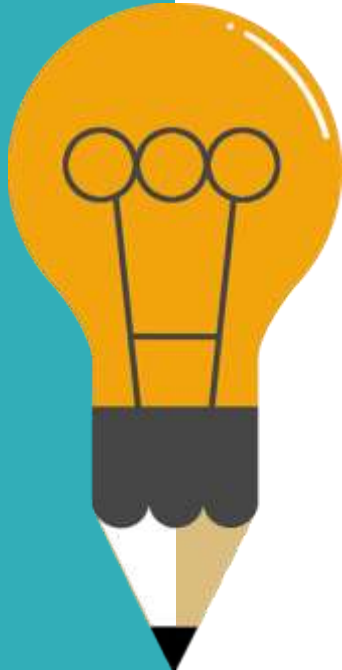


The Estate Planner's Income Tax Playbook

Samuel A. Donaldson

Georgia State University College of Law
Atlanta, Georgia

Our Agenda



01

THE FEDERAL INCOME TAX LANDSCAPE

The continuing impact of the 2017 Act

02

PLANNING WITH THE CAP ON PERSONAL S.A.L.T.

Do any workarounds exist?

03

STATE TAXATION OF NONRESIDENT TRUSTS

Post-Kaestner planning

04

MAXIMIZING THE STEP-UP IN BASIS

It's all about that basis, 'bout that basis

05

OTHER INCOME TAX STRATEGIES OF NOTE

Time permitting, other income tax ideas



The Federal Income Tax Landscape

FEDERAL INCOME TAX RATES FOR UNMARRIED INDIVIDUALS

(Adapted from Rev. Proc. 2020-45)

Taxable Income Exceeding	Ordinary Income	Adjusted Net Cap Gain* & Qualified Dividends	Medicare Surtax on Earned Income**	Medicare Surtax on Net Investment Income
\$0	10%	0%	2.9%	0%
\$9,950	12%			
\$40,400				
\$40,525		22%		
\$86,375				
\$164,925	32%			
<i>AGI over \$200,000</i>				
\$209,425	35%	3.8%	3.8%	
\$445,850				
\$523,600		37%		20%

* Other long-term capital gains could be taxed as high as 25% (building recapture) or 28% (collectibles and §1202 stock).

** Includes employer contribution of 1.45% (§3111(b)(6)), individual contribution of 1.45% (§3101(b)(1)), and additional tax of 0.9% for adjusted gross income over \$200,000 for an unmarried individual and \$250,000 on a joint return (§3101(b)(2), for years after 2012).



2021 Federal Income Tax Brackets *Unmarried Individuals*

FEDERAL INCOME TAX RATES FOR MARRIED COUPLES FILING JOINT RETURNS

(Adapted from Rev. Proc. 2020-45)

Taxable Income Exceeding	Ordinary Income	Adjusted Net Cap Gain* & Qualified Dividends	Medicare Surtax on Earned Income**	Medicare Surtax on Net Investment Income
\$0	10%	0%	2.9%	0%
\$19,900	12%			
\$80,800		22%		
\$81,050	15%			
\$172,750		24%		
<i>AGI over \$250,000</i>			32%	
\$329,850	35%	3.8%		3.8%
\$418,850			20%	
\$501,600	37%			
\$628,300				

* Other long-term capital gains could be taxed as high as 25% (building recapture) or 28% (collectibles and §1202 stock).

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2021 Federal Income Tax Brackets *Married Couples Filing Jointly*





FEDERAL INCOME TAX RATES FOR TRUSTS AND ESTATES FOR 2021

(Adapted from Rev. Proc. 2020-45)

Taxable Income Exceeding	Ordinary Income	Adjusted Net Cap Gain* & Qualified Dividends	Medicare Surtax on Net Investment Income
\$0	10%	0%	0%
\$2,650	24%		
\$2,700		15%	
\$9,550	37%		
\$13,050		20%	3.8%
\$13,250			

* Other long-term capital gains could be taxed as high as 25% (building recapture) or 28% (collectibles and §1202 stock).

2021 Federal Income Tax Brackets *Trusts and Estates*

Year	Transfer Tax Rate	Highest Income Tax Rate
2000	37 – 55%	39.6% ordinary, 28% capital
2001	37 – 55%	39.1% ordinary, 20% capital
2002	41 – 50%	38.6% ordinary, 20% capital
2003	41 – 49%	35% ordinary, 15% capital

Year	Transfer Tax Rate	Highest Income Tax Rate
2010	0%	35% ordinary, 15% capital
2011, 2012	35%	35% ordinary, 15% capital
2013 – 2017	40%	43.4% ordinary, 23.8% capital
2018 – 2021	40%	40.8% ordinary, 23.8% capital



**Income
Tax is the
Important
Game!**





Planning with the Cap on Personal S.A.L.T.

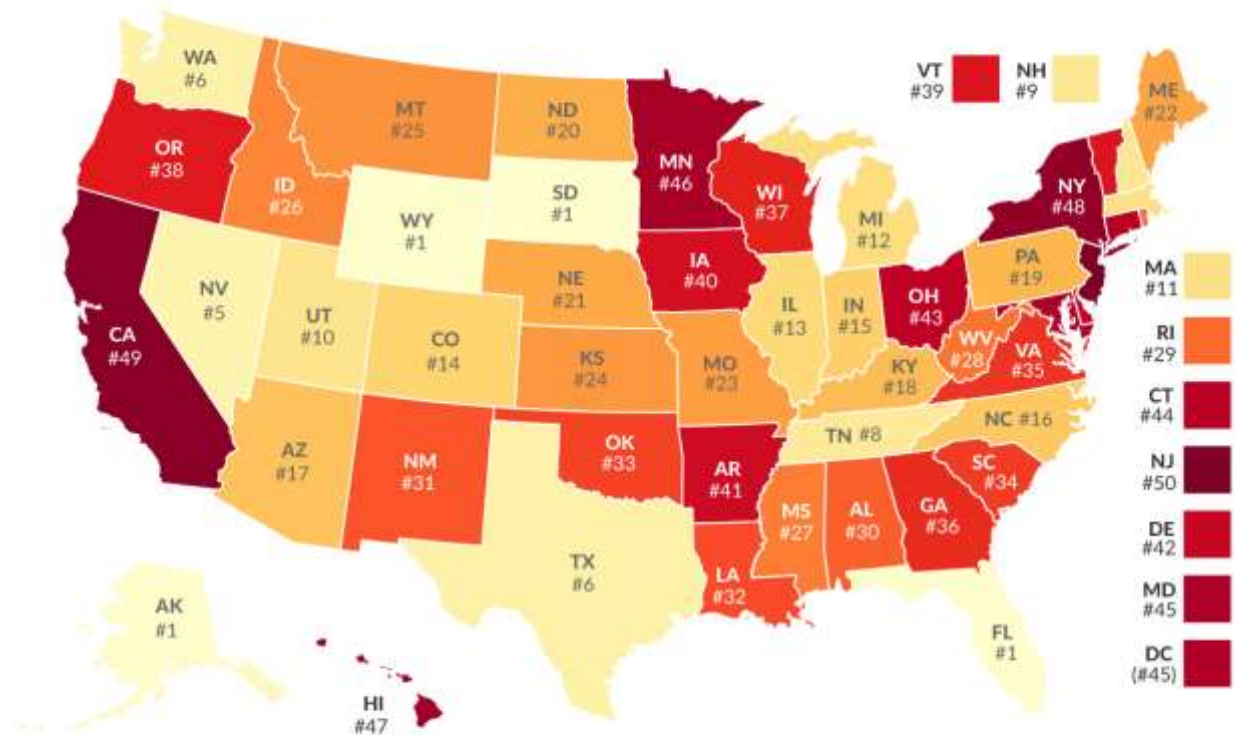


Understanding the \$10,000 cap on state and local taxes

- (1) Same cap for singles and MFJ
- (2) Applies to personal taxes
- (3) Trusts may be helpful
- (4) Tax benefit rule applies

How Does Your State Rank on Individual Income Taxes?

Individual Tax Component Rankings, 2021 State Business Tax Climate Index



Note: A rank of 1 is best, 50 is worst. States without a corporate tax rank equally as 1, D.C.'s score and rank do not affect other states. The report shows tax systems as of July 1, 2020 (the beginning of Fiscal Year 2021).

Source: Tax Foundation, 2021 State Business Tax Climate Index.

Individual Tax Component Rankings,
2021 State Business Tax Climate Index





State Taxation of Nonresident Trusts





Grantor



Trustee



Assets



Beneficiary

**NONGRANTOR
TRUST**
*with undistributed
income*



**North
Carolina
Dept. of
Revenue
v. The
Kimberley
Rice
Kaestner
1992 Family
Trust**



Maximizing the Step-Up in Basis

STEPPING-UP THE STEP-UP



< \$11.7M



01

UNWIND VALUATION DISCOUNTS

- (Re)acquire voting/controling interests
- Convert FLP to general partnership
- Amend agreements to pay full liquidation value





STEPPING-UP THE STEP-UP



< \$11.7M

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TOTAL STEP-UP AT SECOND DEATH

- Outright gift / wholly-revocable trust
- Trust with general power of appointment
- QTIP trust



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TRANSFERS TO HEALTHY ELDERs

- Gift low-basis assets to elders and let them send it back
- Beware §1014(e)





Other Income Tax Strategies

Important Income Tax Ideas and Developments

INSTALLMENT SALES

Be careful of note forgiveness



MAX OUT §529 PLANS

\$10,000/yr. for private K-12 school

NEW RULES ON LIKE-KIND EXCHANGES

Now limited to real property



AVOIDING §199A PHASEOUTS

Place interests in nongrantor trusts

LIFE INSURANCE PLANNING

New basis rules for policy sales



CHARITABLE GIVING

Charitable rollovers work well







That's all, folks