ARDEN TRUST COMPANY

COULD THE PRESIDENTIAL ELECTION AFFECT ESTATE TAXES?

Estate planning is rarely a topic that surfaces during presidential debates or campaigns, but the outcome of the November 2020 election could influence how wealth management professionals and individual investors consider using trusts in comprehensive financial plans.

Below are three planning strategies to consider now to capitalize on current tax incentives that may not exist in future years, depending on the results of the election.

MAKE TAX-DEDUCTIBLE GIFTS IN 2020

This year, the Republican-controlled Congress doubled the permanent estate and gift tax exemption under the Tax Cuts and Jobs Act (TCJA). Individual taxpayers can now gift up to $11.58 million out of their estates in 2020 if they have not yet used any of their lifetime exemption.

This allowance is scheduled to sunset in 2026. However, if the Democrats obtain a Senate majority in this election, this extension could be reversed as early as next year. To benefit from this temporarily increased exemption, consider making gifts this year.

TALK TO TAX COUNSEL ABOUT TIMING CHARITABLE CONTRIBUTIONS

In response to the COVID-19 pandemic, the Coronavirus Aid, Relief, and Economic Security (CARES) Act temporarily increased the limit on income tax deductions from 60 to 100% of adjusted gross income for charitable contributions in 2020.

Individuals who are considering a large donation to charity should carefully weigh their own charitable interests and the needs of the charity along with the timing of the donation. For some taxpayers, it might be beneficial to make the gift now under the CARES Act. For others, it may make sense to wait until income tax rates are increased in the future, and the deduction might save more tax dollars.

FUND LONG-TERM TRUSTS

Presidential candidate Joe Biden has referenced the step-up in basis loophole: Assets transferred from an estate at death get a new basis for income tax purposes equal to their value.

If an individual purchases an asset for $1,000 then later sells it for $3,000, the capital gain for income tax purposes is the sale proceeds minus the cost basis, or $2,000. If the owner of that asset passes away when the value is $3,000, the basis is changed from $1,000 to the date of death value of $3,000, which is the step-up in basis. If the asset is then sold for $3,000, there's no capital gain and no income tax (that's the loophole).

Biden has proposed treating death the same as a sale. In this instance, the basis would be stepped up to $3,000, but the $2,000 step up would be taxed as capital gain. This idea would most likely become law with a Biden victory and a Democratic-controlled Senate.

The simplest, most proactive action to avoid that potential capital gain is to make gifts now to long-term trusts. The gain would still be taxed when the trustee sells an asset, but that timing can be controlled. Most likely, there will be some assets that aren't expected to be sold for a long time.

While there are certain strategies that are more time-sensitive than others, estate planning is critical regardless of the political cycle. Reviewing current estate plans is just the start; thinking through the options now will help investors and financial professionals alike lay the groundwork for potential tax savings in the future.

Contact us at **888.803.7466** to begin the conversation. To learn more about **Arden Trust Company,** go to our website at **www.ardentrust.com.**