



Potential Tax Savings Opportunity

Greetings,

In our continual efforts to provide you with the best possible service, **we have identified a potential tax savings opportunity regarding the transfer of unrealized gains & losses between spouses who have different life expectancies** (older husband and younger wife, or if one spouse has a life-threatening condition or anticipates a shorter life span).

Current Tax laws allow for the tax-free transfer of assets from one spouse to the other (taxable accounts only). This presents an opportunity to transfer securities with high unrealized gains to the spouse with a shorter life expectancy.

Why this is important: When the spouse who owns the appreciated stock for at least one year passes, the cost basis of that stock may be “stepped up.” This step-up will allow the surviving spouse to sell the inherited positions at the fair market value and realize much lower capital gains (if they choose to do so). Otherwise, the surviving spouse could be owning highly appreciated stock and lose flexibility regarding selling it and gifting it.

Example: Spouse 1 (Younger Spouse) buys a stock at \$100 per share, and after several years, transfers the stock holdings to Spouse 2 (Older Spouse) now that the stock has reached a price of \$300 per share. If Spouse 2 predeceases Spouse 1, Spouse 1 will inherit the stock and the cost basis will be “stepped up” from \$100 to \$300 (or whatever the closing price on the date of death was). This step-up allows Spouse 1 to sell the stock using the fair market value at the time of death as the basis, allowing much more flexibility in whether or not they want to sell or hold the inherited stock.

As a corollary, **any positions with a loss should be transferred to the spouse with the longer life expectancy as they can use the loss to offset gains in the future**. Otherwise, those losses go away and become useless when the owner dies.

As always, feel free to contact us with any questions. We would be happy to review this strategy in more detail.

Regards,

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S&P 500 INDEX The Standard & Poor's 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

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