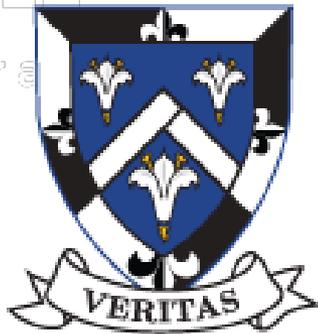




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Protecting Your Assets in 2021 and Beyond

Tuesday, June 29, 2:00 PM – 3:00 PM ET

Jonathan Gudema, Esq.

Principal, Planned Giving Advisors LLC

What we will cover today?

- I. The Current State of Taxes: Taxes on Income, Appreciated Assets and Gifts/Estates
- II. Current Bills/Proposals: For the 99.5% Act, Sensible Taxation and Equity Promotion (STEP) Act, President Biden Tax Increase Plans
- III. Realistic Issues at Stake and Realistic Options to Consider
- IV. Estate Planning Basics That Never Change

2021 Tax Changes

I. The Current State of Taxes: Taxes on Income, Appreciated Assets and Gifts/Estates

The Current State of Taxes

- ❑ Income tax brackets range from 10% to 37%; standard deduction at \$12,400 per person; SALT deduction capped at \$10,000
- ❑ Tax rates on capital gains and dividend: 0%, 15%, 18.8%, and 23.8%
- ❑ Federal estate/gift taxes don't start until one has \$11.7 million; top rate 40%
- ❑ Annual “free gifts” is \$15,000 per recipient; no limit on number of recipients
- ❑ Step-up in basis at death wipes out any unrealized capital gains in estates
- ❑ Stretch IRA are gone (Secure Act – 1/1/20)
- ❑ RMDs now start at 72; no age limit on additions to IRAs (Secure Act – 1/1/20)

2020 tax brackets (for taxes due May 17, 2021)

TAX RATE	SINGLE	HEAD OF HOUSEHOLD	MARRIED FILING JOINTLY OR QUALIFYING WIDOW	MARRIED FILING SEPARATELY
10%	\$0 to \$9,875	\$0 to \$14,100	\$0 to \$19,750	\$0 to \$9,875
12%	\$9,876 to \$40,125	\$14,101 to \$53,700	\$19,751 to \$80,250	\$9,876 to \$40,125
22%	\$40,126 to \$85,525	\$53,701 to \$85,500	\$80,251 to \$171,050	\$40,126 to \$85,525
24%	\$85,526 to \$163,300	\$85,501 to \$163,300	\$171,051 to \$326,600	\$85,526 to \$163,300
32%	\$163,301 to \$207,350	\$163,301 to \$207,350	\$326,601 to \$414,700	\$163,301 to \$207,350
35%	\$207,351 to \$518,400	\$207,351 to \$518,400	\$414,701 to \$622,050	\$207,351 to \$311,025
37%	\$518,401 or more	\$518,401 or more	\$622,051 or more	\$311,026 or more

Federal Tax on Appreciated Assets

Definitions: Capital Gain, Capital Assets, Cost Basis and Step-up in Basis

- ❑ **“Capital assets”** are significant pieces of property such as homes, cars, investment properties, stocks, bonds, and even collectibles or art.
- ❑ **“Capital gain”** is an increase in a “capital asset” value and taxed (“realized”) when the asset is sold.
- ❑ **“Cost basis”** is the original value of an asset for tax purposes, usually the purchase price, adjusted for things like stock splits, dividends, return of capital distributions, capital improvements, etc...
- ❑ Appreciated capital assets sold within 12 months of acquisition do not receive the lower capital gains rate but are taxed at the ordinary income rates.
- ❑ Tax rates on realized capital gains has typically been significantly lower than ordinary income tax rates.
- ❑ **“Step-up in basis”** means that capital gains are eliminated at death for heirs

2021 - Income & Capital Gains Rates

Single Filers			Married Filing Jointly		
Income up to	Ordinary Income Tax Rates	Capital Gains Tax Rates	Income up to	Ordinary Income Tax Rates	Capital Gains Tax Rates
\$9,950	10%	0%	\$19,900	10%	0%
\$40,400	12%		\$80,800	12%	
\$40,525		22%	\$81,050		22%
\$86,375	15%		\$172,750	15%	
\$164,925			24%		
\$200,000*	32%	18.8%	\$329,850	32%	18.8%
\$209,425			\$418,850		
\$445,850	35%	23.8%	\$501,600	35%	23.8%
\$523,600			\$628,300		
\$523,600+	37%		\$628,300+	37%	

*Based on AGI, not Taxable Income - the income level when the 3.8% Obamacare Surtax kicks in.

Federal Tax on Gifts and Estates

Definitions: Estate Tax, Gift Tax, Uniform Transfer Tax, Lifetime Exemption, Annual Gift Tax Exclusion

- ❑ **“Estate tax”** is a tax on estates whose value exceeds the exclusion limit set by law.
- ❑ **“Gift tax”** is a tax applied to an individual giving anything of value to another person.
- ❑ **“Uniform transfer tax”** is the combination of federal estate taxes and federal gift taxes into a single tax, also known as the Uniform Gift and Estate Tax.
- ❑ **“Lifetime exemption”** is the amount each person is allowed to transfer (in life or at death) to other parties without having to pay gift, estate, or generation-skipping transfer taxes – the IRS keeps track of your lifetime gifting.
- ~~❑ **“Annual gift tax exclusion”** is an amount each person is allowed to gift to others without counting against one’s lifetime exemption.~~

Current Gift/Estate Tax Exemption and Exclusion Amounts

Gift and Estate Tax Currently Applies to Very Few People

- ❑ The 2018 law change doubled the maximum gift/ estate tax exemption, as well as the GST exemption. As of January 1, 2018, the maximum estate/gift and maximum GST **exemption** amounts—which had been scheduled to rise to \$5,600,000 under prior law—**became \$11,200,000 per person**. That meant a married couple pooling their exemptions will be able to shelter up to \$22,400,000 from gift, estate, and GST taxes.
- ❑ **2021 adjusted for inflation: \$11.7 million per person, \$23.4 million per couple!**
- ❑ An individual who had previously used all his or her estate/gift/GST exemptions got **an additional \$5,600,000+ of exemption with which to plan**.
- ❑ **Annual gift tax exclusion is \$15,000 pre recipient (for 2021) – no limit on number of recipients per person.**

Estate and Gift Tax Chart

Year	Estate Tax Exemption	Lifetime Gift Tax Exemption	Max Estate Tax Rate
1997	\$600,000	\$600,000	55%
2002	\$1 million	\$1 million	50%
2009	\$3.5 million	\$1 million	45%
2011-2017	\$5 million	\$5 million	35%/40%
2020	\$11.58 million	\$11.58 million	40%
2021	\$11.7 million	\$11.7 million	40%
For the 99.5% Act as proposed			
2022+	\$3.5 million	\$1 million	45%/65%
Plus possibly no Step-up in Basis at death! (Proposed in the Sensible Taxation and Equity Promotion (STEP) Act)			

2021 Tax Changes

II. Current Bills/Proposals: For the 99.5% Act, Sensible Taxation and Equity Promotion (STEP) Act, President Biden Tax Increase Plans

For the 99.5% Act

- ❑ Drops the estate exemption to \$3.5 million and gift exemption to \$1 million
- ❑ Estate tax brackets with rates ranging from 45% for taxable estates of between \$3.5-\$10 million to as high as 65% for taxable estates in excess of \$1 billion
- ❑ Allow a \$10,000 per-donee annual gift tax exclusion, subject to a \$20,000 per-donor cap
- ❑ Various changes aimed at Dynasty Trusts and other sophisticated plans that essentially that were end-runs around the estate tax

Sensible Taxation and Equity Promotion (STEP) Act

- ❑ At death, a capital gains exclusion of the only first \$1 million of gain.
- ❑ During life, any completed transfer to a trust or to any individual other than a spouse will allow for the first \$100,000 of cumulative gain to be tax-free. After that amount, any excess will be subject to a transfer tax.
- ❑ Transfers of illiquid property (i.e. farms/farm assets) would be allowed to pay the tax over a 15-year period. It would be interest only for up to five years and then ten equal payments for the remaining 10 years. Selling the property would require payment in full. There would be a lien attached to any property which would likely prevent you from refinancing the property without paying off the lien to the IRS.
- ❑ This transfer tax would apply to any gifts or inheritances **after December 31, 2020**. In other words, we are looking at a **retroactive** provision.

Sensible Taxation and Equity Promotion (STEP) Act

What is really being proposed:

- ❑ Capital gains in any estate would be owed on gains in excess of \$1 million at 15% or 20% (and perhaps as high 39.6% depending on how Biden increase on those making over \$1 million is worded).
- ❑ Illiquid assets (however defined – TBD) would get 15 years to pay the gains.
- ❑ During life, only a \$100,000 per gift exemption from capital gain; rest would be taxable as a capital gains (even though property isn't being sold)
- ❑ This is part of a movement to take away “free step-up in basis” at death.

President Biden Tax Increase Plan

- ❑ Reverts the top individual income tax rate for highest from 37% under current law to the pre-Tax Cuts and Jobs Act level of 39.6%.
- ❑ **Taxes long-term capital gains and qualified dividends** at the ordinary income tax rate of 39.6% on income **above \$1 million**.
 - **Filers reporting over \$1 million in income could pay a 43.4% federal tax rate on their long-term capital gains/dividends compared with 23.8% now**
- ❑ Caps the tax benefit of itemized deductions to 28% of value for those earning more than \$400,000 and other reductions of the value of deductions for higher earners.

Biden Tax Proposed Increase (as of today)

Single Filers			Married Filing Jointly		
Income up to	Ordinary Income Tax Rates	Capital Gains Tax Rates	Income up to	Ordinary Income Tax Rates	Capital Gains Tax Rates
\$9,950	10%	0%	\$19,900	10%	0%
\$40,400	12%		\$80,800	12%	
\$40,525		22%	\$81,050		22%
\$86,375	24%		\$172,750	24%	
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\$200,000*	18.8%	\$329,850		18.8%	
\$209,425		35%	\$418,850		35%
\$445,850	23.8%		\$501,600	23.8%	
\$523,600		39.6%	\$628,300		39.6%
\$523,600+	43.4%		\$628,300+	43.4%	
\$1 mil.+			\$1 mil.+		

*Based on AGI, not Taxable Income - the income level when the 3.8% Obamacare Surtax kicks in.

2021 Covid Relief (so far)

- ❑ **Charitable Contribution:** “above-the-line” charitable contribution for **non-itemizers** is extended through 2021 at **\$600 for those married filing jointly** and **\$300 for all other filers**.
- ❑ **Charitable deduction limit** against AGI extended to 100% of AGI in 2021 for cash gifts (normally limit is 60% of AGI for cash and 30% for appreciated assets)

2021 Tax Changes

III. Realistic issues at stake and realistic options to consider

What's realistically at stake?

- ❑ \$9 million+ of Federal Estate Tax Exemption and \$10 million+ of Federal Gift Tax Exemption
- ❑ Higher capital gains and dividends rates, especially for higher earners
- ❑ Higher income tax rates for higher level earners
- ❑ Free capital gains “step-up” at death
- ❑ Possible taxation of capital gains on non-sale/gift transfers with over \$100,000 of gains
- ❑ Sophisticated estate plans

Some realistic options to consider

- ❑ Use up any **unused Federal Gift/Estate Tax exemption**
 - Via simple or complex trusts – you can use this free \$11.7 million wealth transfer opportunity (without losing control or giving too much cash to young beneficiaries) before it's potentially taken back
- ❑ Consider **rebalancing your portfolio** away from highly appreciated growth and/or dividend stocks towards tax-free bonds or value (i.e. get out of some of your low basis and dividend stocks)
- ❑ Look for investments that which have **longer term growth horizon**, possibly delayed income (i.e. real estate or life insurance)
- ❑ Convert as much IRA/401k funds as you can stomach into Roths

Some charitable ideas to consider

- ❑ **Charitable remainder trust or gift annuity – these allow you:**
 - To cash in on highly appreciated stocks with no tax loss in principal
 - To create income for life, which may include significant % of tax-free income
 - To receive a partial upfront income tax deduction

- ❑ **Charitable lead trust – these allow you:**
 - To affect a significant wealth transfer to your heirs with reduced gift tax valuation
 - To create a fixed payment stream to charity
 - To receive an upfront income tax deduction and possible delay in capital gains tax

Some charitable ideas to consider

❑ **IRA charitable rollover – these allow you:**

- To give up to \$100,000 from your IRA without any income tax charge
- To receive charitable tax benefits even if you no longer itemize
- To donate RMDs to avoid income taxes

❑ **Donation of appreciated stock or real estate – these allow you:**

- To avoid capital gains
- To receive a full fair market value income tax deduction
- To make a huge impact today

2021 Tax Changes

IV. Estate planning basics that never change

Estate Planning Priorities

- ❑ Address your future needs now – don't wait until it is too late
- ❑ Organize your finances for the long-run, seek help if needed
- ❑ Organize your emergency care takers, make sure you have one or two younger, available family members or friends who will step up in case of emergency or disability
- ❑ Organize your planning documents
- ❑ Follow-through with basic estate planning: will, power of attorney, living will/health care proxy and beneficiary designations

Top 10 Reasons to Have a Will

1. You decide how your estate will be distributed.
2. You decide who will take care of your minor children.
3. To avoid a lengthy probate process.
4. Minimize estate and other after-death taxes.
5. You decide who will wind up the affairs of your estate.
6. You can disinherit individuals who would otherwise stand to inherit.
7. Make gifts and donations.
8. Avoid greater legal challenges.
9. Because you can change your mind if your life circumstances change.
10. Because tomorrow is not promised.

Simple Estate Planning Checklist

- ❑ Step 1: Establish meaningful goals.
- ❑ Step 2: Get organized.
- ❑ Step 3: Evaluate your financial situation.
- ❑ Step 4: Have crucial documents created.
- ❑ Step 5: Update your beneficiary designations and title assets appropriately.
- ❑ Step 6: Communicate your plans to those involved in it.
- ❑ Step 7: Review your plan regularly and as major life events occur.

General take-aways

- ❑ **Avoid rash reactions – meet with your advisors, methodically plan your next moves**
- ❑ **It is time to review your estate plans with your attorney, especially if you have unused lifetime exemption or sophisticated trusts in place**
- ❑ Review your investments with your financial advisors to see where adjustments can be made to avoid some potential negative consequences of these likely tax law changes

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For a copy of the presentation or if you have any questions, please reach out to:

Rossano S. Rovello

Director of Donor Stewardship & Planned Giving

Dominican Friars Foundation

rrovello@dominicanfriars.org

O: 646-350-0108

C: 516-987-9637