“Just Crossed the $8 Million Threshold…what next?”

Our DH Financial letters to clients, colleagues, and friends continue with the second of three pieces focused on three separate profiles of financial success. The profiles are measured by net worth, and each profile faces different issues and different decisions to turn obstacles into opportunities.

Our initial profile offered advice for those who have broken through the millionaire barrier, looking ahead to building an eight-digit net worth. Our next piece will focus on the above twenty-million net worth profile. In this letter, we take the middle ground—starting about where seven-digit net worth crosses over into the eight digits and beyond.

If we had written this letter a few months ago, the story of this middle net worth profile would have focused on preparations to protect assets from estate taxes—at that time kicking in at $11M net worth for married couples. But as you know, the Tax Cuts and Jobs Act of 2017 doubled the estate tax exemption for couples to $22M. That is an $11M gift from Trump for our middle profile, who can relax about the dangers of estate erosion. Or can they?

Of course not. The current legislation will expire at the beginning of 2026—or earlier. In fact, estate tax has been continuous since 1916 and goes back to 1797. The rate of estate tax changes has accelerated in the past several decades with a more recent feature of back-and-forth partisan politics. The doubling of the estate tax exemption could make an easy target for reversal whenever enough congressional votes change or the presidency goes to the other party.

For now, our clients in the middle net worth profile can enjoy a happier new year than expected. What is missing for the time being is the complexity of estate tax planning that can result in *planning paralysis*. Planning paralysis is a condition brought on by unintelligible legal jargon, baffling trusts, multi-column 40-year projection spreadsheets, and Rube Goldberg diagrams of where your money goes and how it comes back.

Instead, while not giving in to a false sense of security about estate tax planning, the new tax law offers middle net worth client’s tremendous opportunities to rethink investment, family business, legacy, and charitable strategies with clarity and confidence.

Middle profile small business owners now have lower tax rates and therefore higher revenues.

- *A major emphasis of the new tax law was corporate tax reform to make the U.S. tax system more competitive on an international scale. 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 exchange, deductions for most forms of entertainment, recreation, etc., are no longer deductible.*

Owners of businesses taxed on a pass-through basis (S corporations, partnerships, LLCs, and sole proprietorships) will be able to claim a deduction for a portion of business income based on a set of somewhat complex rules.

- *“Qualified Business Income” will be eligible for a deduction of up to 20% of such income, essentially lowering the top ordinary tax rate to 29.6%.*

- *Whatever your business structure, the tax bill is undoubtedly a business win. Assuming your business retains more revenues, this can be a time to reinvest profits for business growth or increase distributions to shareholders.*

On the personal side, whether the tax bill has brought you income tax savings, or you can enjoy sheltering some of the $11M with the new exemption threshold, it would be advisable to:

- *Review your investment strategies to increase growth and returns while protecting your investment assets by sound diversification and income tax strategies.*

- *It is also advisable to choose the best assets to fund philanthropic aspirations. For example, tax-deferred retirement assets make a problematic estate asset since the deferred income tax will eventually be paid by heirs drastically lowering the value of the asset. However, for funding, charitable planning retirement assets become tax-free.*

- *Also consider the advantages of life insurance as an asset class. You understand the protection and funding value of life insurance to fund estate tax liabilities and the value of life insurance to equalize diverse estate assets, but you may not realize that your health and longevity can make life insurance a very high-return, low-risk in its own right.*

In summary, for those in the middle net worth profile, these tax law changes should provide a more favorable outcome. Our goal is to help you make informed decisions by educating and empowering you to become a better financial steward when accumulating, preserving, and passing on your legacy. We look forward to answering your questions and sharing ideas.

Best Regards,

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