

AS SEEN IN

# Port Washington Times

## An alert on tax and estate planning

### Election outcome may make gift tax exemptions much less available

BY ED CONDON & PHIL PALUMBO

If we learned one thing from the 2016 presidential election, it is that the only poll that matters is the one taken on Election Day. The outcome of presidential elections often has a dramatic impact on our financial affairs and so an unpredictable election makes important financial decisions difficult.

Many experts now predict that the currently attractive environment for Tax, Gift and Estate Planning will change for the worse, regardless of which party wins the upcoming election. The logic here is straightforward: the recent rapid expansion of government borrowing as a result of the COVID-19 pandemic has placed enormous pressure on the government to maintain or increase tax revenues. This makes it unlikely that either party will do anything that may have the short-term effect of reducing tax revenue.

**The window is likely closing quickly.** An effective way to reduce the estate tax bill for your family, is to transfer wealth to your beneficiaries while you are alive. However, when you transfer wealth, you use up part of your lifetime gift and estate tax exemption. Right now, that gift exemption stands at an all-time high of \$11.58 million (\$23.16 million for married couples). This high exemption amount was a direct result of the Tax Cuts and Jobs Act, which took effect on January 1, 2018. Prior to that the lifetime gift and estate tax exemption amount was \$5.49 million per individual so the exemption was effectively doubled! Unfortunately, this legislation “sunsets” by the end of 2025 which means that unless Congress acts, the exemption will go back to \$5.49 million per individual.

**You may lose your large exemption opportunity.** In the case where Congress does decide to act before 2025, it may reduce this exemption even sooner, possibly acting to reduce the exemption amount retroactively to Jan of 2021. Those not taking advantage of the high exemption amount while it is in place, risk permanently losing their opportunity, making it a “use it, or lose it” period between now and the end of this year.

**What can you do?** With the Federal Reserve Bank lowering interest rates in response to the Pandemic-induced economic slowdown, it turns out that these low rates favor a type of estate planning strategy called a Grantor Retained Annuity Trust, or GRAT for short. A typical GRAT strategy may do a good job at tax-free wealth transfer if you use an illiquid, cash generating asset like commercial real estate, a closely held business or a highly concentrated stock position. A more flexible version, called a Structured GRAT, allows you to take advantage of this wealth transfer strategy even if your wealth is primarily in liquid investments like cash or short-term investments.

**Seek out professional advice.** Even though the upcoming election and a low interest rate environment make this a good time for Estate Planning, these issues can be complex and should only be addressed with the help of professionals. Families with a desire for transferring wealth to heirs to lower the future burden of estate taxes should seek the professional advice of a Financial Advisor, Estate Planner, Trust & Estate Attorney and/or a Tax Accountant.

Even if your family is not directly impacted by potential changes in the Gift and Estate Tax exemptions, it is still a good idea to give some thought toward planning around this issue. Regardless of what the November election outcome is, or how interest rates change in the future, you should seriously consider Estate Planning now because the current levels of the gift and estate tax exemption may be much less attractive or simply not available at all.

*Edward Condon is a portfolio manager with Bluestone Capital. Phil Palumbo is the founder of Palumbo Wealth Management (PWM). PWM is a registered investment advisor. Advisory services are only offered to clients or prospective clients where PWM and its representatives are properly licensed or exempt from licensure. For additional information, please visit [www.palumbowm.com](http://www.palumbowm.com). The information provided is for educational and informational purposes only and does not constitute investment advice and should not be relied on as such. It should not be considered a solicitation to buy or an offer to sell a security. It does not account for any investor's particular investment objectives, strategies, tax status or investment horizon. You should consult your attorney or tax advisor.*