Winged Keel Group Insights

Income and Wealth Transfer Tax Planning in the New Political Environment

Winged Keel Group Insights is a publication designed to create education and awareness around life insurance topics and solutions that may address certain needs of your clients and their multidisciplinary goals.

Our Perspective on Current Planning Opportunities for Families Post-Election

Following last week's election results, the dynamics in Washington D.C. have changed dramatically and delivered Republican control of the Presidency and likely both houses of Congress. For President-elect Trump and the Republican party, they will be transitioning from the campaign trail to legislative and executive action. Campaign promises will need to be prioritized, and compromises made in light of budgetary and fiscal realities. For high-net worth families, the environment looks ripe to continue thoughtful income tax and estate and generational wealth planning.

As with anything in Washington D.C., no one definitively knows when a potential tax bill may be coming. Regardless of timing, the simplest path for Congress to take will be to extend the expiring exemptions such as the income tax rates and estate and gift exemptions under the 2017 Tax Cuts and Jobs Act (2017 TCJA). The extension of the 2017 TCJA exemption may be part of a single piece of legislation consisting of many of the new tax provisions President-elect Trump campaigned on, or we may see separate pieces of legislation.

The provisions of the 2017 TCJA, which are scheduled to expire at the end of 2025, include the provisions relating to income tax rates and the estate tax, gift, and GST tax exemptions. According to the Congressional Budget Office (CBO), just extending the 2017 tax cuts at the current levels is projected to add $4 trillion to the debt over the next 10 years. Recognizing that we have a very large, long-term fiscal problem which is not going away, James Lankford, a Republican member of the Senate Finance Committee, recently said of a 2025 tax bill, "We can't just have it be unlimited, whatever we want it to be."

President-elect Trump campaigned on no taxes on tips and overtime work, deducting loan interest on car loans, reducing taxes on social security benefits while working, and increasing the SALT deduction, among other things. Counter-balancing these proposed tax cuts is the fact that the U.S. debt has grown from just over $20 trillion in 2017 to more than $35 trillion today. Beginning in 2025, interest costs as a percentage of GDP are greater than at any point since the CBO started keeping this statistic.

Any tax bill will be done under the budget reconciliation rules, which requires 51 votes in the Senate and cannot be filibustered. Under this process, the changes are in effect for ten years before they expire. Any reconciliation bill starts with a budget resolution specifying the amount that the bill can increase the federal deficit over the next ten-year period. Based on the parameters set by the budget resolution and the Byrd Rule, a bill is submitted that needs to reconcile taxes, spending and the federal debt limit. Nuances abound and any amendment proposed by either chamber that increases costs must be offset with either a tax increase or spending decrease. With the backdrop of reconciliation and the greater likelihood of the extension of the 2017 TCJA, the best approach is to plan now based on the known framework today, which is quite favorable for wealthy families.

In light of the foregoing, we advise clients to:

- **Continue forward with estate and generational wealth planning** under the assumption that 2017 TCJA will be extended beyond 2025;

- **Continue using trusts for multi-generational wealth transfer** as our clients are "playing the long game" and trusts also provide tremendous benefits beyond estate taxes, including creditor protection, state income and estate tax planning opportunities, as well as providing a mechanism to ensure that clients' long-term visions and values for their wealth are met;

- **Continue to implement Grantor Retained Annuity Trusts (GRATs), grantor trust planning, and discount transfer strategies** to further their planning goals, noting that these techniques were explicitly under review by the Biden administration and certain fellow Democratic legislators;

- **Implement traditional life insurance policies and PPLI policies** that align with their estate, wealth transfer and income tax planning goals.

While we have focused on federal tax policy, there are state level reasons to continue with planning as it relates to estate taxes, income taxes, and even proposed wealth taxes. By way of example, we have seen states like California and New York pass specific legislation limiting the ability to shift state income taxes.

Summary

Following the recent election results, we see a very favorable planning environment for wealthy families to implement or continue planning that achieves their goals. Knowing that any future elections that shift power back to Democrats would seemingly only make the tax and planning environment more challenging for wealthy families, the opportunity to act now should be underscored.

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