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Year-End Tax Planning and a Look Towards 2020

Though 2020 is rapidly approaching, there is still time to mitigate tax liability for 2019. Below are some strategies and tax tips to consider before the ball drops in Times Square. In addition, the Internal Revenue Service ("IRS") has released inflation-adjusted amounts for gifts made and decedents dying next year. We conclude with a snapshot of the 2020 transfer tax amounts relevant to your estate plan.

Year-End Tax Planning and Considerations:

1. Annual Exclusion Gifts. Annual exclusion gifts are a great way to pass wealth to the next generation without incurring income or transfer tax liability. Each year, the IRS permits a donor to transfer a specified amount to a noncharitable donee without using any of the donor's gift or estate tax exemption. Since the transfer is a gift, the donee does not incur income tax liability on the transferred amount. In 2019, the annual exclusion is set at $15,000 per donor per donee. If you are considering a gift to someone, and have not reached the limit, you must make the gift before January 1, 2020. It is a "use it or lose it" benefit.

1. Charitable Gifts. In practical terms, gifts to charitable organizations are among the last remaining income tax deductions available to most individuals. With the higher standard deduction and other nuances of the 2017 Tax Cuts and Jobs Act, gifts to charitable organizations should be strategized to best utilize the deduction. A common post-2017 tool is to "bunch" charitable gifts in one year, and take the standard deduction in subsequent years. There is still time to create an effective strategy for 2019.

1. Confirm your Beneficiary Designations. Make it a yearly practice to confirm your beneficiary designations on retirement assets, life insurance, and other accounts are still aligned with your estate plan. Your estate plan relies on these designations, and if they are not properly recorded, your estate plan may not function as intended.

A Look Towards 2020:

1. Gift and Estate Tax Exemption. The gift and estate tax exemption amount will increase from $11.4 million per person to $11.58 million in 2020. For married couples, each spouse can use the exemption, resulting in a

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combined exemption amount will be $23.16 million (assuming proper planning and elections are made), up from $22.8 million in 2019. Note: Per the 2017 Tax Cuts and Jobs Act, in 2026 the exemption amount will revert back to the pre-Act amount of $5 million person, as adjusted for inflation; such amount is projected to be approximately $6.5 million per person.

1. GST Tax Exemption. The generation-skipping transfer ("GST") tax exemption is currently set at the same amount as the gift and estate tax exemption, and is also indexed for inflation each year. In 2020, the exemption amount will increase to $11.58 million per person. Married couples who wish to use both spouses' GST exemptions need to use the proper planning techniques because an election which allows couples to use both spouses' gift and estate tax exemptions does not apply for GST tax purposes. In 2026 the GST exemption will revert back to $5 million person (adjusted for inflation).

1. Annual Exclusion. The annual exclusion from gift tax is also adjustable based on inflation. In 2020, the exclusion remains $15,000 per donor per donee. Accordingly, a donor may gift up to $15,000 to a donee in 2020 without using any of the donor's gift and estate tax exemption.

1. SECURE Act. The Setting Every Community Up for Retirement Enhancement Act (SECURE Act) is an act working its way through Congress, and, if enacted into law, will mark the most significant changes to retirement savings in over a decade. The Act passed the House of Representatives in May of 2019 with overwhelming bipartisan support. Since then, the Act has been stuck in the Senate committee. Yet, on December 17, 2019, the Act was attached to a must-pass spending bill and is expected to be accepted by the Senate and sent to the President for his signature by December 20, 2019.
   As currently drafted, the Act will remove the age restriction on IRA contributions; raise the required minimum distribution age to 72; and largely eliminate the ability for a beneficiary of an inherited IRA to take distributions over his or her lifetime (commonly referred to as the "Stretch IRA") (among other changes). The elimination of the Stretch IRA will have major estate plan impacts as most beneficiaries will have to recognize taxable income from the accounts in a much shorter period of time, thereby diminishing the income tax savings of passing such retirement assets on to the next generation. We are closely monitoring the progress of the Act and will provide updates accordingly.

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1. Charitable Distributions at Death. Given the uncertainty of the SECURE Act and its impact on retirement savings, many clients are considering giving retirement assets to charitable organizations after their deaths. As charitable organizations do not pay income tax, it may make sense for some clients to give retirement assets (which would otherwise incur income tax liability for an individual beneficiary) to charities, and preserve other, previously-taxed assets for individual beneficiaries.

1. 2020 Election. With another presidential election year upon us, the tax system will yet again come under close scrutiny. Many reforms have already been proposed and further discussion of changes to the tax system is guaranteed. Depending on the outcome, the election may change the planning strategies we use as we approach the close of 2020. Given today's political climate, it is essential to be attentive and proactive with your estate planning concerns.

Reinhart's Trust and Estates attorneys are vigilant in monitoring developments in tax law. Should you have any questions about the strategies discussed above, or wish to take advantage of your 2019 annual exclusion gift, please contact your Reinhart attorney or a member of Reinhart's Trusts and Estates team for additional information.