CLEARPOINT

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GINA G. GURGANUS, CFP®, SENIOR PLANNING ASSOCIATE

TODAY ISN'T TOO SOON TO PLAN FOR FUTURE ESTATE TAX LAW CHANGES

BY GINA G. GURGANUS, CFP®, SENIOR PLANNING ASSOCIATE

"To not decide is to decide" – Harvey Cox

The topic of wealth transfer and legacy planning is often discussed with individuals and families who have accumulated wealth; however, it's a discussion that typically spans years, if not decades. When considering how to pass wealth to the next generation, the options may seem endless; annual exclusion gifts, direct transfers, Roth conversions, irrevocable trusts, and intra-family lending to name a few. This, paired with the complexity that comes with legacy planning decisions, may leave many families with incomplete estate plans or plans that don't fully take advantage of the current estate tax law and the window of opportunity it presents.

What is the current estate tax law? The 2017 Tax Cuts and Jobs Act (TCJA) nearly doubled the lifetime estate and gift tax exemption ("lifetime exemption") from \$5.6 million for individuals and \$11.18 million for married couples, to \$11.18 million and \$22.36 million, respectively. For 2023, the inflation adjusted lifetime exemption is \$12.92 million per person and \$25.84 million for a married couple.[1] This means an individual can "remove" \$12.92 million from their estate, allowing these assets to pass estate tax free if the proper planning is put in place. Under current law, this increased lifetime exemption is scheduled to sunset, or revert, back to 2017 levels (adjusted for inflation) at the end of 2025.

CLEARSTEAD CONTINUES TO BOLSTER TEAM WITH NEW TALENT

We are pleased to announce that we have added talent to the Private Client and Reporting and Operations teams.

Ken Morgan, CFP, CIMA, CTFA, AEP, CEPA has joined Clearstead as Senior Managing Director, Head of PCG Sales & Strategy. Ken joins us from Hawthorn PNC Private Bank where he was a Senior Relationship Strategist and Hawthorn Regional Relationship Manager, and oversaw business development, client service, and administration for a large portion of PNC's wealth management and trust business. Ken also worked as a Relationship Manager, Trust Associate, and Pension Consultant for a regional bank and an RIA. Ken is a trustee of the Great Lakes Science Center and The Union Club Foundation. He holds a bachelor's degree from the University of Connecticut and a master's degree from the University of New Haven.

Cara Wood, CFA, CAIA has joined Clearstead as a Senior Managing Director. Cara joins our firm from BNY Mellon where she was a Senior Wealth Manager working directly with high-net-worth and ultra-high-net-worth clients across the United States. Prior to BNY, Cara was a Senior Investment Advisor at PNC Wealth Management. She also worked as a Consultant for The Townsend Group, Wilmington Trust, and Invesco. Cara holds a Bachelor of Business Administration in both

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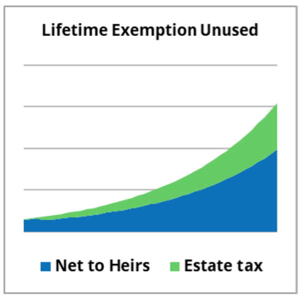
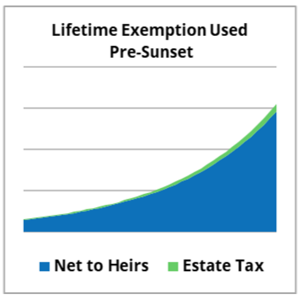
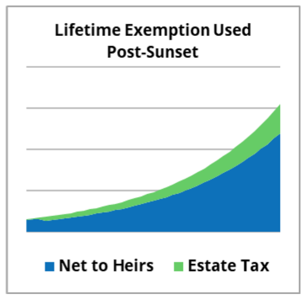
What could this mean for you and your family? If TCJA sunsets as planned, the estate and gift exemption could be reduced to approximately $7 million per individual and $14 million for a married couple, depending on inflation over the next few years. This change could create a taxable estate for many individuals and families who currently would pass assets to the next generation free of estate tax. Currently, the maximum estate tax rate is 40-percent on taxable amounts greater than $1 million above the exemption amount. Therefore, an estate above the lifetime exemption amount would be reduced by the 40-percent tax before passing assets to your family members. Let's look at a few different scenarios to illustrate this:







How do you lock in your exemption now? Trusts are one of the most popular and effective ways to remove assets from your estate. When properly drafted, trusts can significantly reduce your estate that is subject to the 40-percent estate tax rate or even eliminate the estate tax burden altogether. There are various types of trusts to consider when examining how to utilize your lifetime exemption depending on your unique financial situation. Even the appreciation of the assets placed in certain trusts would not be subject to estate taxes thus "freezing" those assets out of your estate as well. Below are some specific examples of trusts used for this purpose.

A **Dynasty Trust** is drafted with the intention of passing assets from one generation to another in perpetuity without incurring estate taxes. To accomplish this, a dynasty trust may be funded up to the current lifetime exemption ($25.84MM, as discussed above) which removes these assets and the future appreciation from your taxable estate thus avoiding the 40-percent estate tax. To be effective, the trust must be irrevocable, and the grantor (donor) must give up "dominion and control" of the assets. Assets in a dynasty trust are managed by a trustee designated by the grantor for the benefit of beneficiaries (typically the grantors' descendants). The trustee is responsible for managing the assets in the trust according to the terms of the trust. Given the multi-generational duration that is characteristic of a dynasty trust, significant thought and consideration should be given to the trust terms and individuals named in various roles in the trust.

A **Spousal Lifetime Access Trust** ("SLAT") is a type of Dynasty Trust. A SLAT is an irrevocable trust where the grantor makes a gift to a trust for the benefit of his or her spouse (and potentially children or other family members) to utilize the

Finance and Marketing from Ohio University.

Ron Ulle, CFA, has joined Clearstead as a Senior Managing Director. Ron joins our firm from BNY Mellon where he was the Senior Director of Portfolio Management overseeing all investment professionals in the State of Ohio. Ron was also a Portfolio Manager and Regional Investment Director at Key Private Bank. In addition, he held various financial and credit analyst positions at a few Cleveland-based firms. He is active in the Cuyahoga County Bluecoats and the CFA Society of Cleveland. Ron holds a Bachelors in Finance from The University of Akron and an MBA from the Weatherhead School of Management at Case Western Reserve University.

Marybeth Setele has joined Clearstead as a Financial Planning Associate. Marybeth has a BA from Kent State University, majoring in English. She was a Financial Planning Specialist at MAI Capital Management prior to joining Clearstead.

Rachael Brake has joined Clearstead as a Service Associate. She has her AA, Psychology from Pensacola State College and joins us from Fifth Third Bank where she was a Personal Banker II.

Seth Rambo has joined Clearstead as an Associate Performance Analyst. Seth has a BS Business Administration from Bowling Green State University, with a major in Accounting and a minor in Finance. Prior to joining Clearstead Seth was an Accountant at MAI Capital Management.

Colin Smith has joined Clearstead as an Associate Performance Analyst. Colin has BAs from Case Western Reserve University, majoring in Chemistry as well as Environmental Studies. He was most recently a Research and Data Analyst at Case Western Reserve University while he completed his degrees.

lifetime exemption. The spouse that is the primary beneficiary of the trust may request distributions, if needed, during his or her lifetime.

CONSIDERATIONS FOR FAMILY BUSINESS INTERESTS

Will your estate have the liquidity to pay the estate tax liability? For many business owners, much of their wealth is tied up in the family business. With federal estate tax generally due nine months following the date of death, planning for liquidity to pay the estate taxes can be imperative to avoid unattractive options such as the need to liquidate the family business to meet the estate tax obligation. It is important for family business owners to start planning today for the shareholder transition of their business while the lifetime exemption is at an all-time high. Additionally, it can be advantageous to remove these assets from the estate before significant appreciation of a family business occurs.

What steps can you take now to prepare? Start planning your legacy today. As 2025 draws closer, we encourage you to engage your financial planner to start the discussion around utilizing your lifetime exemption ahead of the scheduled sunset. As time goes on, many financial planners and attorneys may find it increasingly difficult to accommodate all clients and the advanced estate planning required to utilize the lifetime exemption prior to the sunset.

Source:

(1) https://www.fidelity.com/learning-center/wealth-management-insights/TCJA-sunset-strategies

MARKET BENCHMARK RETURNS

July 31, 2023		1M	3M	12M	YTD
US Large Cap	S&P 500	3.2%	10.5%	13.0%	20.6%
US Small Cap	Russell 2000	6.1%	13.7%	7.9%	14.7%
Developed Intl	MSCI EAFE	3.2%	3.4%	16.8%	15.3%
Emerging Intl	MSCI Em Mkt	6.2%	8.4%	8.3%	11.4%
Real Estate	NAREIT	2.1%	3.4%	-10.1%	5.3%
Core Fixed	BarCap Agg	-0.1%	-1.5%	-3.4%	2.0%
Short Fixed	BarCap 1-3Yr	0.4%	-0.3%	0.4%	1.6%
Long Fixed	BarCap LT G/C	-1.1%	-3.0%	-7.1%	3.3%
Corp Debt	BarCap Corp	0.3%	-0.8%	-1.3%	3.4%

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.