



Trump's Christmas Wish

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It appears President Trump's Christmas wish to have a tax reform bill on his desk by Christmas Day has come true. In the early hours of December 20, 2017, the Tax Cuts and Jobs Act was approved by both houses of Congress. Since this is the most extensive reform to the tax code in almost 30 years, you may be wondering how this will affect your bottom line. Which is a great question for your accountant. But what you may not have realized yet, is how much of an impact this may have on your estate plan.

Estate Tax Planning. The new Act doubles the estate, gift and GST tax exemptions beginning in 2018. What does this mean for your estate planning? Now you can leave behind or gift during your lifetime up to 11.2 MILLION DOLLARS without any federal transfer tax consequences (if you are married, double that figure). In the long and short, this means that 99.9% of my clients no longer have to worry about federal transfer taxes (i.e. the estate, gift, and GST taxes). This will allow us to simplify their plans removing many tax planning provisions and reworking those that set up an A/B structure funding a Family Trust and then a Marital Trust. In many cases we may be able to have one trust set up, rather than two or three, leading to a much simpler administration for your family.

Lifetime Gifting. For individuals whose estate plan involves making lifetime gifts. The new Act raises the annual exclusion (the amount you can gift to an individual without eating into your transfer tax exemption amount: "unified credit") to \$15,000 per year. This means in one year you can make as many gifts of \$15,000 per individual completely transfer tax free.

Income Tax Planning. Although the new Estate Tax exemption seems to make your wealth transfer to your descendants tax free, one thing ALL clients must be mindful of is how Capital Gains Taxes may affect their beneficiaries. In simple terms, capital gains tax is levied on the difference in the amount of basis in a property and the amount realized on the sale of the asset. For example, if you bought a house in 1967 for \$60,000 and sold it today for \$260,000, you would have a \$200,000 gain that would likely be subject to taxes. The same applies to stocks and other assets. How does this affect your beneficiaries? Well, the rules for transferring basis differ between how the asset is transferred to the beneficiary. If you were to gift the house in the above example during your

lifetime your basis (\$60,000) would carry over to the beneficiary regardless of the Fair Market Value at the time you transferred it to him or her. If, however, you leave it to your child in your estate plan upon your death, the house will receive a step up (or step down) in basis to the Fair Market Value as of your date of death. Continuing with the above example, if your house is worth \$260,000 on the date of your death and passes to your son, he will have a stepped up basis of \$260,000 in the house. If he then sells the house for \$260,000, then there is a \$0 gain and no capital gains taxes are due on the sale. This all sounds simple enough, but can be complicated in older trust based plans made when the capital gains rate was lower and so was the Estate Tax exemption amount. If you have a trust based plan drafted before 2013, you should truly consider coming in to our office for a complimentary document review to see if your plan needs to be updated or simplified in light of current law.

Business Owners. Business owners may want to revisit their decision on the choice of entity. Under the new Act, the corporate income tax rate will be reduced from a high of 35% to a flat 21%. There is also a new 20% deduction for Qualified Business Income of pass-through businesses. Depending on your business's unique situation and goals, it may be cost-effective to consider changing your choice of entity.

While we cannot be certain of all the effects of the new tax Act, we can be certain that the new policies regarding federal transfer taxes give us planners an opportunity to revisit plans and simplify the terms to provide for a much smoother administration. For now, take the time to enjoy family and the holidays, and give us a call for a complimentary review in the New Year.