



## WEALTH PLANNING OPPORTUNITIES

The COVID-19 pandemic and its effect on our communities has significantly altered the economic environment. The new conditions of low asset values and low interest rates, coupled with recently enacted tax laws have changed the wealth planning landscape and may create new opportunities to achieve estate and tax planning goals for a family's Wealth Enterprise.

We outline some of these changes and opportunities below.

### EXTENSION OF TAX FILING DEADLINES TO JULY 15TH

---

The deadline for individuals, trusts and companies to file forms and to pay 2019 tax obligation has been extended from April 15th to July 15th. In addition, the extension applies to 2020 income tax filings and estimated tax payments. These extensions are automatic for all.

### REVIEW YOUR ESTATE PLAN

---

Staying at home may offer the opportunity for you to review and update current estate planning documents, including:

- Last Will & Testament,
- Durable Powers of Attorney,
- Health Surrogate Designations and Living Will, and
- Revocable Trusts.

---

## CHARITABLE DONATION DEDUCTION INCREASE

---

As part of the Federal “CARES Act,” individuals with charitable deductions to public charities may now deduct up to 100% of adjusted gross income.

## LOSS-HARVESTING

---

The significant weakening of the financial markets offer an opportunity to realize capital losses by selling devalued securities. These capital losses may be used to offset capital gains, assuming that there will be some gains to offset. Taxpayers should not, however, pursue loss harvesting without carefully considering the consequences to their investment strategy and without speaking to their tax advisor on all the tax implications.

## INTER-FAMILY LOANS & TRUST LOANS TO BENEFICIARIES

---

Loans between family members and loans from trusts to trust beneficiaries are subject to minimum rates of interest (in order to not be deemed a taxable gift or distribution). The minimum rate is based on the applicable federal rate or “AFR,” which for April 2020 is very low:

- Short-Term Annual AFR is 0.91 percent;
- Mid-Term Annual AFR is 0.99 percent; and
- Long-Term Annual AFR is 1.44 percent.

Although principle and interest must be paid back, the borrower is afforded the opportunity to invest capital for a very low rate of interest. For existing loans, now could be a good time to refinance.

## TRANSFER WEALTH

---

The circumstances of low asset valuation and low interest rates coupled with the all-time high exemption from gift, estate and generation skipping taxes have created conditions to transfer more assets out of an individual’s taxable estate;. The following trust arrangements are powerful tools for transferring wealth in the current circumstances.

- 
- Grantor Retained Annuity Trust (“GRAT”). A GRAT is a taxable gift of assets by the Grantor to an irrevocable trust, where the value of the gift is reduced by the value of an annuity (paid over a fixed period) that is retained by the Grantor. The annuity payment is composed of a partial return of principal and a presumed interest calculated at the AFR rate. In a “zeroed-out GRAT” the GRAT pays back the full value of the original gift plus the minimum required interest (thus using zero estate and gift tax exemption). Assuming the GRAT can invest the original gift and earn more within the GRAT than the low interest rate that the GRAT is required to pay with the annuity – then the GRAT affords an opportunity to transfer wealth outside of the taxable estate. In a low interest rate environment, the GRAT assets have a lower bar to outperform in order to make the GRAT successful.
  - Intentionally Defective Grantor Trust (“IDGT”). An IDGT is an irrevocable trust designed to remove assets from the taxable estate of the Grantor, but because of a “intentional defect,” the Grantor continues to be responsible for payment of taxes over time on the income of the IDGT. Because the Grantor’s payment of income taxes is not considered an additional gift, the assets in the IDGT can grow faster outside of the Grantor’s estate. For assets that are currently low valued and expected to regain value in the future, a current gift to an IDGT would allow the growth to remain outside of the Grantor’s estate.
  - IDGT “Swap Power”. One of the “intentional defects” causing the irrevocable trust to be a Grantor Trust is when the Grantor retains a power to swap assets with the IDGT. For existing IDGT with assets that are not expected to grow, now may be a good time for the Grantor to swap in personal assets that are expected to increase in value, and let the growth occur outside of the Grantor’s estate.
  - “IDGT Sale”. With this strategy, the Grantor sells an asset to the IDGT at fair market value, in exchange for a down payment and a promissory note. This transaction puts a “freeze” on the value of the asset at the time of the sale and allows the asset to continue to appreciate in the IDGT, outside the estate of the Grantor. To initiate, the Grantor typically gifts enough cash to the IDGT to cover a ten percent (10%) down payment of the asset to be gifted, plus enough cash to cover several interest payments on the promissory note. Because of current market conditions, the FMV of the assets to be sold has decreased, and thus, the 10% down payment

---

has decreased. Also, since the minimum interest rate on the promissory note issued by the IDGT is based on AFR, the amount of the initial gift can also be reduced by the lower interest expense. In addition, less interest payments going out of the IDGT to the Grantor means more assets in the IDGT, outside of the taxable estate of the Grantor.

- Spousal Lifetime Access Trust (“SLAT”): A SLAT is an irrevocable trust in which the Grantor’s spouse is a potential beneficiary. Similar to an IDGT, the Grantor can make a taxable gift to a SLAT using depressed value assets removing the transferred asset and its future appreciation from the Grantor’s estate. Assets in the SLAT could be distributed to the grantor’s spouse should the family need funds in the future. The risk of divorce and death of the non-donor spouse must be considered when implementing this type of trust.

Your **WE** Advisor is here to help coordinate with tax and estate planning specialists to pursue estate planning strategies that may be relevant for your family.

#### *Disclaimers*

*The views, opinions and recommendations expressed here are subject to change without notice and is for informational purposes only and should not be considered as investment advice or an offer of any security or service for sale. WE Family Offices LLC and its representatives are not your investment advisers unless entered into a written advisory services agreement. Information contained herein may have been obtained from sources we believe to be reliable, but we do not guarantee its completeness or accuracy.*

*This presentation does not constitute the provision of investment, legal or tax advice to any person. Please consult with your legal or tax advisor regarding any legal or taxation implications of the information presented in this presentation. In accordance with the rules of Treasury Department Circular 230, any information in this presentation pertaining to federal taxation and using such terms such as “tax planning” is not intended or written to be used, and cannot be used by you or any other person, for the purpose of (i) avoiding any penalties that may be imposed by the Internal Revenue Code, and (ii) promoting, marketing or recommending to another party any transaction or matter addressed herein.*