

# Worth Knowing

## Preparing for Reduction in the Estate Tax Exemption

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In late May of this year, the U.S. Treasury released a publication detailing a number of the proposed tax code changes that the Biden administration would like to usher through Congress in an ambitious effort to modernize the US tax system to meet its citizens' needs. While reasonable minds may differ strongly on the best way to stimulate the US economy and create wealth and security for the American people, one thing is certain: the need for individuals to engage in careful estate and tax planning to avoid paying more tax than necessary is not going away.

This IRS publication, sometimes referred to as the Green Book, outlines a number of key proposals that—if ultimately passed—have the potential to significantly shake up the estate planning world as we know it today by sidelining a number of tried and true estate planning strategies while potentially increasing the frequency of use and usefulness of others.

As some commentators have observed, any direction to reduce the estate and gift tax exemption amount from its current historically high level of approximately \$11.7 million per taxpayer is noticeably absent from these proposals. Although there is certainly no guarantee that such a proposal will not be made in the future, we can nevertheless focus for now on what we do know about the law as written today and what steps we can take to address the coming changes.

One of the first things to understand is that, even with no action whatsoever by Congress, estate tax laws passed under the Trump administration will expire and reset to the prior laws in 2026. This reset will restore the estate and gift tax

exemption amount to \$5 million, as it was in 2016 (though it will be indexed for inflation, resulting in an exemption amount of approximately \$6.6 million in 2026). Again, this is the law as it stands today; without further action from Congress, it will remain the law.

It is therefore important to consider the average rates of return on your current investments, compounded annually, to determine what kind of return on your investments you can expect within the next five to ten years.



Using a basic calculator or spreadsheet, many of our clients and their advisors are surprised to see that, even with a moderately healthy return of approximately 7 percent annually, their net worth could easily double in ten to twelve years. If the estate tax exemption amount is halved in 2026 and increases only with inflation at a rate of approximately 2.5 percent per year, you could very quickly find yourself at risk of paying significant estate taxes (currently at a 40 percent rate) if you are still in the mindset of having an \$11.7 million estate tax exemption (\$23.4 million for married couples) available when either you or your spouse passes away in the next one to two decades. **CONTINUED ON PAGE 2**

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## What should we be doing now?

Given the current uncertainty, trying to predict the future and determine which strategies will best accommodate your tax and estate planning goals can be frustrating. This is particularly true when we consider some of the other Green Book proposals:

### Raising the top income tax rates

Taxing capital gains as ordinary income for people who earn more than \$1 million per year

Treating any transfers of appreciated property (including gifts and inheritances) as a sale of the property, thus triggering capital gains taxes on the property, instead of allowing the traditional carryover basis for gifted property or stepped-up basis for property inherited at the death of the property owner

Limitations on deferral benefits for like-kind exchanges of real estate

You should still consider certain strategies, however, because these changes have not yet been implemented and may ultimately never be enacted. For example, the following strategies are still effective tools under current tax law, and if you implement them now, you could realize significant tax savings.

### Grantor Retained Annuity Trust

A grantor retained annuity trust (GRAT) enables you to transfer appreciating accounts and property to chosen noncharitable beneficiaries (usually children or other family members) using little or none of your gift tax exemption (depending on the value of your retained interest in the trust). To accomplish this, you would transfer some of your property to the GRAT and retain the right to receive an annuity. After a specified period of time, the noncharitable beneficiaries will receive the amount remaining in the trust.

### Installment Sales to an Intentionally Defective Grantor Trust

Another useful strategy that can still be used today is to gift seed capital (usually cash) to an intentionally defective grantor trust (IDGT) and then sell appreciating or income-producing property to the IDGT. The IDGT makes installment payments back to you over a period of time. If the account or property

increases in value over the period of the sale, the accounts or property in the trust will appreciate outside your taxable estate and will therefore avoid estate taxes. Additionally, because you will pay income taxes on the income generated and accumulated in the trust, which is an indirect (nontaxable) gift to the trust (and, therefore, to its beneficiaries), the trust itself does not have to pay income taxes on the income that it retains.

### Spousal Lifetime Access Trust

A spousal lifetime access trust (SLAT) strategy calls for you to gift property to a trust created for the benefit of your spouse (and potentially other beneficiaries like children or grandchildren). An independent trustee can make discretionary distributions to those beneficiaries, which can benefit you indirectly, while an interested trustee should be limited to ascertainable standards when making distributions (i.e., health, education, maintenance, or support). This strategy allows you to use the currently high lifetime gift tax exemption amount by making gifts to your spouse; pay income taxes for the trust, which allows for indirect, nontaxable future gifts to the value of the trust for the or the trust beneficiaries; and still benefit indirectly from the trust through your spouse. Because the trust is designed to avoid using the marital deduction, the money and property in the SLAT will not be included in either your or your spouse's gross estate for estate tax purposes.

### Irrevocable Life Insurance Trust

Irrevocable life insurance trusts (ILITs) are still a tried-and-true method for leveraging life insurance to ease the burden placed on your estate if it will be subject to estate tax at your death. This type of trust is established by transferring an existing life insurance policy into the ILIT (or a new policy is purchased with money gifted to the trust). You would then make annual cash gifts to the ILIT to pay the premiums on the life insurance policy. At your death, the trust receives the insurance death benefit and distributes it according to the trust's terms. Because the trust receives the death benefit and the premiums gifted to the trust are completed gifts, your estate would not include any of the trust's value. This strategy can be a powerful method of leveraging relatively small gift tax exemption usage to create both liquidity for your taxable estate as well as significant accounts or property outside the estate to benefit your beneficiaries.

### We Are Here to Help You

You can still implement these strategies today to significantly benefit yourself and your loved ones. If you feel that you can benefit from a deeper understanding and exploration of these and other strategies, please let us know. We would love to sit down with you and discuss whether any of these strategies make sense for your particular situation. Call us today!





# *A Final Word from Wayne*

The time arrives in every professional's career to transition to the next phase of life. After almost 49 years of practicing law, I have decided to bring the legal professional part of my life to a conclusion effective at the end of this year.

It has been one of the great joys of my life being your attorney, counselor and advisor, and helping you with your life transitions. I will truly miss seeing you as your attorney, but I will hopefully continue to see you as a friend.

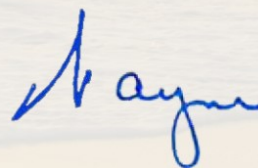
Even though I will no longer be part of Wilson Law Group, I am leaving the firm in capable hands. John Haslam and Dan Purtell each have approximately 20 years of practice as estate planning attorneys, and both hold the credentials of Estate Planning Law Specialists and Accredited Estate Planners. They have been partners in the law firm since 2009, and they have managed the day-to-day activities of the firm for the past three years.

In anticipation of my retirement, the firm has also added Noelle Augelli and Cherish Buss as Associate Attorneys over the past three years, and many of you have already had the opportunity of meeting and working with them. All of our support staff will remain in place as well. Consequently, I have every confidence that Wilson Law Group will be here to serve you for many decades to come.

Many of you know my wife, Laura, who has already made her transition from the firm after 30 years as the firm's administrator, and we now have the opportunity to enjoy our new Madison home and our retirement years together.

Thank you all for being a part of the Wilson Law Group family.

Appreciatively,

A handwritten signature in blue ink, appearing to read "Wayne", is positioned below the word "Appreciatively,".



*All classes are offered exclusively to our RWay members and their guests.*

Wilson Law Group combines our most valued educational workshops into three convenient half-day events!

***Where:\****

Clarion Suites  
2110 Rimrock Road  
Madison, WI 53713

*\*Check our website close to the event or give us a call to find out whether the classes you are interested in will be held online or in person.*

***When:***

Saturday, January 23, 2021  
Saturday, May 15, 2021

***Three Ways to Register:***

**Phone**

608-833-4001

**Email**

mail@wilsonlawgroup.com

**Website**

wilsonlawgroup.com

*Symposium II  
Saturday, January 22, 2021*

<b>8:30 a.m.</b>	<b>8:30 a.m.</b>
Funding	Income Taxes for Trusts
<b>Break</b>	
<b>9:45 a.m.</b>	<b>9:45 a.m.</b>
Trustee Training: Trust Process	Using Trusts to Protect Your Assets from Long-Term Care Costs
<b>Break</b>	
<b>11:00 a.m.</b>	<b>11:00 a.m.</b>
Trustee Training: Administration Process	Planning for Incapacity

*Symposium III  
Saturday, May 21, 2021*

<b>8:30 a.m.</b>	<b>8:30 a.m.</b>
Trustee Training: Trust Process	Current Events in Estate Planning
<b>Break</b>	
<b>9:45 a.m.</b>	<b>9:45 a.m.</b>
Trustee Training: Administration Process	Estate Planning (& Mistakes) of the Rich & Famous
<b>Break</b>	
<b>11:00 a.m.</b>	<b>11:00 a.m.</b>
Have You Done Your Homework?	Tax Advantages of Charitable Planning

**Check out our library of recorded workshops!**

1. Go to [wilsonlawgroup.com](http://wilsonlawgroup.com)
2. Under "Free Workshops," click "Log in to Watch RWay Workshops"
3. Enter password **Sinatra2013**



\*All classes are presented by WLG unless otherwise indicated\*



## **Trustee Training: *The Trust Process***

This program will provide attendees with an understanding of estate planning concepts, why a trust is useful in comprehensive planning, and an introduction to the trust administration process. Attendance is a must for every Trustee and successor Trustee. A Trustee Handbook will be included. This program is a precursor for the Trustee Training (The Administration Process) program.

## **Trustee Training: *The Administrative Process***

The Trust Administration workshop provides Trustees with a detailed description of the decisions to be made and the tasks to be completed following the death of a Trustmaker. These include valuing assets, administering retirement plans and annuities, dividing and distributing trust assets, and preparing estate and fiduciary income tax returns. It is important to know how to handle these responsibilities before the need exists. Prior attendance at the Trustee Training (The Trust Process) program is highly encouraged.

## **Funding Your Trust**

Funding is a critical function of maintaining your trust. Even though your current assets are coordinated with your trust, it is your responsibility to make sure that all assets acquired in the future are also coordinated with your trust. This workshop will help you understand how to properly maintain your trust funding. It also provides essential information to correctly fund your trust, so be sure to sign up if you have not yet taken the class.

## **Income Taxes for Trusts**

Income taxes are often a secondary discussion topic during the course of planning an estate. However, basic knowledge of trust and estate income tax rules is essential to avoiding common mistakes that can cost thousands of dollars. This workshop will provide a practical overview of the issues that arise in connection with the income taxation of trusts and estates.

## **Have You Done Your Homework?**

Not only is your trust binder full of important legal documents, it also contains documents to guide your family in implementing your plan. This workshop offers a guided session to completing your Memorandum for Distribution of Personal Property, Remembrance and Services Memorandum, Child Care Exhibit, Key Information section, and other documents that you may customize. Please bring your trust binder(s) and we will identify your “homework” and provide direction on completing it.

## **Using Trusts to Protect Your Assets from Long-Term Care Costs**

The skyrocketing costs of long-term care can decimate the net worth you’ve built over a lifetime. Using an Irrevocable Trust may protect your assets from the costs of long-term care for those who cannot qualify for other planning alternatives. This program will review the pros and cons of Irrevocable Trusts in long-term care planning.

## **Planning for Incapacity**

While your legal documents are up to date and you have discussed who will act in your place to make financial and health care decisions, there is more to the story. This program will dig into the finer points of what actually happens when the issue of incapacity confronts you and your family members. Unlike death, disability can become a difficult event to define. When are you unable to make decisions and what is the process that must be followed to ensure a smooth transition? We will cover how to discuss your wishes with your loved ones, ways to plan ahead for your potential incapacity, what the institutions will need to know, and the likely outcome of the process.

## **Current Events in Estate Planning**

As we all know, estate planning is essential to making sure your assets and values pass on to future generations in the way that you want. This program is designed to keep you up to date with how changing laws and court decisions can impact your existing planning. We will discuss the most important changes that can have an impact in your plan.

## **Estate Planning (& Mistakes) of the Rich & Famous**

Celebrities seem to have it all...or do they? Estate planning has always proven to be the great equalizer of us all. You will hear stories from Philip Seymour Hoffman to Elvis, Michael Jackson to James Gandolfini. When estate plans are done incorrectly, or not at all, the chaos of litigation can take away from the legacy of a loved one. An informative and fun time will be had by all while we learn from the mistakes of the “elite”.

## **Tax Advantages of Charitable Planning**

You don’t have to stop supporting the causes you are passionate about once you pass. With proactive charitable planning, you can continue or even amplify your giving potential in addition to lowering your taxable estate and avoiding potential capital gains issues. There are many ways to give beyond a traditional check. In this presentation, we will be covering Charitable Trusts, Gift Annuities, Private Foundations, Donor Advised Funds, Bequests of Funds, and Bequests of Appreciated Assets.

## Staff Profile

# MOLLY THOR

## Funding Coordinator

Hello, I'm Molly!

I joined the Wilson Law Group team about two years ago this November. I am the Funding Coordinator for the office and handle all asset transfer and beneficiary changes. I am happy to assist you with any questions concerning the proper classification or designation of your assets to reflect your estate planning goals.

I grew up in Dubuque, Iowa and graduated from University of Iowa in 2019. In my free time I enjoy traveling and spending time outdoors. My favorite part about living in Madison is the lakes and all of the biking trails around town.



## Spooky Facts for Fall

- Spider webs were used as bandages in ancient Greece and Rome. Their natural antiseptic properties kept infection at bay.
- Calyptra thalictri, otherwise known as "vampire moths," feed on human blood. They can latch onto your arm for up to 50 minutes.
- The term "Broken Arrow" refers to a nuclear weapons accident where the weapon has been accidentally lost, fired, stolen, or detonated. Since 1950, there have been 32 known Broken Arrows.
- Dentures of the 19th century were made from real teeth - also called "Waterloo teeth" because they were stereotypically taken from victims of war.
- King Charles II drank alcohol mixed with pulverized human skulls, which he called "the King's Drops." It was believed to promote good health.
- There is a rare genetic degenerative brain disorder called "fatal familial insomnia" wherein the affected individual is unable to sleep. There is no known cure, and as its name suggests, this illness is fatal.



# THIS QUARTER IN HISTORY

**October 6, 1914** - Norwegian explorer Thor Heyerdahl was born in Larvik, Norway. He used Kon-Tiki and other primitive ocean-going vessels to prove the possibility of transoceanic contact between ancient, widely separated civilizations.

**October 12, 1960** - During a debate over colonialism in the United Nations, Soviet leader Nikita Khrushchev took off his shoe and pounded his desk repeatedly.



**October 13, 54 A.D.** - Roman Emperor Claudius died after eating mushrooms poisoned by his wife, the Empress Agrippina.

**October 30, 1990** - For the first time since the Ice Age, Great Britain was connected with the European continent via the "Chunnel," a new rail tunnel under the English Channel.

**November 8, 1519** - After landing on the Yucatan Peninsula in April, Cortes and his troops marched into the interior to the Aztec capital and captured the great Aztec Emperor Montezuma, thereby conquering Mexico.

**November 18, 1477** - William Caxton printed the first book in the English language, *The Dictes and Sayengis of the Phylosophers*.



**December 14, 1962** - The Mariner II space probe sent back data from the planet Venus, the first information ever received from another planet.



**December 19, 1732** - Benjamin Franklin first published Poor Richard's Almanac containing weather predictions, humor, proverbs and epigrams, eventually selling nearly 10,000 copies per year.



# Five Local Charities to Support This Season

*What better way to celebrate Thanksgiving and the winter holidays than by giving back to your community?*

## 1. Monarch Butterfly Fund



This nonprofit's mission is to foster the conservation of monarch butterflies and their migration through habitat restoration, research, monitoring, and education. The fund also supports sustainable community development in the monarch overwintering areas in Mexico.  
[monarchconservation.org](http://monarchconservation.org)



## 2. Underdog Pet Rescue

Underdog facilitates the adoption of cats and dogs from out-of-state high kill animal shelters as well as other rescue organizations. All proceeds from Rescue Me, the thrift and consignment store at Greenway Station, also go to Underdog.  
[underdogpetrescue.org](http://underdogpetrescue.org); 608.224.0018



## 3. Wisconsin Microfinance

This volunteer-run nonprofit focuses on raising money to use for small loans in Haiti and the Philippines. This unique system of "microloans" allows impoverished people - whose lives have been upturned by natural disasters - to sustainably lift themselves out of poverty and learn valuable financial skills.  
[wisconsinmicrofinance.com](http://wisconsinmicrofinance.com); 608.279.8608



## 4. Literacy Network

Madison's Literacy Network teaches reading, writing, communication, and computer skills to Dane County adults to improve their access to job opportunities, understand finances, read to their children, and all of the other benefits of literacy that one frequently takes for granted.  
[litnetwork.org](http://litnetwork.org); 608.244.3911

## 5. Canopy Center

The mission of this charity is to strengthen families by virtue of supporting children, teens, and adults impacted by trauma and adversity. With their programs, the Canopy Center hopes to prevent child abuse and neglect and promote healing of those affected by abuse.  
[canopycenter.org](http://canopycenter.org); 608.729.1134



## Mark Your Calendars

October 31



November 7



November 11



November 25



November 29



December 21



December 25

