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Legacy and Stewardship

It's still about goals, obstacles, and opportunities.

Over the past twelve months, our newsletters have focused on the goals, obstacles, and opportunities that accompany financial success. One newsletter targeted the $1M net worth threshold, the next covered the changes from $2M to $8M. This would have taken us to a turning point, when your attention shifts from asset accumulation and protection, to the challenges of multigenerational wealth and concepts like legacy and stewardship.

Except, the Tax Cuts and Job Act of 2017 (TCJA) moved our target with a generous gift to affluent estate owners that doubled the estate tax exemption from $11M to $22M for married couples. That change may have deferred this stage for the short term, but for those who have reached that level of affluence, new questions have opened up to assure your assets will go to the right people at the right time in the right amount and with the least expense.

Before we examine those strategies, if you and your spouse are among the beneficiaries of the exemption gift, keep in mind the contentious political climate that made TCJA possible. Clearly, the legislation was not the result of a bipartisan negotiation. In fact, there is a sense of strategic surrender to be followed by future retaliatory reversals.

Even if partisanship can be avoided, the sun sets on many of the TCJA provisions automatically at the end of 2025. A substantial shift in the makeup of Congress or dramatic changes in the economic environment could put the TCJA and its estate tax benefits on the chopping block. Unprepared estate owners and inflexible estate plans could be in jeopardy.

Let's review how your planning for the preservation and distribution of family assets looks through the TCJA lens today.

In addition to estate tax exemptions, the federal Gift and Generation Skipping Transfer (GST) exemptions that remained in place have doubled. Added to the exemption increases, this represents a substantial opportunity to shelter assets from taxation, not only today, but thanks to indexing for inflation, moving forward as well. On top of that, the tax-free step-up in basis remains, raising the need to analyze whether it is better to leave assets with the first generation rather than protecting assets for second, third, or fourth generations with the strategic use of trusts.

Large lifetime exemptions may also incentivize wealthy families to undertake asset shifting during lifetime to guard against less appealing future changes in the transfer tax laws before your estate is distributed. The GST tax exemption may also add a substantial incentive for the wealthy to establish dynastic trust arrangements to similarly guard against future changes in transfer tax laws.

Many DH Financial clients earned their wealth as entrepreneurial business owners, family businesses, as well as large companies, and will enjoy benefits from the TCJA of the reduced corporate income tax rate. For C corporations, the bill established a corporate tax rate of 21%, compared to the former top 35% rate. The 21% is a flat rate, and there is no longer a special rate required for personal service corporations. In addition, corporate AMT is repealed. In exchange for the corporate rate reduction, certain common deductions will now be disallowed, including deductions for most forms of entertainment, recreation, etc.

Owners of businesses taxed on a pass-through basis—S corporations, partnerships, LLCs, and sole proprietorships—are able to claim a deduction for a portion of business income. However, the rules governing preferred pass-through treatment are quite complex and are subject to numerous caveats and qualifications.

Nothing in the bill directly changes the value of the unique tax status of life insurance. Your policies continue to provide a platform supporting strategic tax and financial applications. Many estate owners have invested in life insurance policies to fund estate tax liabilities or equalize assets for the next generations or achieve charitable aspirations.

The TCJA was enacted to make the U.S. tax system more competitive on an international scale. It is a cornerstone of President Trump's goal to make America great again. As a member of the taxpayer group whose net worth qualifies them to make the largest payment into that tax system, you have goals as well. Keeping your families and businesses financially secure and successful is a measure of greatness, too.

In each newsletter of this four-part series, we have reinforced the fact that your financial and tax strategies start with your goals. At this stage of financial success, your goals can spread across generations and define legacy for you. Goals that support family stewardship, that preserve family harmony, and that empower your sharing with the greater community. We are pleased to have an ongoing role to help form those goals and manage the obstacles and the opportunities they create.

Best Regards,

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