Tax and Estate Planning Updates

March 24, 2020

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In the current market environment, most people are focusing more on their investment portfolios as opposed to their estate plans. However, volatile markets and low interest rates create compelling opportunities for tax and estate planning. Individuals who updated their estate plans during the last market downturn were well rewarded. In addition, the federal government's stimulus plan and changes to the tax code have far-reaching implications for tax and estate planning. We think that you should focus on planning. The following list summarizes key tax and estate planning topics that warrant your attention in the coming weeks.

1. Harvesting Tax Losses

With the S&P 500 down 30% from its all-time high (through March 23, 2020), now is a great time to harvest tax losses. This past week we initiated a tax-loss harvesting program across client portfolios. We are actively monitoring all client portfolios to capitalize on the opportunity to harvest further losses.

Tax-loss harvesting is the practice of selling stocks, mutual funds, exchange-traded funds and other publicly traded securities that are worth less than what investors initially paid for them (or their current cost basis). By realizing a loss on these investments, investors are able to offset taxes on both gains from other investments and from income. Our strategy is to reinvest the proceeds to maintain market exposure. For more information on this strategy, please read "Tax-Loss Harvesting – Making Lemonade out of Lemons."

2. Tax Filing and Payment Deadlines Extended

The Federal government extended the 2019 tax return and payment deadline as well as the first quarter 2020 estimated tax payment deadline from April 15, 2020 to July 15, 2020. We expect that most states will follow suit – Pennsylvania, New York, California and many other states have already done so. We hope that this change will prevent many from having to raise cash to pay their federal taxes during the current market selloff.

This extension does not apply to federal gift tax returns. As a result, you will have to file a gift tax return extension if you are not planning to file your 2019 federal gift tax return by April 15, 2020.

3. Grantor Retained Annuity Trusts ("GRATs")

Now is a great time to create a GRAT and/or unwind a GRAT that is going to be unsuccessful. The Section 7520 Rate, which is the hurdle rate to ensure that a GRAT is successful, is at its lowest level in seven years (1.2% for April). If you have an existing GRAT program that is not going to be successful, consider substituting assets (cash and/or fixed income) and creating a new GRAT that has a better chance of success. A GRAT is an irrevocable trust that enables families to transfer appreciating assets to subsequent generations estate and gift tax-free. For more information on GRATs, please read "Heads I Win, Tails, I Can't Lose: The Grantor Retained Annuity Trust."

4. Intra-family Loans

Low interest rates also make it a fruitful time to initiate or refinance an intra-family loan. The Applicable Federal Rates ("AFR rates") -- the lowest interest rates that an individual, entity or trust can charge to a related party without creating a gift – are at or near historic lows. AFR rates for April are as follows:

- 1-3 year loans – 0.91%
- 3-9 year loans – 0.99%
- 9+ year loans – 1.44%

Intra-family loans enable family members to transfer wealth with minimal tax consequences. In the current low interest rate environment, the rate of return earned on the investment of the loan proceeds is likely to exceed the loan interest rate. The IRS allows any appreciation in excess of the loan interest to pass to the borrower free of gift and estate taxes, making this a very attractive tool. For example, individuals can use intra-family loans to help family members finance major purchases at a rate that is typically lower than is commercially available.

5. Federal Estate and Gift Tax Exemption.

We recommend maximizing your current maximum lifetime exemption in the coming months. With the recent stock market drawdown and volatility, assets can be transferred to your beneficiaries at a lower cost basis. In addition, the laws surrounding lifetime exemption may change as the Trump administration looks to fund their stimulus plan or if a Democrat wins the 2020 presidential election.

This lifetime estate and gift tax exemption is the dollar amount that individuals can transfer by gift or will without having to pay any estate or gift taxes. As of 2020, individuals can gift $11.58 million estate and gift tax-free. For more information on this exemption, please read "Election 2020: Time to Revisit Your Estate Plan."

The current regulatory landscape is ever evolving. We will continue to keep you abreast of changes and opportunities as they arise. In the interim, we are happy to discuss any of these topics with you in greater detail and evaluate how they impact your personal investment portfolio.

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