

Preserving Family Wealth: Estate Planning



Gallagher

Insurance | Risk Management | Consulting



After coming through a year when the word of the year was “unprecedented,” it is hard to use the same word to explain the 2021 opportunity for estate planning, but it really is unprecedented.

We may not be destined to repeat history but we are likely experiencing the patterns of history. The greatest wealth gap in a generation is about to meet head on with the greatest redistribution of wealth in a generation.

U.S. DEBT TO SURGE PAST WARTIME RECORD, DEFICIT TO QUADRUPLER

The federal debt is projected to reach roughly 102% of gross domestic product in 2021, according to a Congressional Budget Office report. Historically, the U.S. government has generated income from wealthy dead people through the estate tax.

- The last time debt exceeded GDP, the highest estate tax rate **went to 77%**.
- Should you gift now to take advantage of the \$11.7 million exemption?

It's tough to make predictions, especially about the future. - Yogi Berra

With the U.S. Senate split along party lines, and the Vice President breaking a tie vote, the stage is set for more progressive tax proposals to become law.

- If you had the foresight to see a 50% correction in a stock you held, what actions would you take today?
- Does losing 40-50% of family wealth to a market correction hurt less or more than losing 40-50% of family wealth to taxes?



POSSIBLE IMPACT

- Reduction of the gift/estate tax exemption from \$11.7 Million to as low as **\$3.5 Million**.
- Loss in step-up in basis.
- Increase in top marginal rate from 37% to **39.6%**
- For those making more than \$1 Million, increase in capital gains rate from 20% to **39.6%**

WHAT ARE THE RISKS?

The interest rates used for estate planning strategies such as GRATs, Sales to IDGT, Private Finance, Split Dollar, etc... are at historical lows. These low rates super charge planning opportunities.

Just since 2018, the rate is down as much as 94%. For example, let's assume an intra-family loan of \$10,000,000 in 2018 using the mid-term rate.

- Annual gift @ 3.07% in December of 2018:
\$307,000
- Same Annual Gift @ 0.48% in December of 2020:
\$48,000

Someone is sitting in the shade today because someone planted a tree a long time ago.
- Warren Buffett

- Could these historical low interest rates be used to freeze or eliminate tax on family wealth?
- How much time will we have to take advantage of both the exemption and low interest rates?

PROTECTING FAMILY WEALTH FOR GENERATIONS

With NO planning, under potential tax changes, wealthy families may have to earn as much as \$3 to \$5 to provide \$1 dollar to their heirs.

THE BIGGEST THREAT TO FAMILY WEALTH TODAY IS DOING NOTHING. LET'S TALK.

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