

Turning Limes into Margaritas: Recipes for Estate Planning You Can Do Today

May 5, 2020



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Agenda

- Basic Recipe: Starting from scratch or updating existing documents
- Salting the Rim: Details you might have missed that you can work on from home
- Upgrades: Top Shelf estate planning in 2020

Basic Recipe:

Starting From Scratch or Updating Existing Documents



Estate Planning Basics

- Everyone Has an “Estate Plan” by Default under State Statute = “Intestacy”
- Disadvantages of Intestacy:
 - Loss of Tax Benefits
 - Loss of Control
- Assets Controlled by Beneficiary Designations (IRAs, Life Insurance)
- Jointly-Owned Property Passes to Surviving Owner

Estate Planning Basics Recommended Documents

- Durable Financial Power of Attorney
- Advance Directive - Durable Health Care Power of Attorney/Living Will
- Will
- Revocable or “Living” Trust

Will

- Will May Require “Probate”
- Probate Involves:
 - Court Supervision of Executor and Trustee
 - Inventory of Assets
 - Creditor Claims Period
 - Accountings
 - Expense and Delay

Benefits of a Revocable Trust

- Avoids “Probate”
- No Court Supervision
- Trust Provisions Are Confidential
- Planning for Incapacity – Asset Management Continuity
- Avoids “Ancillary Probate”

Revocable Trust “Myths” Debunked

- Revocable Trust Does NOT Save Taxes
 - Disregarded for Income Tax Purposes
 - All Assets Included for Estate Tax Purposes
- Revocable Trust Is NOT Always Less Expensive
 - Attorney Fees to Transfer Assets
 - Administrative Inconvenience

Salting the Rim:

Details You Might Have Missed That You Can Work on From Home



Do Your Heirs Know

- Whom to contact in case of your incapacity or death?
- Where your important documents are kept?
- Your wishes for end of life care?
- Your preferences for burial/cremation and funeral arrangements?
- Do you have any life insurance?
- Who is your accountant?
- Who is/are your financial advisor(s)?
- What credit cards or other debts you may have?

Digital Access

- Use a Password Manager (e.g., LastPass, 1Password)
 - Use Emergency Access Feature
 - Consider Family Password Management Plans
 - Record Additional Information in Password Manager
 - How to access your phone, computer, and any digital media
 - Hidden objects such as safety deposit box key or cash around the house
- Review Social Media Accounts and Email Accounts

Tangible Personal Property

- Make an Inventory
 - A list is good but photos are better
- Tell the Stories
- Write a Letter
- Invite Your Children to Tell You the Items They Wish to Have

Valuables and Collectibles

- Distribute, Sell or Donate?
- Organize Receipts and Proof of Ownership
- Note Any Professionals Who Should Be Consulted (but PR Must Verify Value with an Independent Appraiser)
- Review Insurance
- Include Any Property on Loan

Asset Titling

- Maintain a Current Balance Sheet
- Revocable Trust Transfers
- Request Beneficiary Designations
- Review your Life Insurance

Upgrades:

Top Shelf Estate Planning in 2020



Exemptions and Tax Rates Under TCJA

Calendar Year	Estate Tax Exemption	Gift Tax Exemption	GST Tax Exemption	Highest Estate, Gift, and GST Tax Rate
2020	\$11.58 million	\$11.58 million	\$11.58 million	40%
2019	\$11.4 million	\$11.4 million	\$11.4 million	40%
2018	\$11.18 million	\$11.18 million	\$11.18 million	40%
2017	\$5.49 million	\$5.49 million	\$5.49 million	40%

Estate Taxes

- Taxed on Worldwide Assets
- \$11,580,000 Exemption in 2020, with Unused Amount “Portable” to Surviving Spouse
- Unlimited Tax-Free Transfers to U.S. Charities
- Unlimited Tax-Free Transfers to Spouse (if U.S. Citizen)
- Basis Adjustment to Fair Market Value on Date of Death

Gift Tax Exemptions and Exclusions

- \$11.58 Million Lifetime Exemption

PLUS

- \$15,000 Annual Exclusion Gifts
- Unlimited Payments of Medical Expenses and Tuition Directly to Provider
- Unlimited Tax-Free Transfers to U.S. Charities
- Unlimited Tax-Free Transfers to Spouse (if U.S. citizen)

State Estate Taxes

- State Estate Tax Deductible Against Federal Estate Tax
- Highest State Estate Tax Rate = 16%
- Maryland Exemption = \$5,000,000, Excess “Portable” to Surviving Spouse
- DC Exemption = \$5,762,400, Not Portable to Surviving Spouse
- Virginia’s Estate Tax repealed 7/1/2007
- Vacation Home in Another State May Be Subject to That State’s Estate Tax

What Can I Do During My Lifetime?

- Gifts of Cash or Other Assets
- RMDs for 2020 and Roth Conversions
- Life Insurance (Outside of Estate)
- Loans
- GRATs and Installment Sales
- Charitable Planning

Cash and Other Gifts

- Annual Exclusion Gifts (\$15,000)
- “Section 529” College Savings Plans
- Direct Tuition and Medical Expenses, Which Are Not Considered “Gifts”
- Think about Gifting High Basis Assets with Appreciation Potential

RMDs In 2020 and Roth Conversions and Other Retirement Benefit Planning

- The CARES Act has suspended qualified retirement plan required minimum distributions (“RMD”s) for 2020
- However, if you anticipate being in a lower tax bracket this year, consider a Roth conversion of your tax deferred retirement plans
- Also takes advantage of low market rates
- SECURE Act changes to minimum distribution rules
 - 10 years for almost all beneficiaries other than spouse
 - Be careful on trust designations

Life Insurance

- Life Insurance Proceeds are Included in Taxable Estate unless Policy is Owned by Irrevocable Life Insurance Trust, Children or Others
- Advantages of Life Insurance Held in Irrevocable Life Insurance Trust
 - Excluded from Taxable Estate Under Certain Circumstances
 - Liquidity for Estate Taxes
 - Hedge against Estate and Income Taxes
 - Protection from Creditors

“Freeze Planning”

- Low-Interest Family Loans
 - Short-term AFR (up to 3 years) = 0.25%
 - Mid-term AFR (3 years to 9 years) = 0.58%
 - Long-term AFR (more than 9 years) = 1.15%
- GRATs
- Installment Sales to Grantor Trusts

Intra-Family Loans

0% Down
AFR Per Year



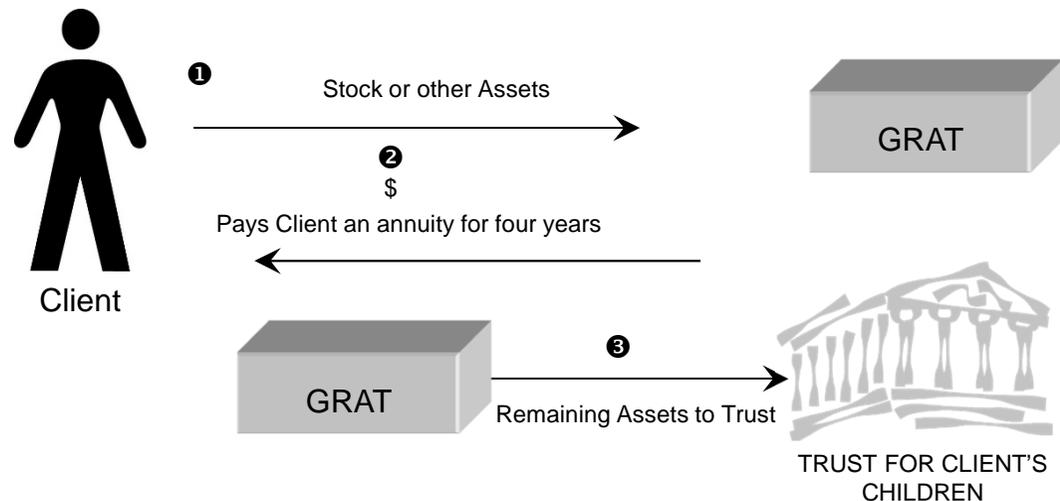
Bank of Mom and Dad



Refinance For Lower Rate?

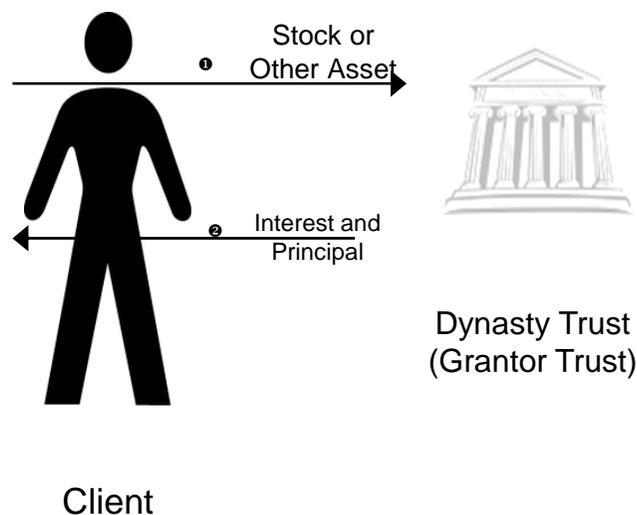
- No Guidance on Exchanging Equivalent Notes with New Rate
- Think Like a Bank
- Consider Refinancing
 - Notes from Before 2009
 - Notes You Plan to Extend

2020 Grantor Retained Annuity Trust



- 1** Client contributes \$1 million worth of stock or other assets to the Grantor Retained Annuity Trust ("GRAT").
- 2** The GRAT pays Client an annuity of approximately \$190,000 in Year 1, \$228,000 in Year 2, \$274,000 in Year 3 and \$328,000 in Year 4.
- 3** At the end of Year 4, any assets remaining in the GRAT pass in trust for the benefit of Client's Children. If the assets appreciate at a rate greater than 0.8% per year (the May 7520 rate), the "excess" appreciation passes to Children's trust free of gift and estate tax.

Installment Sale



- 1 Client sells Stock or other Asset to a Dynasty Trust (which is a Grantor Trust for income tax purposes) for in interest-only promissory note, principal due at note maturity.
- 2 The Dynasty Trust pays the Client interest, with principal at the maturity of the Note. The entire sale is disregarded for income tax purposes.
- 3 Current Interest Rates
 - 1 Up to 3 Years: 0.25%
 - 2 Up to 9 Years: 0.58%
 - 3 Over 9 Years: 1.15%

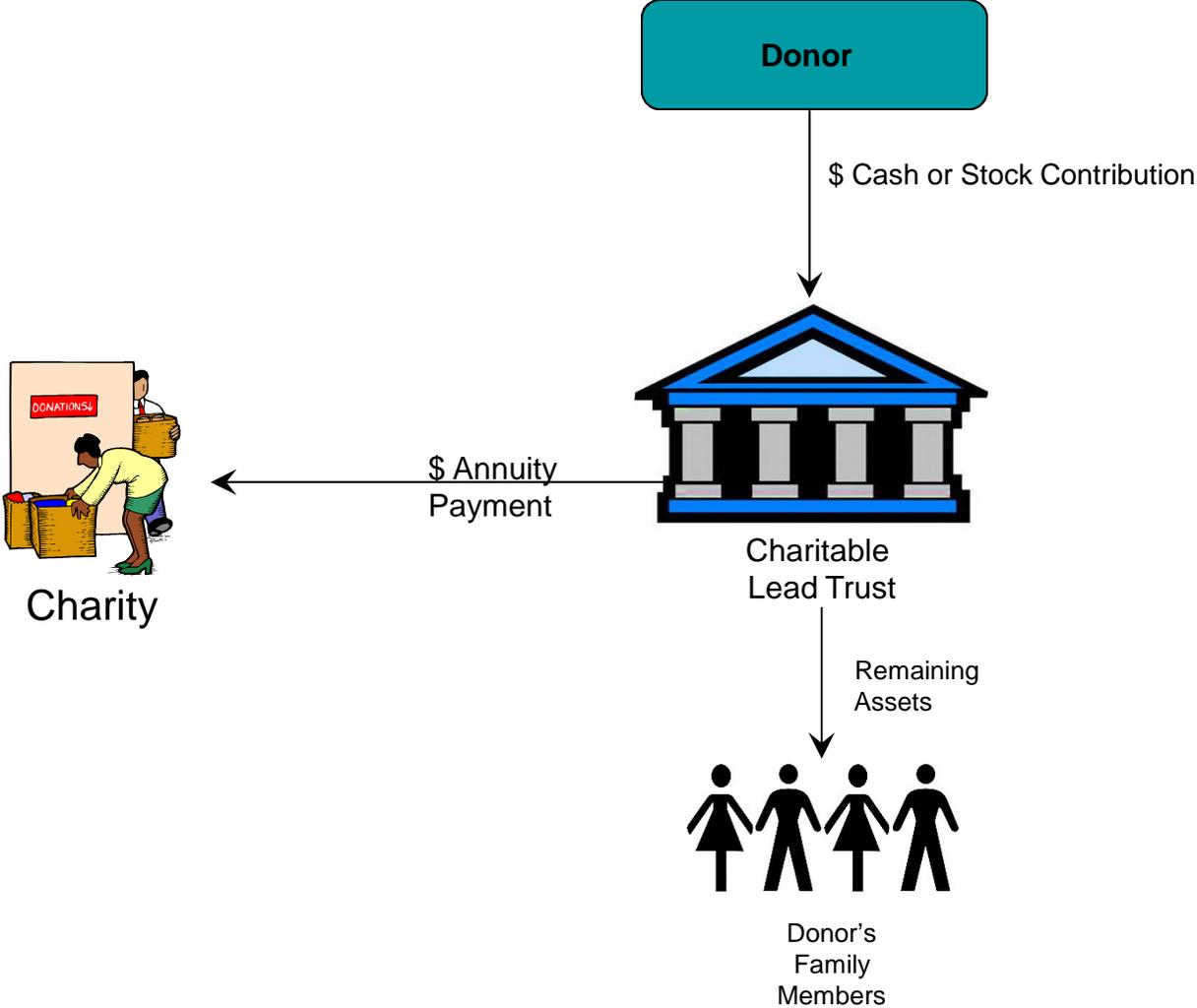
Charitable Tax Planning – Basic Tips

- Give Appreciated Stock not Cash
 - Avoid Recognizing Gain
 - Charitable Deduction for Fair Market Value
- Bequests of IRAs or Qualified Plans
 - Charity is Tax Exempt
 - Reduced After-tax “Cost” to Family Members
- CARES Act
 - No AGI limitations for cash contributions to public charities in 2020

Charitable Tax Planning - Trusts

- Charitable Lead Trusts
 - Annual distribution to charity of annuity or unitrust amount
 - Balance to children at end of term
 - Reduce value of gift because of amount passing to charity
 - Can take charitable contribution deduction but generally allow trust to do so

Charitable Lead Trust





Final Thoughts

In Summary...

- The Continued Importance of Estate Planning - Early and Often
- Continued Tax-Free Gifting
- Need for Flexibility

Today's Presenters



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