting Current Trusts and Arrangements
- Life Insurance Matters
- Personal Income Tax Implications of CARES Act
- Wealth Management Opportunities
- Questions



What's Happening to Create These Opportunities?

2020 DJIA Closing Points (January 1, 2020 - April 20, 2020)

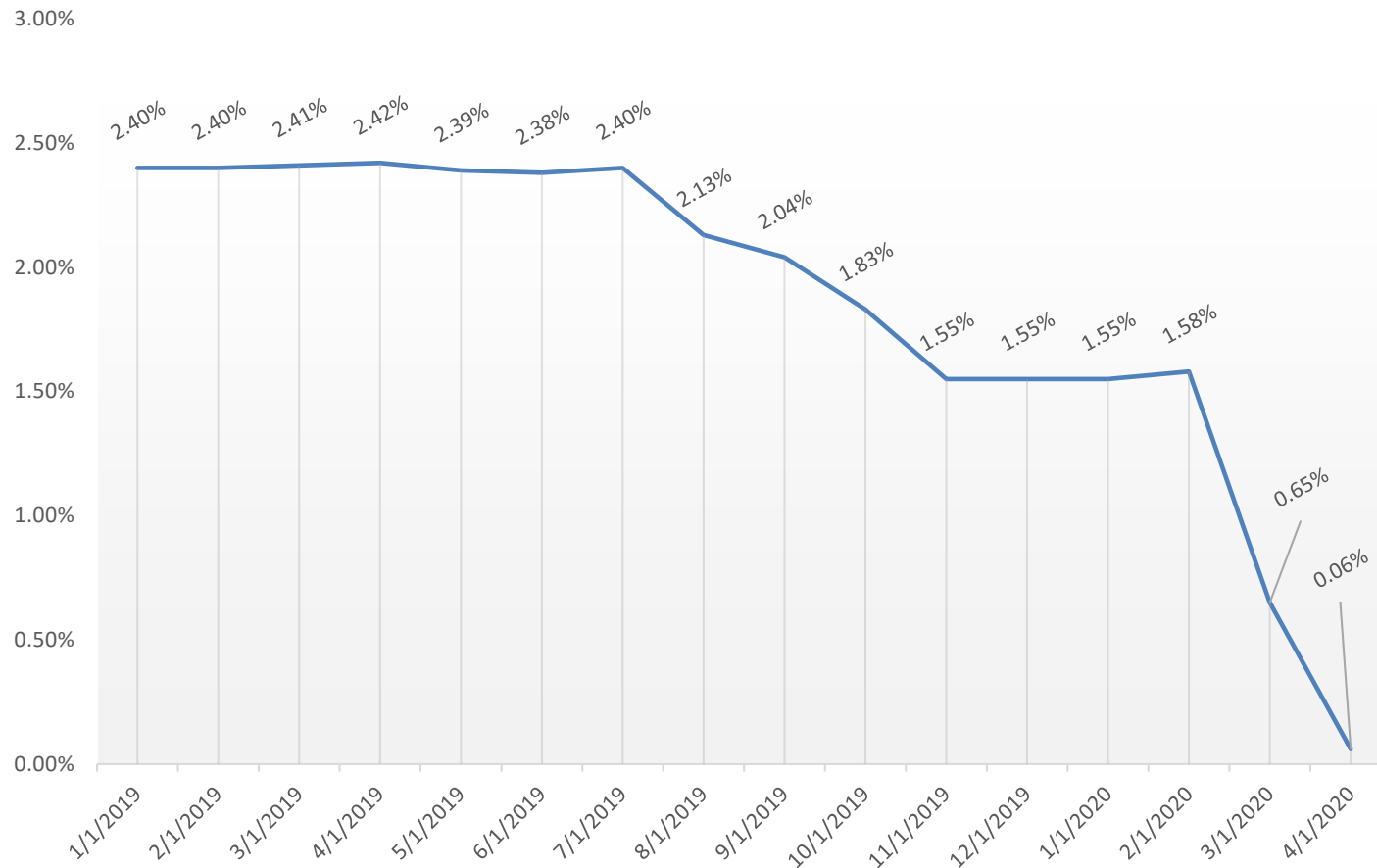


- 1/2/2020 Dow closes first trading day of the year at 28,869
- 2/12/2020 Record-setting close (Dow closes at 29,551.42)
- 3/9/2020 Largest single day plunge in history (Dow fell 2,013.76)
- 3/12/2020 New largest single day plunge (Dow fell 2,352.60)
- 3/16/2020 New largest single day plunge (Dow fell 2,997.10)
- 3/23/2020 Dow closes at low of 18,591.93 (lowest since 11/8/2016 close of 18,332.74)

Source: Yahoo Finance

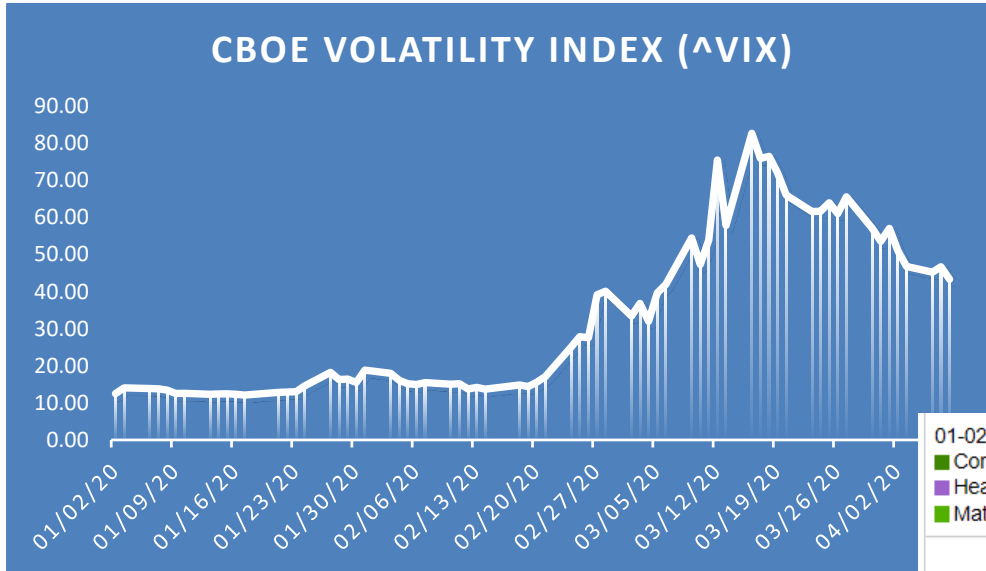
What's Happening to Create These Opportunities?

Effective Federal Funds Rate (January 1, 2019 - April 1, 2020)



Source: <https://fred.stlouisfed.org/series/FEDFUNDS>

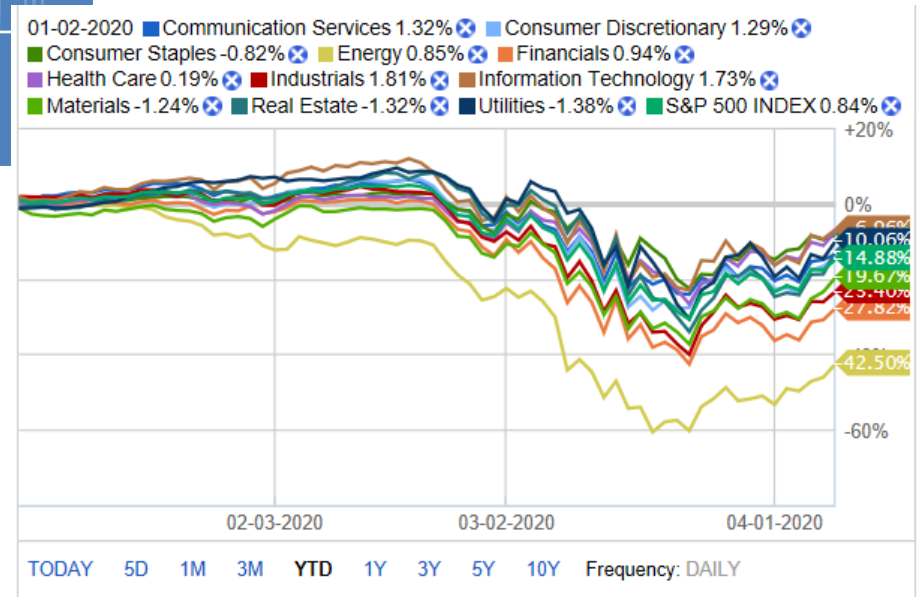
What's Happening to Create These Opportunities?



This increased volatility and lower market capitalizations in the public markets...

...indicate lower valuations for privately held companies as well

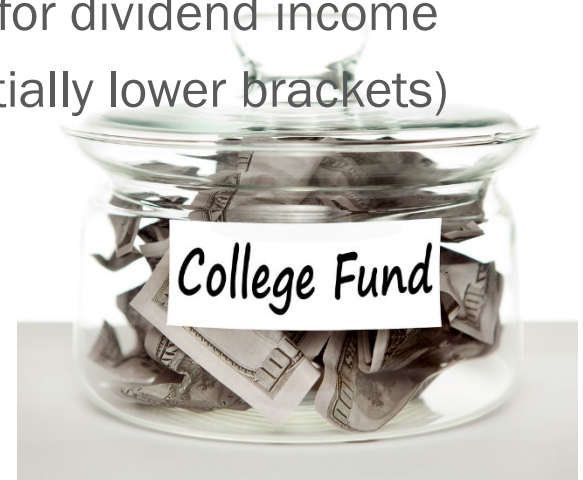
Source: <https://www.schneiderdowns.com/our-thoughts-on/current-market-conditions-valuations-estate-planning>



Source: Fidelity

Small Gifting Strategies

- Annual Exclusions
 - Current annual exclusion - \$15,000 per person
 - Commonly made at the end of the year
 - Commonly made in cash
 - Consider making these gifts now with “beat-up” securities
 - Other potential benefits with gifting securities (to adult children):
 - Lower income tax brackets (potentially) for dividend income
 - Could sell and diversify (again, at potentially lower brackets)
- 529 Plans
 - Take advantage of 5-Year Election



Small Gifting Strategies

- Charitable Contributions
 - Removal of AGI limitations for 2020 cash gifting to certain charities (covered in detail later)
 - Donor Advised Funds
 - If funds are invested, consider making donations from other sources
 - Investment perspective
 - AGI limitation perspective



Polling Question #1



Large Gifting Strategies

- Many clients already considering “large” gift before 1/1/2026 exemption reversion
- Impact of gifting followed by appreciation

		No Gifting	Gifting
Year 0	Value of Estate	\$50M	\$50M
	Gift Amount	\$0M	\$11M
	Taxable Estate	\$50M	\$39M
Year 7	Value of Estate*	\$100M	\$78M
	Less: Exemption*	\$94M	\$78M
	Tax Due	\$38M	\$31M

*Assumes value of assets doubles in 7 years, donor dies, and exemption reverts to \$6M

Large Gifting Strategies

“Simple” Strategy

Outright gifts of “devalued” asset

- Could consider gifts to grantor trusts for income tax leveraging opportunities and future asset swap opportunities
- Obtain valuation if needed, file gift tax return, and satisfy adequate disclosure rules

Large Gifting Strategies

Further Leveraging of Low Interest Rates

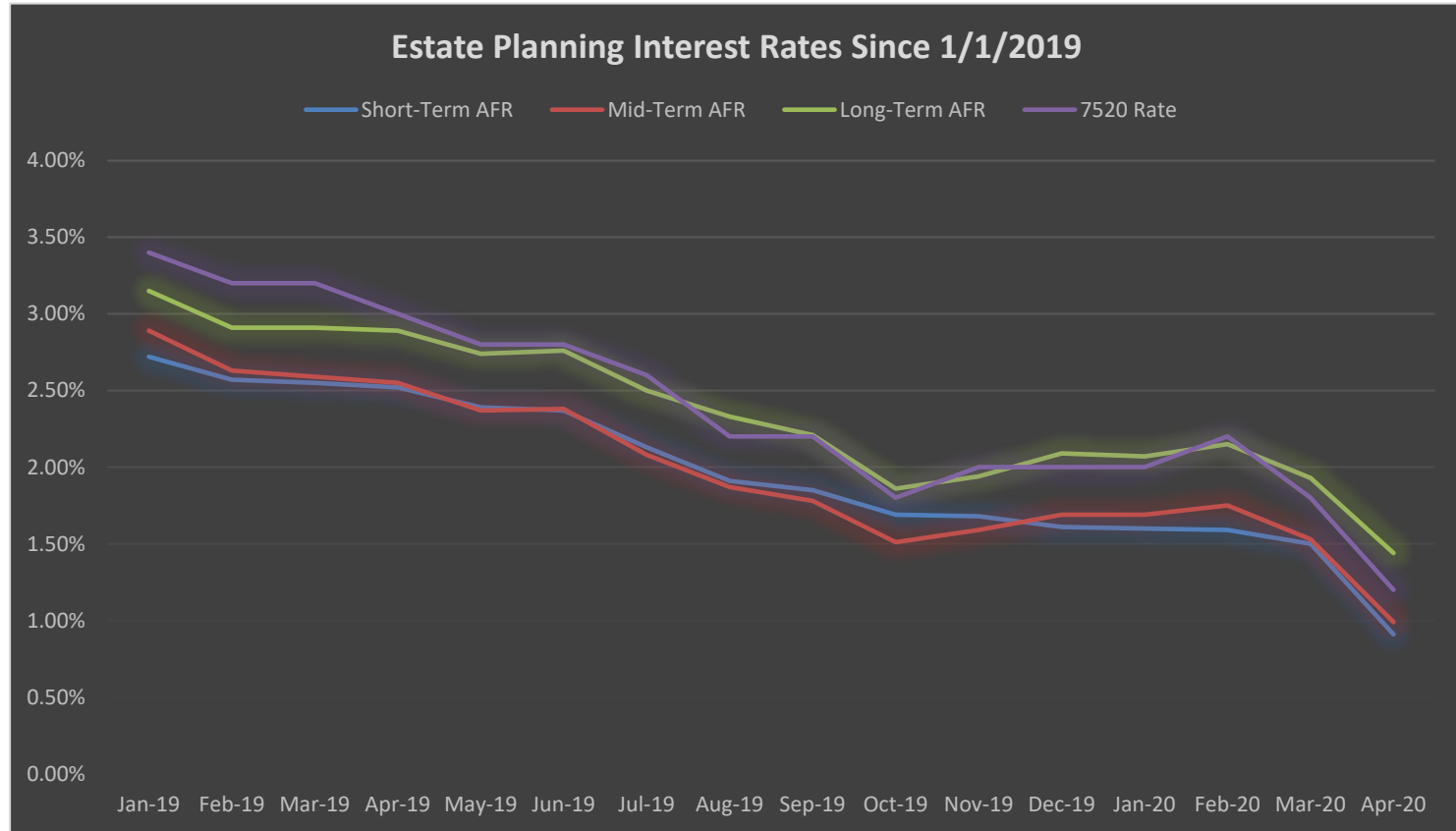
Grantor Retained Annuity Trusts (“GRATs”)

Sales to Intentionally Defective Grantor Trusts (“Sales to IDGTs”)

Intra-Family Loans



Large Gifting Strategies



	Short-Term AFR	Mid-Term AFR	Long-Term AFR	7520 Rate
April, 2020	0.91%	0.99%	1.44%	1.20%

Large Gifting Strategies

GRATs

- Transfer of property to a trust
 - Can be portfolio assets or closely-held business interests
- Grantor receives an annuity for certain period of time
- Uses Section 7520 rate
- Value of annuity is not taxable
- Value of remainder interest is a gift
- At end of term, any assets that remain in trust transferred to beneficiaries gift and estate tax free

Large Gifting Strategies

	Scenario 1	Scenario 2	Scenario 3
	10% Growth 2% 7520 Rate	10% Growth 1.2% 7520 Rate	20% Growth 1.2% 7520 Rate
Initial FMV	\$1,000,000	\$1,000,000	\$1,000,000
Term	3 Years	3 Years	3 Years
Annuity Payment	\$346,753	\$341,367	\$341,367
Assets Remaining	\$183,248	\$201,076	\$485,425

Large Gifting Strategies

Sales to IDGTs

- Similar to a GRAT
 - Transfer of property to a trust
 - Seller receives note back for a term of years
- Differences
 - Uses AFRs based on term of note
 - More flexible payment terms
 - Need to “seed” trust
 - GST benefits
 - Not codified



Large Gifting Strategies

Charitable Lead Trusts

- Donor transfers assets to a trust
- Charity receives payments, at least annually, for a period of time
- At end of term, remaining assets can pass to non-charitable beneficiaries



Large Gifting Strategies

	Scenario 1	Scenario 2	Scenario 3
	10% Growth 2% 7520 Rate	10% Growth 1.2% 7520 Rate	20% Growth 1.2% 7520 Rate
Initial FMV	\$1,000,000	\$1,000,000	\$1,000,000
Term	5 Years	5 Years	5 Years
Annuity Payment	\$150,000	\$150,000	\$150,000
Charitable Deduction	\$707,025	\$723,735	\$723,735
Value of Gift	\$292,975	\$276,265	\$276,265
Assets Remaining	\$694,745	\$694,745	\$1,372,080

Large Gifting Strategies

Intra-Family Loans

- Could consider making them for first time
 - Follow formalities
 - Note agreement, interest rate, collateral, etc.
- For existing intra-family debt, consider refinancing



Large Gifting Strategies

What's Not as Good...

- Qualified Personal Residence Trusts
- Charitable Remainder Trusts



Polling Question #2



Revisiting Current Trusts and Arrangements

- Swap Powers

- Many trusts that are grantor trusts afford someone the power to substitute assets of equal value
- Consider evaluating what assets are in trust, and what assets you own individually, to strategically place those assets with higher “pop” or growth potential in trust.



Revisiting Current Trusts and Arrangements

<i>Scenario 1 - No Swapping</i>						
	December 31, 2019		March 31, 2020		March 31, 2022	
	Mary	Mary's Trust	Mary	Mary's Trust	Mary	Mary's Trust
Value of Business	\$20M	\$10M	\$10M	\$10M	\$20M	\$10M
Estate Tax (40%)	\$8M	-	\$4M	-	\$8M	-

<i>Scenario 2 - Swapping on March 31, 2020</i>						
	December 31, 2019		March 31, 2020		March 31, 2022	
	Mary	Mary's Trust	Mary	Mary's Trust	Mary	Mary's Trust
Value of Business	\$20M	\$10M	\$10M	\$10M	\$10M	\$20M
Estate Tax (40%)	\$8M	-	\$4M	-	\$4M	-

Revisiting Current Trusts and Arrangements

- What about that failing GRAT...
 - Can't end early, but...
 - Consider swapping out “beat-up” asset in GRAT for cash, then re-GRAT.
 - What if cash isn't available”
 - Other assets
 - Notes



Revisiting Current Trusts and Arrangements

Year	Description	4 Year GRAT	Let GRAT Run	SWAP for Cash and New 2- Year GRAT
Year 0	FMV of Assets	\$1,000,000		
Year 1	Appreciation (5%)	\$1,050,000		
	Annuity Payment	<u>-\$257,546</u>		
		\$792,454		
Year 2	Appreciation (5%)	\$832,077		
	Annuity Payment	<u>-\$257,546</u>		
		\$574,531		
Beginning Year 3	Appreciation (-20%)	\$459,625	\$459,625	\$459,625
End of Year 3	Appreciation (10%)		\$505,587	\$505,587
	Annuity Payment		<u>-\$257,546</u>	<u>-\$233,953</u>
			\$248,041	\$271,634
Year 4	Appreciation (10%)		\$272,845	\$298,797
	Annuity Payment		<u>-\$257,546</u>	<u>-\$233,953</u>
			\$15,299	\$64,844

Life Insurance Matters

- Cash value of permanent policies for loans
- Let policies lapse?
 - Intent
 - Options for buying time on paying premiums
 - Cost to replace
 - Sell Policies
- Premium Financing Arrangements
 - Collateral concerns



Personal Income Tax Implications of CARES Act

- The Coronavirus Aid, Relief, and Economic Security (“CARES”) Act



Personal Income Tax Implications of CARES Act

- The Coronavirus Aid, Relief, and Economic Security (“CARES”) Act*
 - \$300 “above-the-line” deduction for charitable contributions
 - No AGI limitation for cash gifts to public charities (not DAF’s, supporting orgs, or private foundations)
 - Removed “excess business loss” limitations enacted under TCJA for 2018, 2019 and 2020.
 - NOL’s created in 2018, 2019 and/or 2020 can now be carried back 5 years (as modified under TCJA)

*Highlighting only certain income tax provisions applicable to individuals

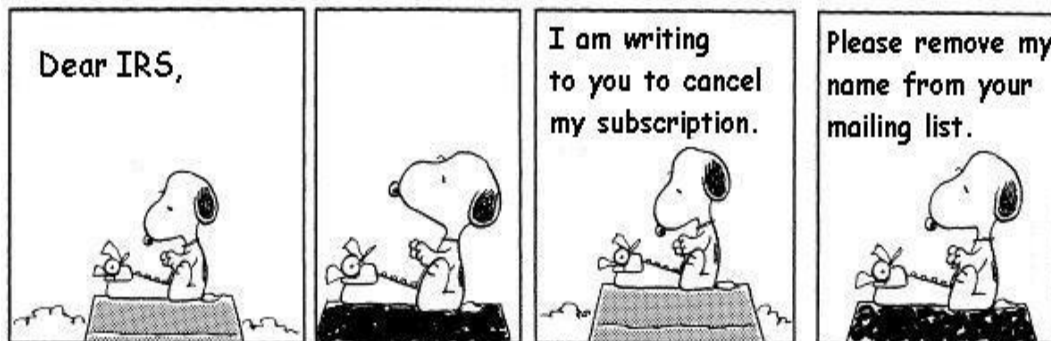
Personal Income Tax Implications of CARES Act

- The Coronavirus Aid, Relief, and Economic Security (“CARES”) Act (continued)*
 - Withdrawals of up to \$100,000 from qualified retirement plans for “Coronavirus –related distributions” not considered income if repaid within 3 years. If not repaid, and under 59 ½, 10% penalty waived.
 - 2020 RMD’s from qualified plans waived
 - Also, for those who turned age 70 ½ or retired in 2019, 2019 distributions that have not yet been taken do not need to be taken.

*Highlighting only certain income tax provisions applicable to individuals

Personal Income Tax Implications of CARES Act

- Deadlines
 - Filing deadline moved to 7/15
 - Q1 and Q2 estimates not due until 7/15
- Considerations
 - If expecting refund, file ASAP
 - If expecting tax due, prep and hold
 - Estimates
 - To pay or not to pay?



Personal Income Tax Implications of CARES Act

- Roth Conversions
 - How do they work?
 - Why do them now?
 - Filing/reporting requirements



Polling Question #3



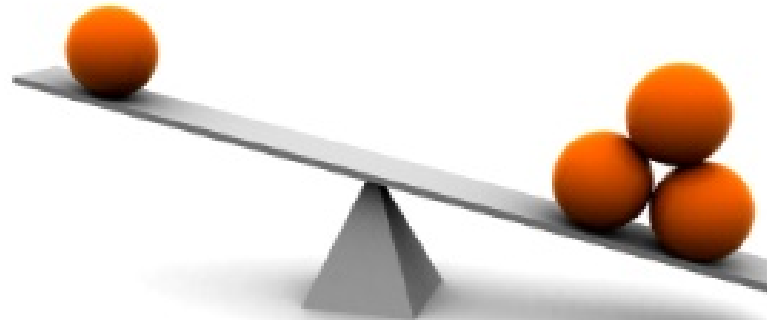
Wealth Management Opportunities

- Tax Loss Harvesting
 - What is it?
 - What if I want to keep that security long term?
 - What about the wash sale rules?



Wealth Management Opportunities

- Portfolio Rebalancing
 - What is it?
 - Why is it important?
 - Why is now a good time to consider it?



Questions

QUESTIONS

