



# PLANNING NOW FOR THE LOOMING ESTATE & GIFT TAX EXEMPTION SUNSET

Al Yambor, CFP®, CEPA®

Heather Welsh, CFP®, AEP®

## AGENDA

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# DISCUSSION OBJECTIVES

	The Silver Lining of Sunset
02	Income Tax Planning Techniques
03	Estate Tax Planning Techniques
04	Additional Considerations & Planning Opportunities





# THE SILVER LINING OF SUNSET





## KEY SUNSET PROVISIONS

- Increase in marginal tax rates
- Reduction of the standard deduction
- Elimination of the SALT cap
- Reduction of the estate & gift tax exemption

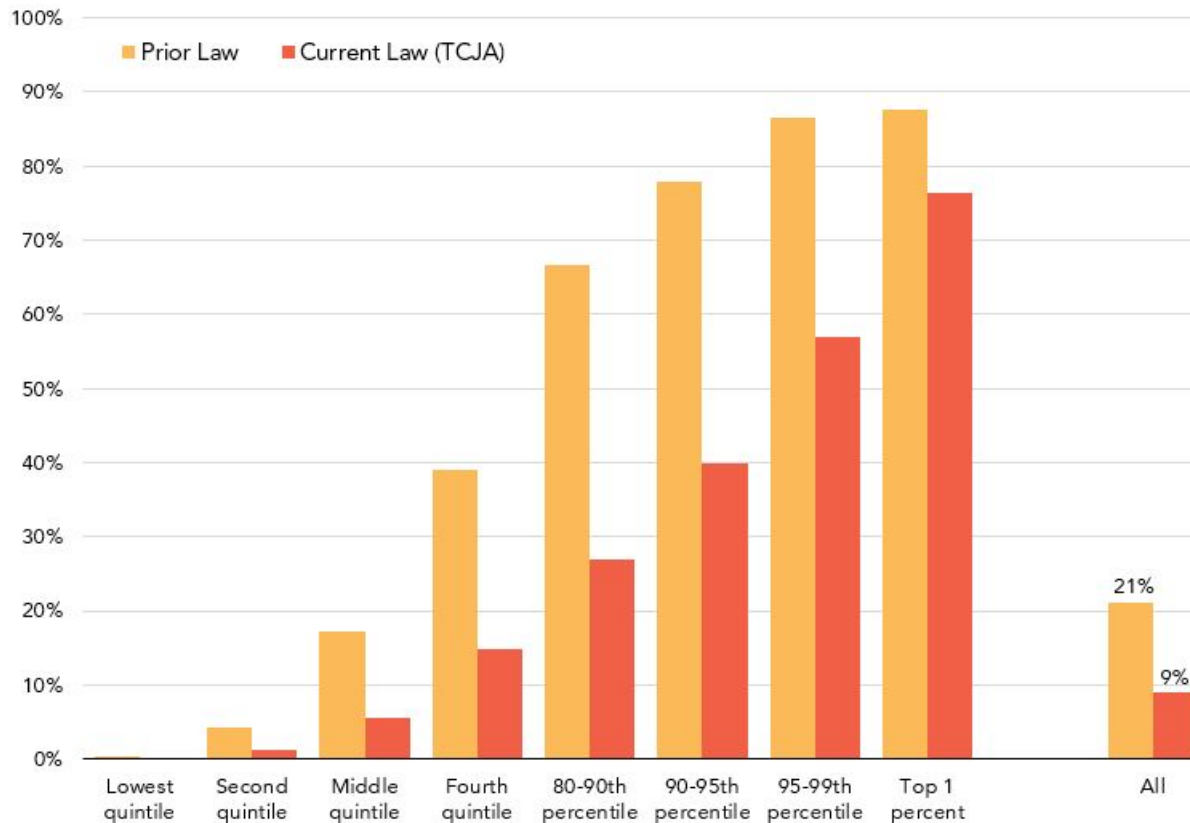


# Sunset increases the opportunity to claim charitable deductions.

FIGURE 1

Share of Taxpayers Taking Itemized Deductions for Charitable Giving under Prior Law and the TCJA

By expanded cash income percentile, 2018

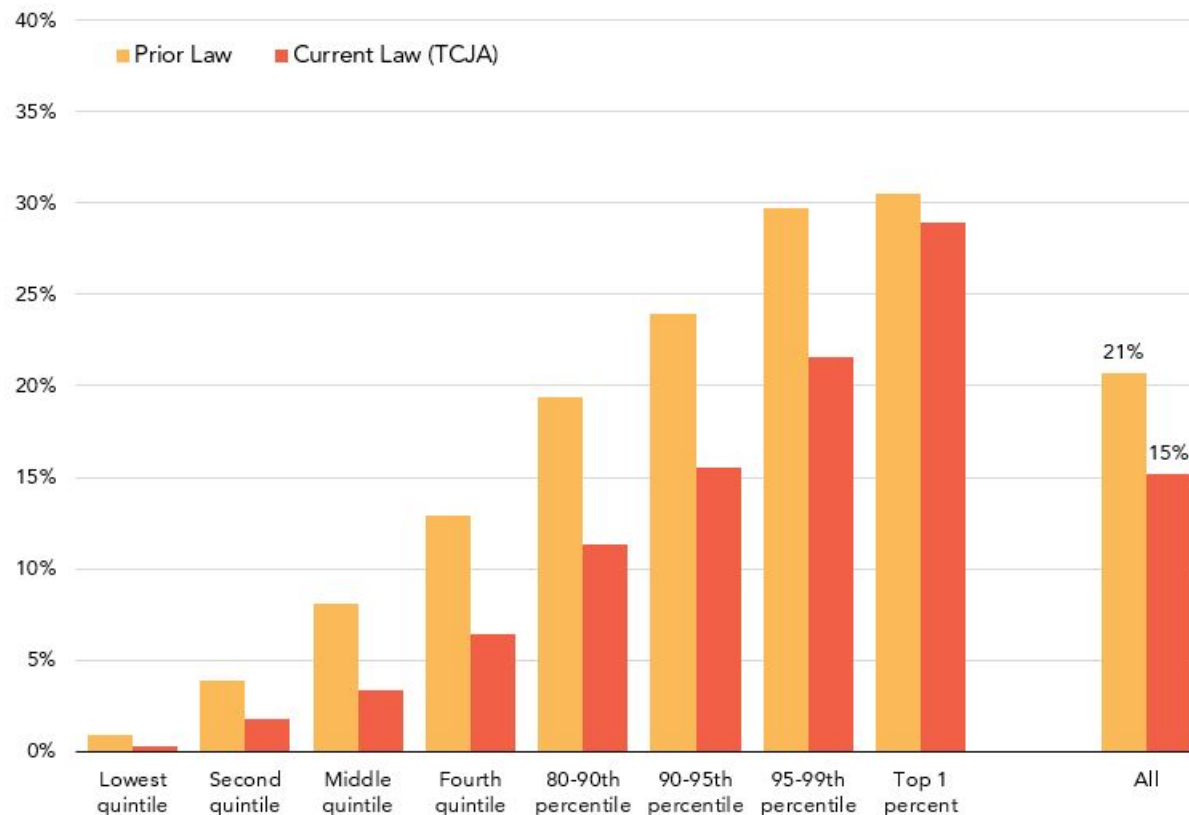


Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0217-1).

# Marginal tax benefits of charitable giving increase with sunset.

FIGURE 2

Estimated Effective Marginal Tax Benefit of Charitable Giving under Prior Law and the TCJA  
By expanded cash income percentile, 2018



Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0217-1).

Notes: Data shows the average marginal tax subsidy for a \$100 donation.



# INCOME TAX PLANNING TECHNIQUES

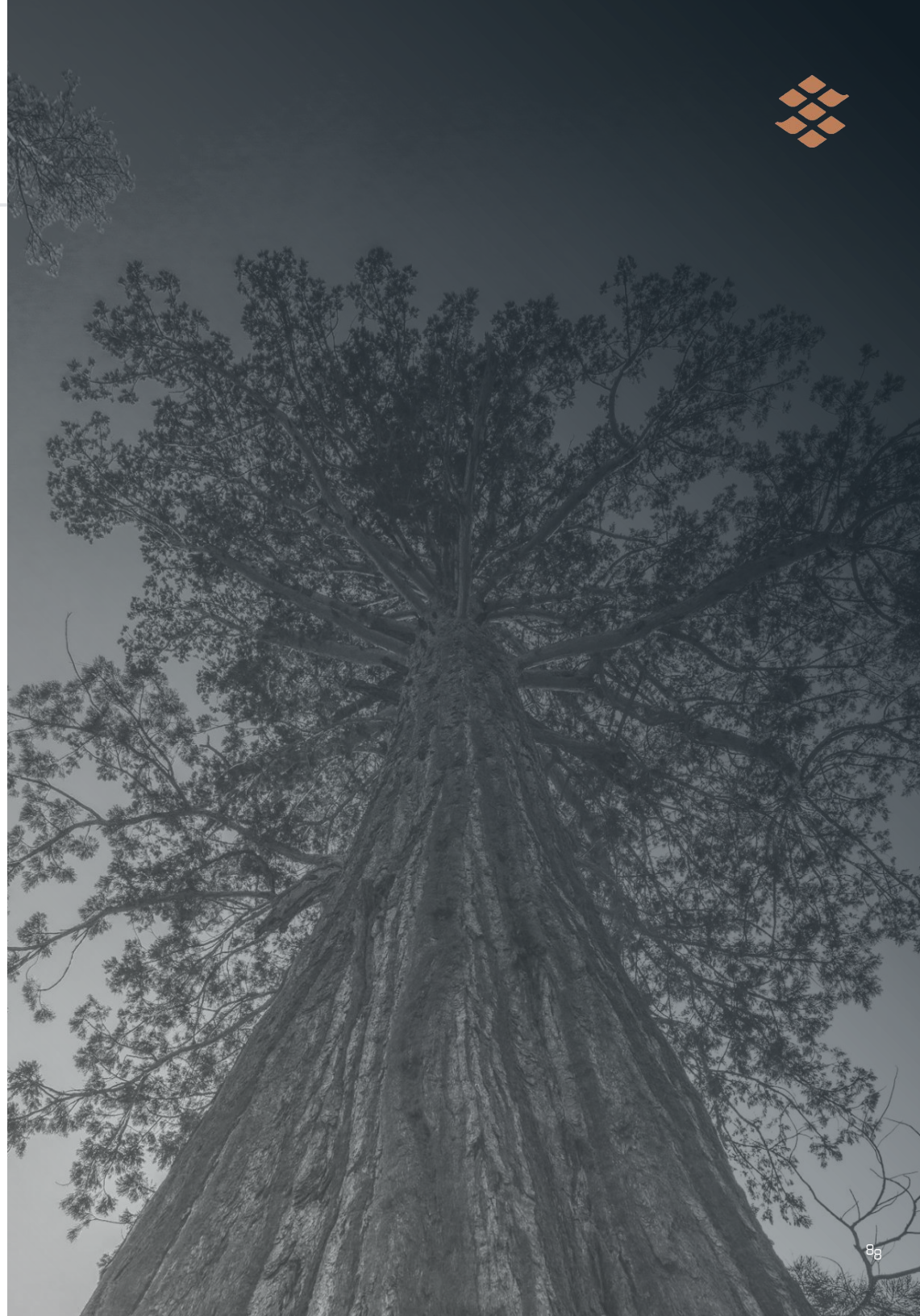






## WHEN CASH IS KING

- Cash gifts to public charities:
  - 60% today
  - 50% post-sunset



# Bunching vs. Annual Gifting



Grantors open a donor advised fund (DAF) account and make an initial contribution, which can be cash, stock, mutual funds, or other assets.

The DAF sponsor is a 501(c)(3) public charity, which means that the contribution is a charitable gift and therefore eligible for a deduction in the year of the gift.

The grantor/account owner can then recommend grants out of the DAF to eligible recipient charities.



## FISCAL SPONSORSHIP FUNDS

- Alternative to DAFs for donors seeking:
  - Direct involvement in running programs
  - Simplified administration of Charitable Projects
  - Support for non-501c3 recipients i.e. individuals
  - Raise funds from other donors to support a project





## QUALIFIED CHARITABLE DISTRIBUTIONS (QCDs)

- Age 70 ½ or older
- \$105,000/taxpayer limit (indexed for inflation)
- Does not impact AGI
- Reduction of future RMDs – potentially at higher rates

## CHARITABLE GIFT ANNUITIES

- Lifetime transfer of cash or property to qualified charity in exchange for single or joint life annuity
- Charity retains any amounts remaining at the end of the annuity term
- Immediate income tax deduction for actuarial value of the donation
- Recognize gain as payments are received
- Charity's payment obligation is unsecured
- Receiving additional attention following SECURE 2.0, allowing CGAs from QCDs



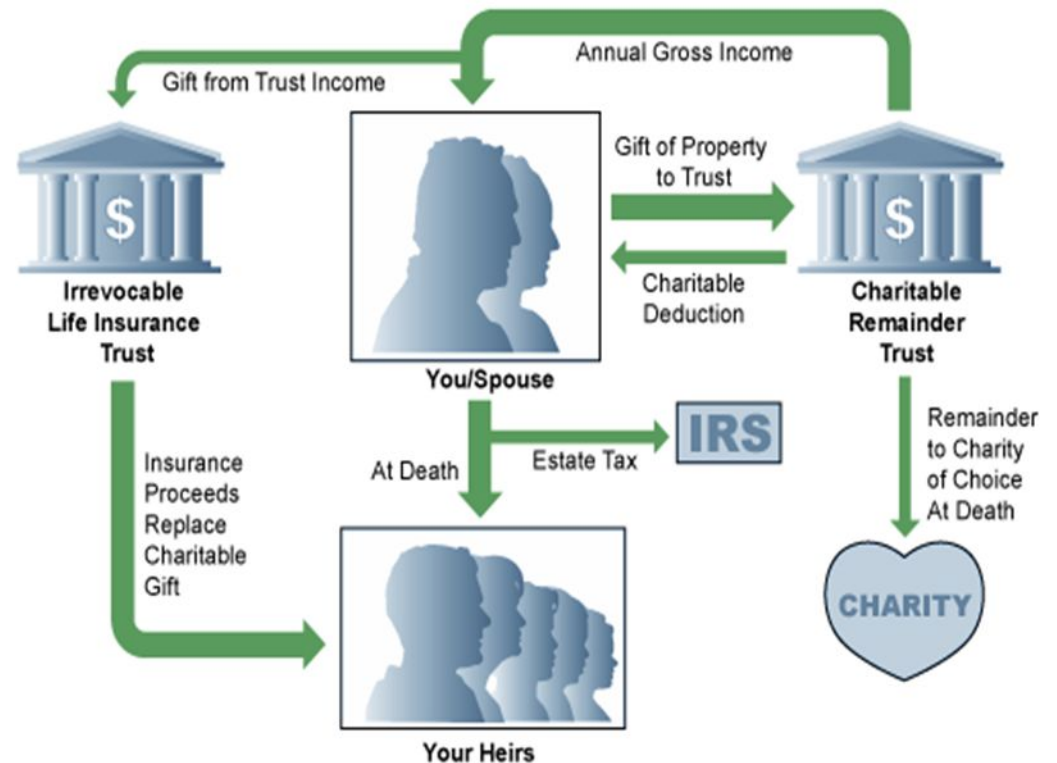
# ESTATE TAX PLANNING TECHNIQUES





# CHARITABLE REMAINDER TRUSTS (CRT)

- Annual payments (5-50%) to non-charitable beneficiary with annuity based on the §7520 rate
  - Watch for decreasing rates
- Excess appreciation to charity at the end of the trust term (10%+)
- Flexible structures
  - NIM-CRUT
  - FLIP-CRUT

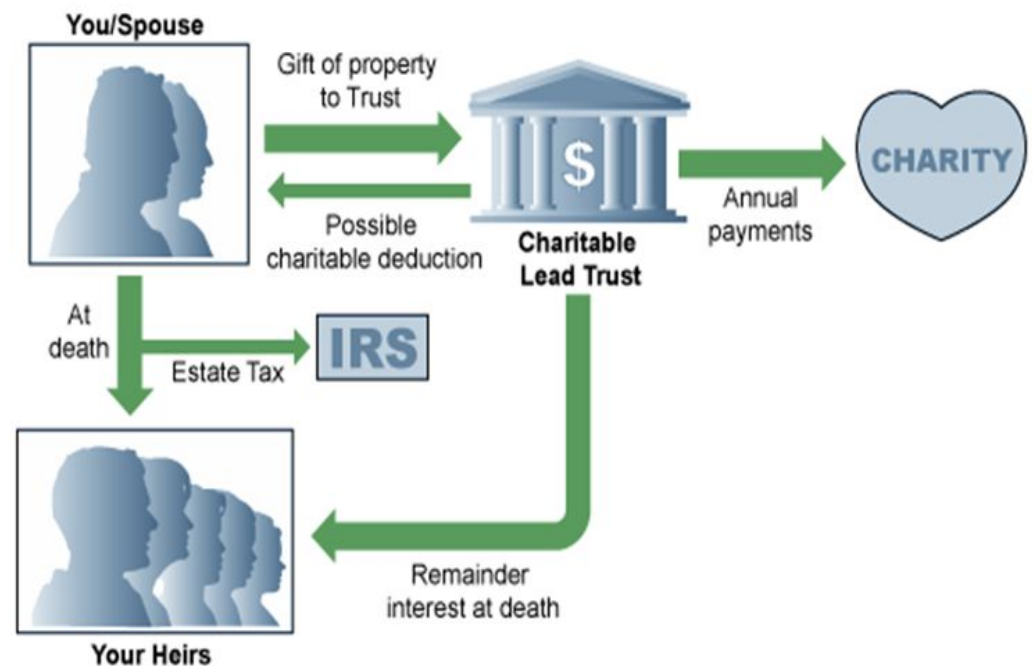


## CRTs IN ACTION

- Stretch IRA alternative
  - Concentrated stock diversification
  - Business succession
- \$1,000,000 initial funding
  - \$50,000 annual payment
  - 20-year term
  - 5% 7520 rate
    - \$509,480 retained interest
    - \$490,520 charitable gift
  - 2.5% 7520 rate
    - \$621,200 retained interest
    - \$378,800 charitable gift

# CHARITABLE LEAD TRUSTS (CLTs)

- Annual payments to charity with annuity based on the §7520 rate
  - More attractive at lower interest rates
- Excess appreciation to heirs at the end of the trust term
- Charitable beneficiary options
  - Restrictions on family foundations
- Non-Grantor vs. Grantor (Reversionary vs. Non-Reversionary)





## PRACTICAL APPLICATION OF CLTs

- Testamentary CLTs
- Shark-fin CLTs
- \$1,000,000 initial funding
- \$50,000 annual payment
- 20-year term
- 5% 7520 rate
  - \$623,111 charitable gift
  - \$376,889 remainder interest
- 2.5% 7520 rate
  - \$779,458 charitable gift
  - \$220,542 remainder interest



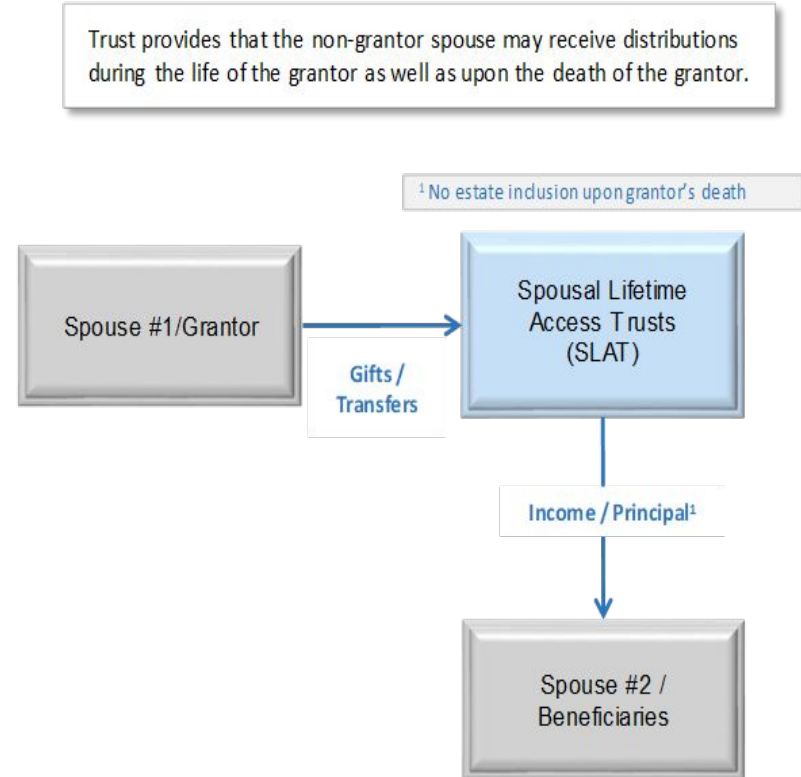
## INTENTIONALLY DEFECTIVE GRANTOR TRUSTS (IDGT)

- Future appreciation outside estate
- Tax burn further reduces grantor's estate
- Carryover basis for heirs
  - Consider swap powers
- Flexibility in providing for heirs vs. charity
  - Consider power to add a charitable beneficiary
- Efficient GSTT planning vehicle
- Gift vs. sale

# SPOUSAL LIFETIME ACCESS TRUSTS (SLAT)

Have your cake & eat it too... indirectly

- IDGT with spousal beneficiary
- Risks of death & divorce
- Joint asset waiting period
- Gift splitting
- Reciprocal trusts



# Unlimited charitable deductions are permitted for estate planning.

1

## Gross Estate Value

- \$13.61 million exemption
- 50% reduction in 2026

2

## Assets Available

- Tax efficiency for heirs vs. charity
- Charity's acceptance policy

3

## Notice to Charity

Consider whether to notify the charity of the intended gift during your lifetime.





# ADDITIONAL CONSIDERATIONS & PLANNING OPPORTUNITIES



## FUNDING WITH BUSINESS INTERESTS

- Leverage through valuation discounts
- Review governing documents
- Fair & equal are not always the same







## CONSIDERATIONS FOR EXECUTIVES

- The power of gifting stock options
- Transferability restrictions
- Trading windows





## INTERTWINED INCOME & ESATE TAX PLANNING COMPLEXITIES

- Over 20 sunseting provisions such as:
  - Income tax brackets
  - Itemized vs. standard deductions / SALT cap elimination
  - Return of miscellaneous itemized deductions, personal exemptions, & Pease limitations
  - 199A / QBI
  - Estate exemptions
- Interface of higher brackets with post-SECURE inherited IRAs
  - Beneficiary considerations
  - Roth strategies
  - Distribution planning for inherited IRA beneficiaries



## IT'S NOT ALWAYS ABOUT THE TAX...

- Personal Value and Beliefs
- Philanthropic Goals
- Community and Social Responsibility
- Lack of Awareness or Concern

# Q&A

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