

SUMMER 2017 NEWSLETTER

Dear Clients and Friends:

We now have a new Presidential Administration. Recently, the Trump Administration issued a two-page proposal that seeks to change federal taxes. Although, the proposal lacks specific details, it clearly seeks to reduce taxes, primarily for businesses and individuals in higher tax brackets. The following is a quick summary we have prepared.

Corporate and Individual Income Tax:

- Lower the top income tax rate from 39.6% to 35%
- Eliminate the additional tax on net investment income and the Medicare Tax.
- Repeal the Alternative Minimum Tax (AMT).
- Increase standard deduction amounts to 24k for married couples.
- Limit or eliminate certain itemized deductions, including the deduction for certain state and local taxes.
- Cut the Corporate Tax rate from 35% to 15%.
- Cut the tax on income generated by pass-through entities such as LLC's to 15%.

Estate, Gift and Generation-skipping Tax:

President Trump's plan for the estate, gift and generation-skipping transfer taxes is far less clear. It provides for the elimination of the estate tax, but there are no further details. The tax plan on his official campaign website, states:

The Trump Plan will repeal the death tax, but capital gains held until death and valued over \$10 million will be subject to tax, with exemptions for small businesses and family farms. To prevent abuse of this exemption, contributions of appreciated assets into a private charities established by the decedent or the decedent's relatives, will be disallowed.

There are no further details on the website about how this plan might be implemented, whether the gift tax will remain in place, or even whether the capital gains tax on appreciated assets will be imposed at death or when the beneficiaries later sell the inherited property. We will have to wait to see what President Trump and Congress pass as law with regard to these taxes and whether any repeal would be immediate or phased-in over a multi-year period, such as was the case when President Bush's administration repealed the estate and generation-skipping taxes in 2001.

While these various tax changes may be on the horizon and could be enacted in some form in 2017, retroactive to January 1, 2017, it is too soon to tell what kind of priority President Trump and his administration will place on making these changes and whether Congress will be willing to implement them. We will, of course, keep you posted as to any major developments in the federal tax laws which may affect your estate planning. If you have any concerns that a particular potential change may impact your estate plan, you should contact us as soon as possible.

IRS Proposes Regulations to Restrict Estate and Gift Tax Valuation Discounts for Family-Owned Businesses and Entities

We have long been expecting the IRS to issue regulations restricting discounts for certain asset transfers to family members and/or trusts for their benefit. The proposed Regulations have now been issued. As posted in our website alert earlier this year, on August 2, 2016, the IRS proposed major changes to the Regulations under Section 2704 of the Internal Revenue Code affecting how interests in family-held entities are to be valued when transferred among family members. If made final, the proposed Regulations would dramatically impact the discounts customarily applied by appraisers to value these interests for gift, estate and generation-skipping transfer tax purposes. It is not clear if the

proposed Regulations would be implemented by the new Administration at all in light of the Trump Tax Plan calling for the elimination of the estate tax and presumably the gift tax as well.

The Internal Revenue Code generally requires property subject to gift, estate and generation-skipping transfer tax to be valued at the price a "willing buyer" would pay for the property. Such hypothetical buyer would not be willing to pay a price equal to the proportionate share of the liquidation value of a family entity if the buyer would not have the power to liquidate his or her interest. Consequently, appraisers have traditionally applied discounts, for lack of control and/or lack of marketability, to value interests in family owned entities, to reflect the restrictions and delays that a willing buyer of the interest would have in trying to effectuate a conversion of the interest to cash.

The proposed changes would require that certain restrictions, typically included in normal business organizational documents, be disregarded for family-owned entities, for purposes of gift and estate tax computations. Essentially, the proposed regulations would require that fair market value be determined without regard to these important factors, if the transfer occurs between family members (or trusts for their benefit). Rather, the IRS is proposing that for intra-family transfers, liquidation value should be the value for estate and gift taxes rather than fair market value. The use of the traditional method for determining fair market value would still be acceptable for transfers between non-family members in most circumstances.

Discounts can dramatically reduce the amount of estate tax payable at death, gift tax consequence of gifts or sales to family members, or transfers to grantor retained annuity trusts. These techniques are commonly employed by estate planners to achieve substantial transfer tax savings. The transfer of a minority interest in a family entity allows a taxpayer to take advantage of the market forces which drives down the fair market value of minority interest gifts or sales to family members, facilitating the transfer of wealth to future generations tax-efficiently.

Estate, Gift and GST Tax Exemptions and Exclusions in 2016 and Beyond

The amount exempt from estate and gift taxes is \$5,000,000 indexed for inflation (increased to \$5,490,000 for 2017) and the taxes remain unified so that the entire exemption can be used during lifetime, or, if unused during lifetime, at death. The GST tax exemption is also now \$5,000,000 indexed for inflation (increased to \$5,490,000 for 2017).

Despite inflation increases, the annual exclusion from gift tax, i.e. the amount that an individual can give to any number of people each year without using lifetime gift exemption or incurring a gift tax, remains at \$14,000 per donee for 2017. The amount an individual can give to his or her non-US citizen spouse per calendar year is \$149,000 for 2017.

IRA Distributions to Charity

In December 2015, Congress and President Obama solidified the ability of certain taxpayers to transfer up to \$100,000 annually from their IRA account directly to charitable organizations without having to recognize the distribution as taxable income. Although this has been permissible in years past, prior to 2015 Congress continually renewed or extended the law to allow these tax-free distributions. It is important to note that such tax-free charitable distributions can only be made by those age 70 ½ or older, cannot exceed an aggregate of \$100,000 in a calendar year, and cannot be made to donor-advised funds, supporting organizations, or private foundations.