CLEARPOINT

clearstead

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GREG LONCZAK, CFP®, SENIOR MANAGING DIRECTOR

YOU MAY HAVE JUST BEEN GIVEN A GIFT, SO USE IT WISELY

BY GREG LONCZAK, CFP®, SENIOR MANAGING DIRECTOR

Gift giving season is almost upon us, with less than a month until Black Friday. According to Deloitte, 2021 holiday retail sales are expected to increase 7-9% to $1.28 to $1.3 trillion.[1] Everyone seems to have a preference for shopping: some shop year-round, some shop exclusively online, some love the art of Black Friday (or is it now Thursday?) shopping, and some still love to wait until the last minute. Given continued supply chain disruptions around the world, uncertainty of order fulfillment has been high, and the advice from the retail community continues to be to "Get your shopping done early!"

The only area of our lives that seems as uncertain as our retail orders right now is tax laws. There is uncertainty regarding estate and gift tax laws, especially since March of this year, when Senators Bernie Sanders and Chris Van Hollen both released proposals that would have made sweeping changes to the estate and gift tax laws. These included reduced estate, gift, and generation skipping tax ("GST") exemptions, tax rate increases, modification of valuation rules, rule changes to GST Trusts, and taxing capital gains at death. Further, in April, President Biden released a broad outline of "The American Families Plan," that included many similar pieces of Senator Sanders and Van Hollen's plans. Today, the Democratic Congress continues to negotiate details of a $1 trillion plus spending package. While the final language is unknown, the latest headlines indicate that many

CLEARSTEAD CONTINUES TO BOLSTER TEAM WITH NEW TALENT

We are pleased to announce that we have added talent to the Private Client team with Dylan Gardner, Samantha Karoly, and the acquisition of Burkhart & Co assets.

Dylan Gardner has joined Clearstead as a Planning Associate. He previously worked for BDO where he was a Senior Tax Associate. Dylan holds a Bachelor's Degree in Accounting from the University of Mount Union.

Samantha Karoly moved from Fayetteville, NC to Cleveland and has joined Clearstead as an Administrative Assistant. She previously worked for Renaissance Classical Christian Academy as the school's administrator.

Burkhart & Co was based in Cleveland Heights and advised private clients on investments, insurance, and financial planning. They had been in business for 20+ years and served more than 150 clients in Ohio and 28 other states. Eileen Burkhart was the lead advisor and has joined Clearstead along with five other new employees: Chris Berben, Jeff Cornelius, Chris Markley, Becca Rak, and Daniel Francy.

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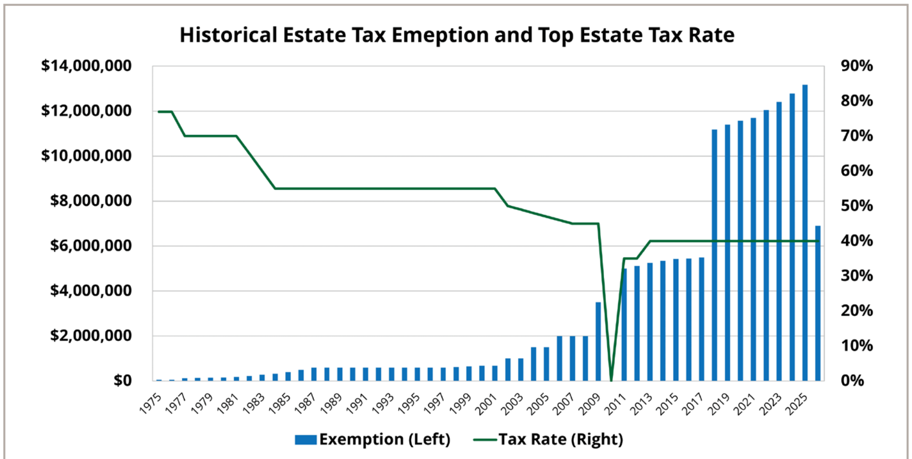
proposed changes to estate and gift tax laws have been removed from the negotiated spending plan. Assuming no further changes are made, grantor trusts will remain a key planning mechanism for families of wealth, and estate exemptions will remain at $11.7 million per person ($23.4 million per couple) and growing until January 1, 2026 (unless changed sooner by tax law).

JANUARY 2026

What happens on January 1, 2026, you might ask? In 2017, the Tax Cuts and Jobs Act of 2017 was passed, effectively doubling the estate exemption from $5.49 million per person to $11.18 million starting in 2018. This higher amount is mandated to “sunset” on December 31, 2025, and, starting January 1, 2026, the exemption will return to somewhere around $6 million per person or $12 million per married couple. The chart below shows the historical estate tax exemption and top tax rates going back to 1975.



With rose colored glasses on, one could argue that wealthy families have been given two valuable gifts by the Democrats; first, a monetary gift of nearly $5 million per couple, and second, a gift of time. To help you understand, we will examine both gifts in greater detail.

How have you received a gift of nearly $5 million per couple? Think of today’s basic exclusion amount (“BEA”) of $23.4 million per couple as having two parts: the “base” amount of $11.7 million—the amount that the exclusion was in 2017 and will revert to in 2026—and a “bonus” amount $11.7 million, the additional exclusion amounts available between now and 2026. For a couple with a large estate, the potential tax savings on accelerating gifts is the current estate tax rate (40%) times the difference between the current BEA ($23,400,000) and the 2017 BEA ($11,700,000):

($23,400,000 – $11,700,000) x 40% = $4,680,000 in potential tax savings!

By not changing the 2017 tax laws, you now have been given an opportunity to capitalize on this savings if you had not done so already.

We are excited about adding Dylan, Samantha, and Eileen and her team to the Clearstead family and to continue to expand our client base.

These changes underscore the firm’s commitment to building its private wealth management offering and expanding service capabilities.

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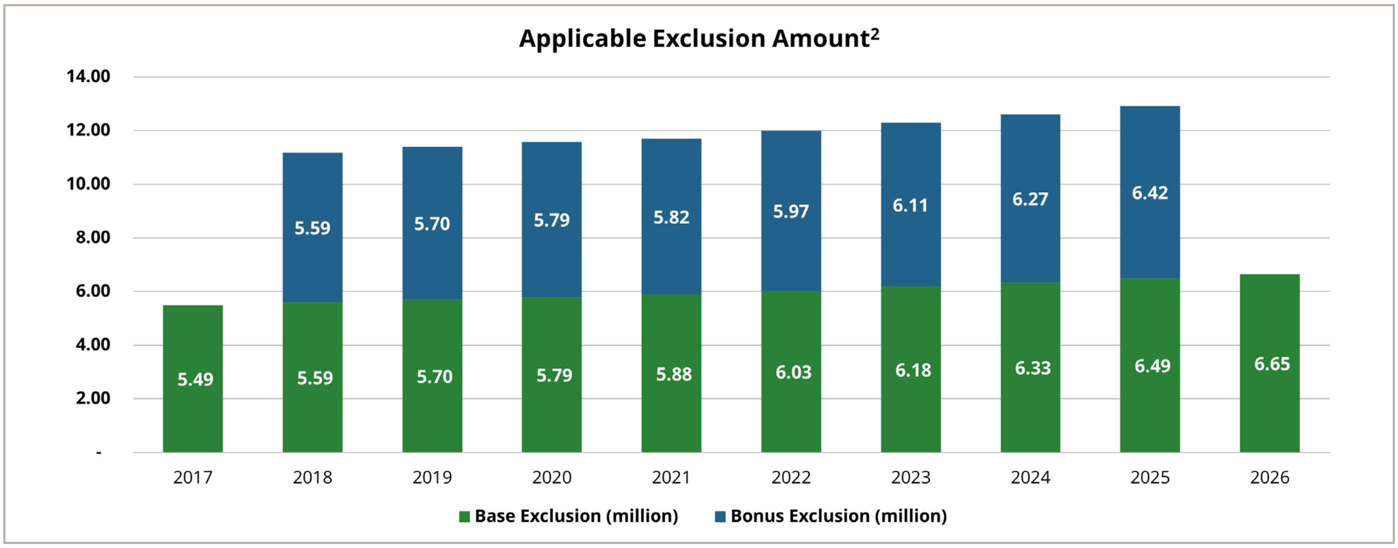

Despite these savings, the gift of time may be the most important. How long this gift of time will last is unknown, but we do know that, without any further tax law changes, we have about four years before we ring in a new year for January 1, 2026.

As many of us in the estate and wealth planning industry know, having time seems to be both a positive and a negative. On the positive side, it provides families time to think creatively and strategically about their situation and, with the help of their team, construct a plan that has the best chances of estate savings and meeting family goals and objectives. On the negative side, since 2018, we have seen that procrastination can easily set in. We all know that a more onerous estate law regime is in front of us and, aside from any changes that might result from the 2024 elections, exemption amounts will sunset in 2026. Regardless, few families have started to plan and use both time and the bonus exemption to their advantage. Instead, as many estate practitioners would attest, most couples waited until things looked dire in March 2021 to begin thinking about gifting significant assets.

TIME AND EXEMPTIONS

How would we recommend you use this gift of time? For couples with balance sheets greater than $20 million who already have gift and transfer plans in-process, we would advise continuing to move forward with these plans if you feel that they were well thought-out, and your projected resources will maintain your lifestyle. If you felt that you were stretching to make a large transfer, you might take time to step back and review the plans again.

For couples with estates between $12 million and $20 million or those with larger estates that have yet to do anything, take advantage of this extra time to determine if a well-crafted wealth transfer plan will benefit your family. Use this time as a bonus, avoid procrastination, do not wait for Congress to begin talking negative changes, do not let Congress force you to make a hasty decision, and avoid waiting until 2025 to talk about gifting. Instead, to take a page out of the retail industries playbook and "Get your gifting done early!"

Sources:

(1) Deloitte: Holiday Retail Sales Expected to Increase 7-9% - Press release | Deloitte US - https://www2.deloitte.com/us/en/pages/about-deloitte/articles/press-releases/deloitte-holiday-retail-sales-expected-increase-seven-to-nine-percent.html

(2) Exclusion amounts assumed 2.5% annual increase from 2021 BEA figures

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MARKET BENCHMARK RETURNS

October 31, 2021		1M	3M	12M	YTD
US Large Cap	S&P 500	7.0%	5.1%	42.9%	24.0%
US Small Cap	Russell 2000	4.3%	3.4%	50.8%	17.2%
Developed Intl	MSCI EAFE	2.5%	1.2%	34.2%	11.0%
Emerging Intl	MSCI Em Mkt	1.0%	-0.5%	17.0%	-0.3%
Real Estate	NAREIT	6.9%	3.0%	46.3%	29.8%
Core Fixed	BarCap Agg	0.0%	-1.1%	-0.5%	-1.6%
Short Fixed	BarCap 1-3Yr	-0.3%	-0.4%	0.0%	-0.2%
Long Fixed	BarCap LT G/C	1.6%	-1.0%	0.2%	-3.0%
Corp Debt	BarCap Corp	0.2%	-1.1%	1.9%	-1.1%

Source: Bloomberg

The performance data shown represents past performance. Past performance is not indicative of future results. Current performance data may be lower or higher than the performance data presented.