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WEBINAR

# Estate Planning in 2024

WELCOME

# Today's Presenter



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# Agenda

- Federal Estate Tax Basics
- Planning for Upcoming Changes in Estate Tax Environment
- Navigating Interest Rates
- State Estate and Inheritance Tax Considerations
- Corporate Transparency Act
- Preparation Strategy
- Enhancing Professional Relationships & Collaboration
- Q&A

## ESTATE PLANNING IN 2024

# Federal Estate Tax Basics

- Federal estate tax is computed based on the fair market value of the decedent's assets at death reduced by the decedent's liabilities, estate administration expenses, charitable bequests, the marital deduction, state estate/inheritance taxes paid, and their remaining federal lifetime estate exemption.
  
- 2024 Federal Lifetime Estate & Gift Exemption:
  - \$13,610,000 per taxpayer
  - \$27,220,000 per married couple
  
- Top federal estate tax rate is 40%.

## ESTATE PLANNING IN 2024

# Federal Estate Tax Basics

	Estate Tax Computation
Value of Assets at Death	\$ 133,610,000
Less: Expenses & Liabilities	(10,000,000)
Less: Charitable Bequests	(10,000,000)
Less: Lifetime Exemption	<u>(13,610,000)</u>
Taxable Estate	\$ 100,000,000
Federal Estate Tax	<u>(40,000,000)</u>
Net After-Tax Estate	\$ 60,000,000

## ESTATE PLANNING IN 2024

# Federal Estate Tax Basics

- **Annual Exclusion Gifts** – Amount taxpayers may gift to donees each year free of gift tax
  - \$18,000 per recipient (\$36,000 if gift splitting) in 2024
- **Payments made directly to healthcare and educational institutions** are excluded from gifts
- **Marital Deduction** - Unlimited deduction for gifts to spouse or property passing to surviving spouse at death
- **Portability** – Ability to elect to transfer at death any unused lifetime exclusion to surviving spouse, known as the Deceased Spousal Unused Exemption ("DSUE")
- **Valuation Discounts** – Leverage discounts for lack of control or lack of marketability

## ESTATE PLANNING IN 2024

# Federal Estate Tax Basics

- **Generation Skipping Transfer Tax ("GST")**
  - Applies to "generation-skipping" transfers to beneficiaries who are more than one generation below the transferor's generation
- "Generation-Skipping" Transfers include:
  - Direct skips (gifts directly to grandchildren or recipients who are 37½ years younger than donor)
  - Taxable distributions from trusts that are not GST-exempt
  - Taxable terminations of trusts that are not GST-exempt
- GST Exemption Allocation
  - Separate exemption from lifetime estate/gift tax exemption
  - No portability of GST exemption



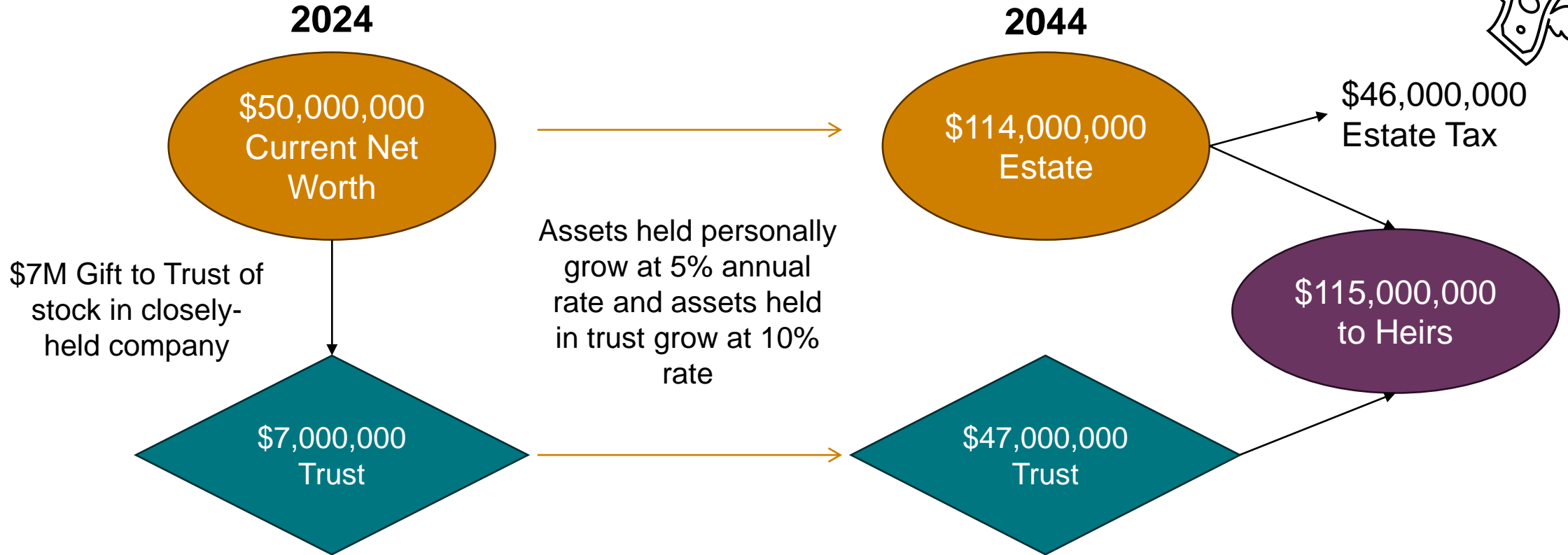
## ESTATE PLANNING IN 2024

# "Use It Or Lose It" Lifetime Estate Exemption

- **2024 Federal Lifetime Estate & Gift Exemption:**
  - **\$13,610,000 per taxpayer**
  - **\$27,220,000 per married couple**
  
- Under the Tax Cuts & Jobs Act of 2017, **exemption will revert to \$5,000,000 per taxpayer, indexed for inflation, as of January 1, 2026 (approx. \$7,000,000).**
  
- IRS has confirmed it will not “claw back” gifts made during period of higher exemption.

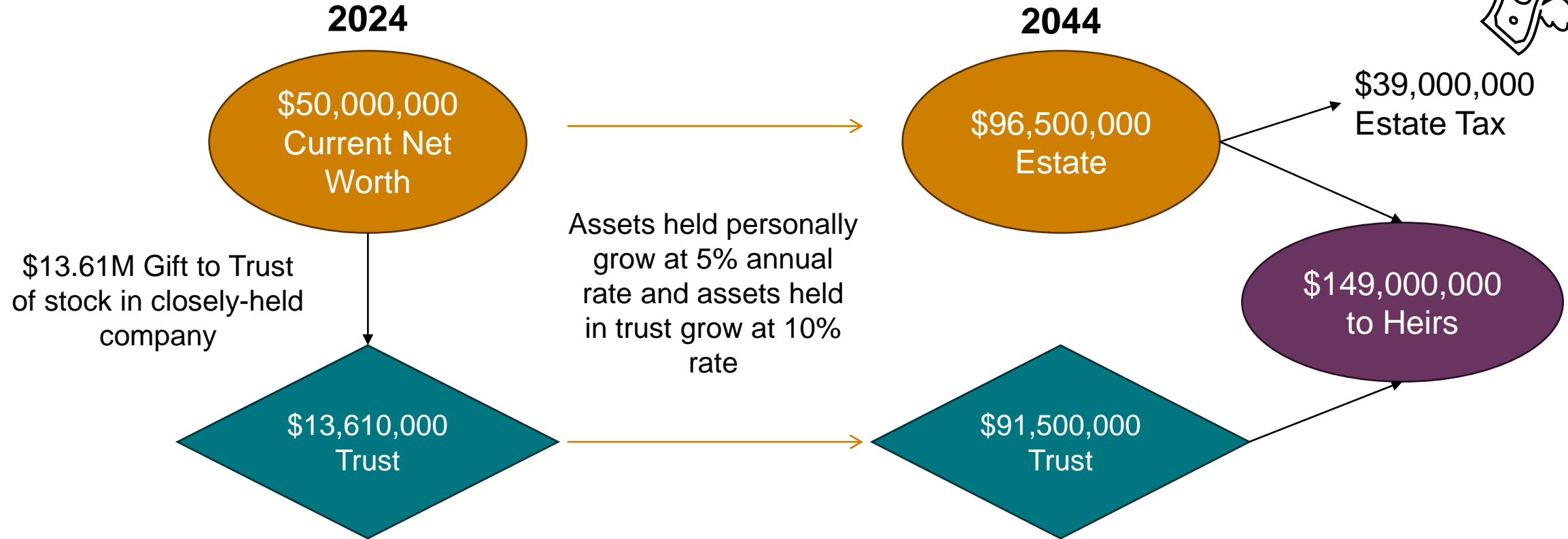
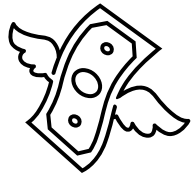
ESTATE PLANNING IN 2024

# “Lose It” Scenario – Only Using \$7M



ESTATE PLANNING IN 2024

# “Use It” Scenario – Using Full \$13.61M



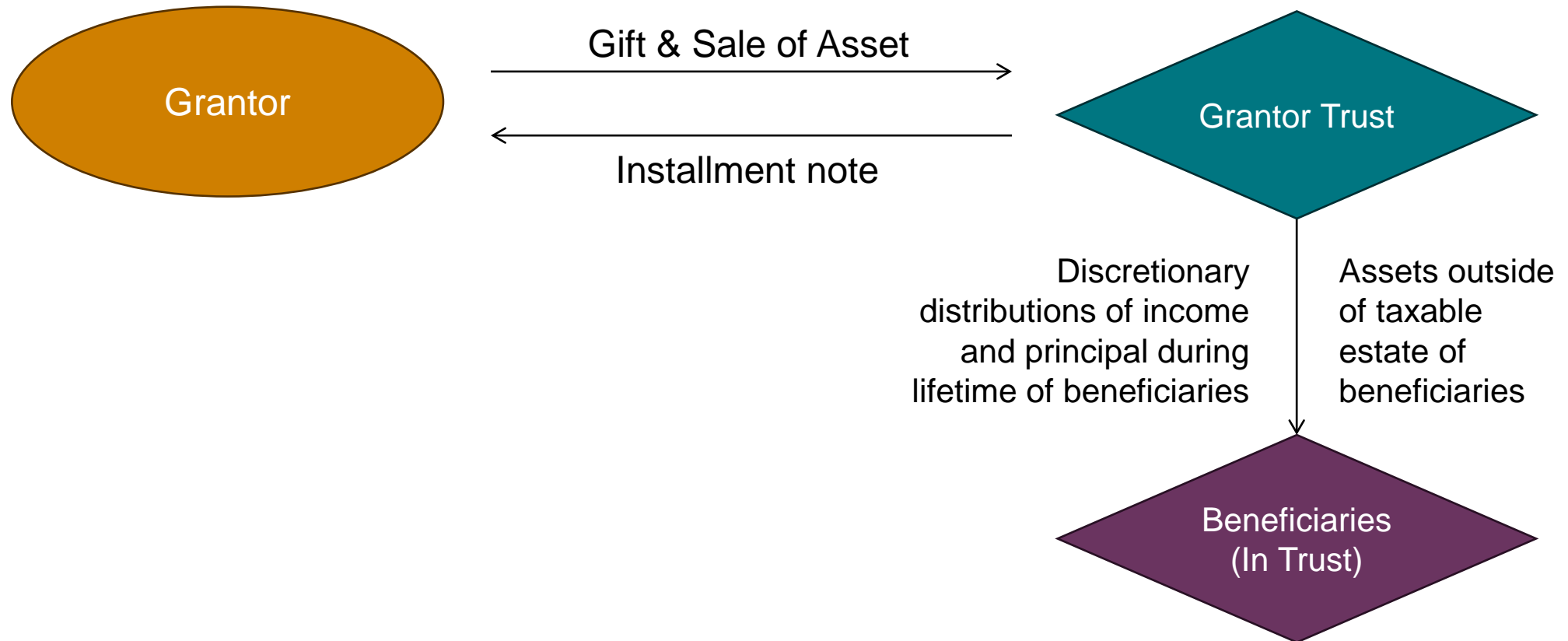
## ESTATE PLANNING IN 2024

# Gift & Sale to Intentionally Defective Grantor Trust

- Grantor sells appreciating asset to Trust in exchange for installment note.
- Grantor typically required to make “seed gift” to Trust for at least 10% of installment note amount.
- Interest rate on note must be at least the Applicable Federal Rate, and the loan term should be reasonable given the facts and circumstances.
- Trust required to make installment note payments to Grantor – may be structured as annual interest only payments with balloon principal payment at end of term.
- Ability to refinance note at lower rate in future.
- To the extent the growth rate on the asset sold to the Trust exceeds the interest rate on the installment note, the excess value is passed on to the beneficiaries free of any federal gift or estate tax.

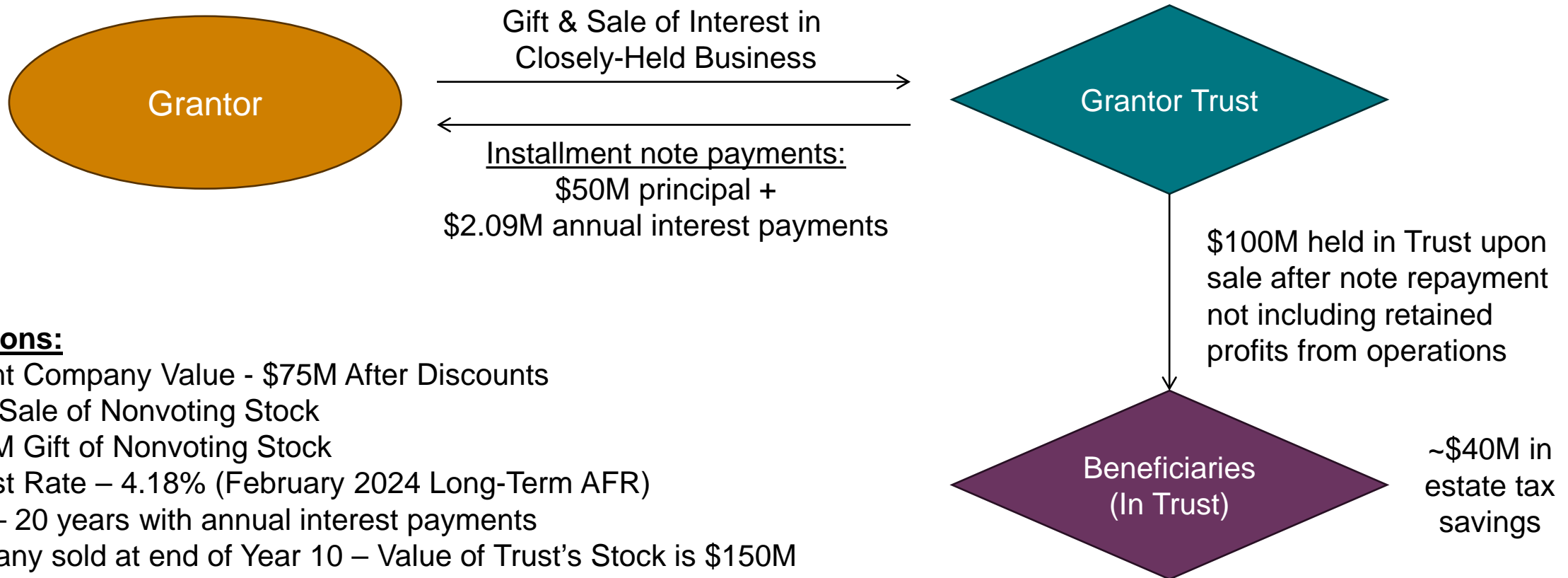
ESTATE PLANNING IN 2024

# Gift & Sale to Intentionally Defective Grantor Trust



ESTATE PLANNING IN 2024

# Gift & Sale to Intentionally Defective Grantor Trust



**Assumptions:**

- Current Company Value - \$75M After Discounts
- \$50M Sale of Nonvoting Stock
- \$13.6M Gift of Nonvoting Stock
- Interest Rate – 4.18% (February 2024 Long-Term AFR)
- Term – 20 years with annual interest payments
- Company sold at end of Year 10 – Value of Trust’s Stock is \$150M

## ESTATE PLANNING IN 2024

# Gift & Sale to Intentionally Defective Grantor Trust

### ■ Advantages:

- Transaction disregarded for income tax purposes – no tax on capital gain upon sale or interest payments
- Freezes value of assets sold to IDGT in taxable estate
- Grantor pays income tax on trust income during life, further reducing taxable estate and leaving more assets in trust for beneficiaries
- Valuation discounts increase effectiveness of gift and sale

### ■ Disadvantages:

- No step up in basis for the assets held in trust upon death of grantor
- Remaining note balance included in estate if grantor dies during loan term
- Trust income being taxed to grantor may cause liquidity issues

## ESTATE PLANNING IN 2024

# Gift & Sale to Intentionally Defective Grantor Trust

### ■ **Other Considerations:**

- Close attention needs to be paid to trustees and successor trustees to maintain grantor trust status
- Important to consider cash flow from asset transferred to ensure it will be sufficient to cover installment note payments
- If asset transferred is stock in an S Corporation, need to ensure distributions from S Corporation are made on pro-rata basis to all shareholders, including new trust, in order to maintain S Election



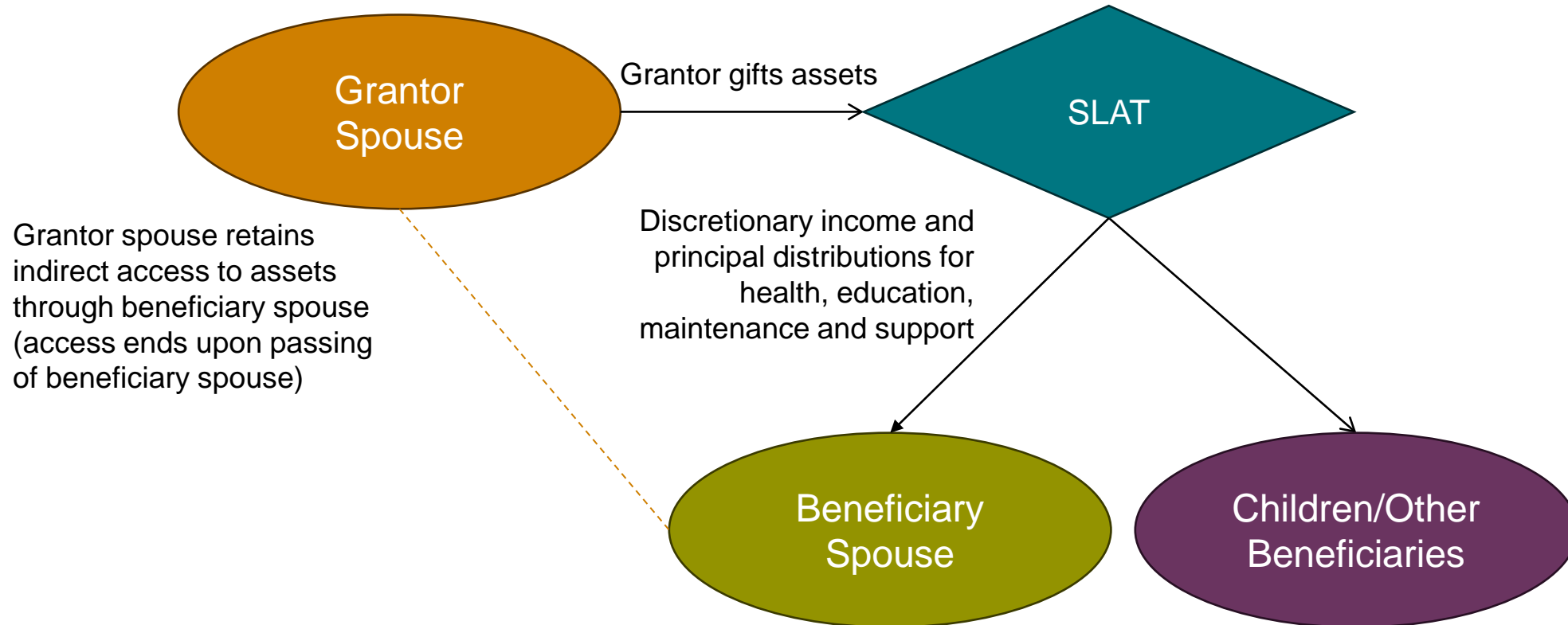
## ESTATE PLANNING IN 2024

# Spousal Lifetime Access Trust (“SLAT”)

- Strategy for married couples who may be unsure whether they can gift away a certain level of wealth while maintaining their lifestyle
- Transfer appreciating assets out of estate through use of lifetime estate tax exemption while retaining indirect access to assets through beneficiary spouse
- SLATs may be created by each spouse for the other, but gifts made to the trusts must come from separate accounts and the trust provisions must not be identical

ESTATE PLANNING IN 2024

# Spousal Lifetime Access Trust (“SLAT”)



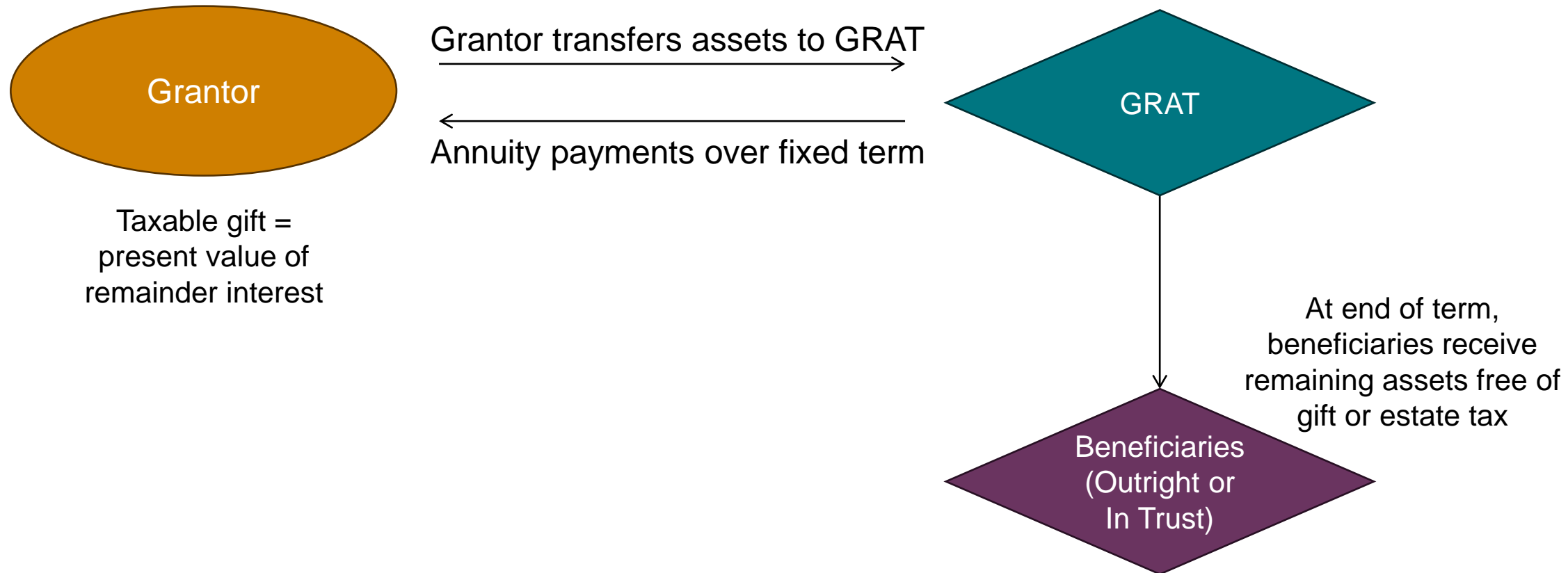
## ESTATE PLANNING IN 2024

# Grantor Retained Annuity Trust (“GRAT”)

- Transfer appreciation of certain assets out of estate with little or no gift and estate tax consequences.
- Grantor creates an irrevocable trust and retains the right to receive an annuity over the trust’s term. When the term expires, the trust terminates, and the beneficiaries receive the remaining assets. If the grantor dies before the term expires, a portion of the assets will be included in the grantor’s estate.
- “Zeroed Out” GRATs (where present value of remainder interest is zero) requires no estate tax exemption to make gift
- Annuity payments and remainder interest computed based on §7520 rate.

ESTATE PLANNING IN 2024

# Grantor Retained Annuity Trust (“GRAT”)



ESTATE PLANNING IN 2024

# Other Estate & Income Tax Planning Strategies

- Irrevocable Life Insurance Trusts
- Review Current Estate Plan and Beneficiary Designations
- Charitable Gift Planning
  - Private Foundations
  - Donor Advised Funds
  - Charitable Trusts
  - Charitable Gift Annuities
  - IRA Qualified Charitable Distributions
- Roth IRA Conversions
- Substitution of Assets – Income Tax Basis Planning

## ESTATE PLANNING IN 2024

# Navigating Interest Rates

- **Effects of changing rates on estate planning:** The shift in interest rates profoundly influences estate planning. High-interest rates can affect the attractiveness of certain wealth transfer strategies while making others more appealing. These changes necessitate a careful re-evaluation of estate plans to ensure they align with the current economic environment.

## Low Interest Rate Environment

- Sales to Intentionally Defective Grantor Trusts (IDGTs)
- Intra-family Loans
- Grantor Retained Annuity Trusts (GRATs)
- Charitable Lead Annuity Trusts (CLATs)

## High Interest Rate Environment

- Qualified Personal Residence Trusts (QPRTs)
- Charitable Remainder Trusts (CRATs)

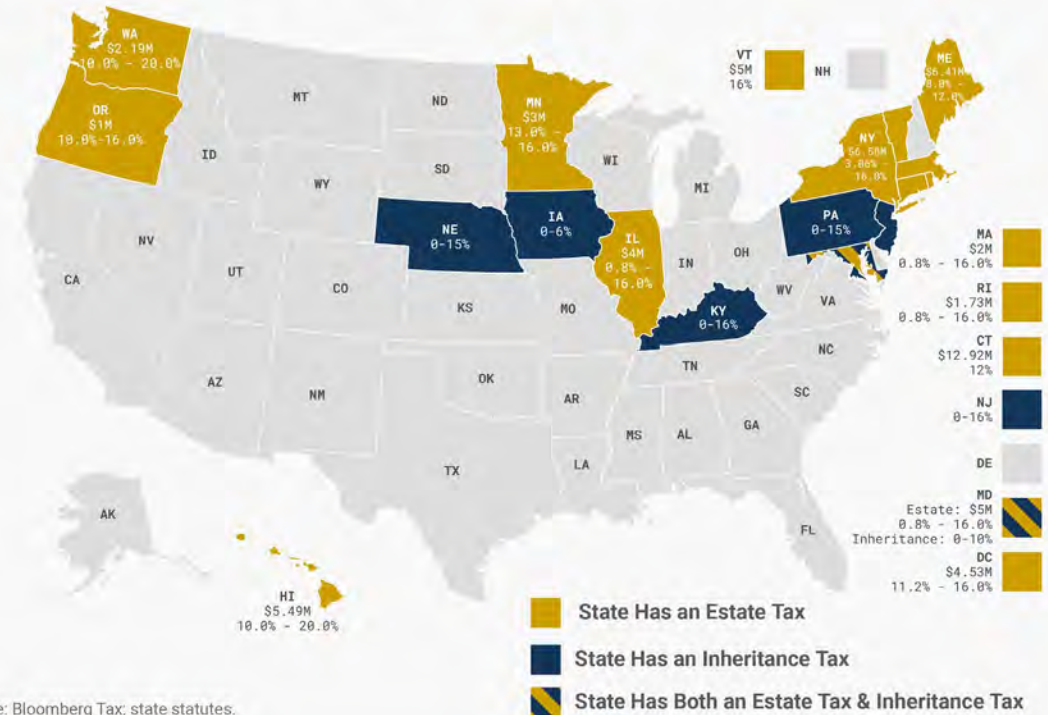
## ESTATE PLANNING IN 2024

# State Considerations

- **17 states and the District of Columbia** impose a state-level estate or inheritance tax.
- **CT** is the only state to impose a state-level gift tax.
- **NY Estate Tax “Cliff”** – If estate exceeds exclusion by 5% (estates valued over \$7,287,000 in 2024), estate falls off the cliff and entire estate is subject to tax without use of any exemption.
  - Rates range from 3.06% to 16%
- **PA Grantor Trust Changes** – Effective January 1, 2025, PA will recognize irrevocable grantor trusts for income tax purposes.

## Does Your State Have an Estate or Inheritance Tax?

State Estate & Inheritance Tax Rates and Exemptions in 2023



Source: Bloomberg Tax; state statutes.

## ESTATE PLANNING IN 2024

# Corporate Transparency Act

- Effective January 1, 2024
- Reporting of beneficial ownership required with FinCEN for:
  - Existing entities by January 1, 2025
  - Entities formed after January 1, 2024 must file initial report within 90 calendar days after creation
  - Any changes in beneficial ownership must be reported within 30 days after change
- Reporting required for domestic corporations, LLCs, and similar entities; and foreign corporations, limited companies, and similar entities registered to do business in any U.S. state
- \$500 civil penalty per day for non-compliance; criminal penalties including imprisonment may apply



## ESTATE PLANNING IN 2024

# Preparation Strategy

- ✓ Stay updated on current interest rates and legislative changes
- ✓ Plan for changes in estate tax environment after 2025
- ✓ Understand the implications for estate planning
- ✓ Proactively adjust clients' estate plans
- ✓ Mitigate the potential impact of these changes
- ✓ Engage in continuous learning and professional development
- ✓ Utilize estate planning software and technological tools for efficiency
- ✓ Provide sound advice and strategic planning to clients
- ✓ Ensure estate plans align with the dynamic economic landscape

## ESTATE PLANNING IN 2024

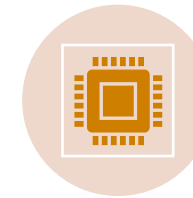
# Collaboration and Communication are the Keys

**Open Communication:**

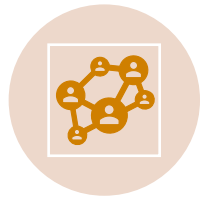
Maintaining an open line of communication with your clients is crucial. It ensures that you stay updated on any changes to their financial situation and can adjust strategies as needed.

**Understanding Client Goals:**

Every client has unique financial goals. Understanding these goals allows you to tailor your advice and strategies to their specific needs.



**Utilize Technology:** Technology can greatly enhance client collaboration. Using secure platforms to share documents and data not only improves efficiency but also transparency.



**Regular Updates:** Regularly updating clients on the progress of their estate planning keeps them engaged and contributes to a more trusting relationship.

**Encourage Questions:**

Encourage your clients to ask questions. This not only helps them to better understand the process but also allows you to address any concerns or issues that may arise.

**Personalized Approach:**

Remember that one-size-fits-all does not apply in estate planning. Always adopt a personalized approach to meet the unique needs of your clients.

Thank you for  
attending

Additional Questions?

*Reach out to us at*

[experts@armanino.com](mailto:experts@armanino.com)

