



Marketing Opportunities under the New Tax Act

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Tax Cuts and Jobs Act

- Biggest tax reform in over 30 years
- 2017 tax limbo over
- Those on sidelines can **now proceed with planning**
- What survived chopping block going to be around long time



- Estate tax **not repealed!**
 - Continue to plan to reduce taxable estate
 - Continue to plan how to pay estate tax bill
- Estate and gift tax exemption amount now \$11.2 million (\$22.4 million for married couple)
- Exemption increase sunsets in 8 years
- Golden age of estate planning!



Use It or Lose It

- Extra \$5.6 million exemption vanishes in 8 years
- Gift to Spousal Lifetime Access Trust for spouse
- Gift to Defective Grantor Trust for kids
- Gift to Irrevocable Life Insurance Trust



Big Jump in Estate Tax Exemption Could Derail Existing Estate Plans

- Assume estate of \$10 million
- Will leaves exemption amount to trust for kids, rest to spouse
- Intended: \$5.6 million to kids, \$4.4 million to spouse
- Now: \$10 million to kids, **\$0 to spouse**



Estate Freeze Planning with Higher GIFT TAX Exemption

ASSETS INSIDE ESTATE
40% Estate Tax

**PERSONAL
PROPERTY**

**RETIREMENT
ASSETS**

**PERSONAL
RESIDENCE**

**INVESTMENT
ASSETS**

--- TAX FENCE ---

ASSETS OUTSIDE ESTATE
Not Subject to Estate Tax

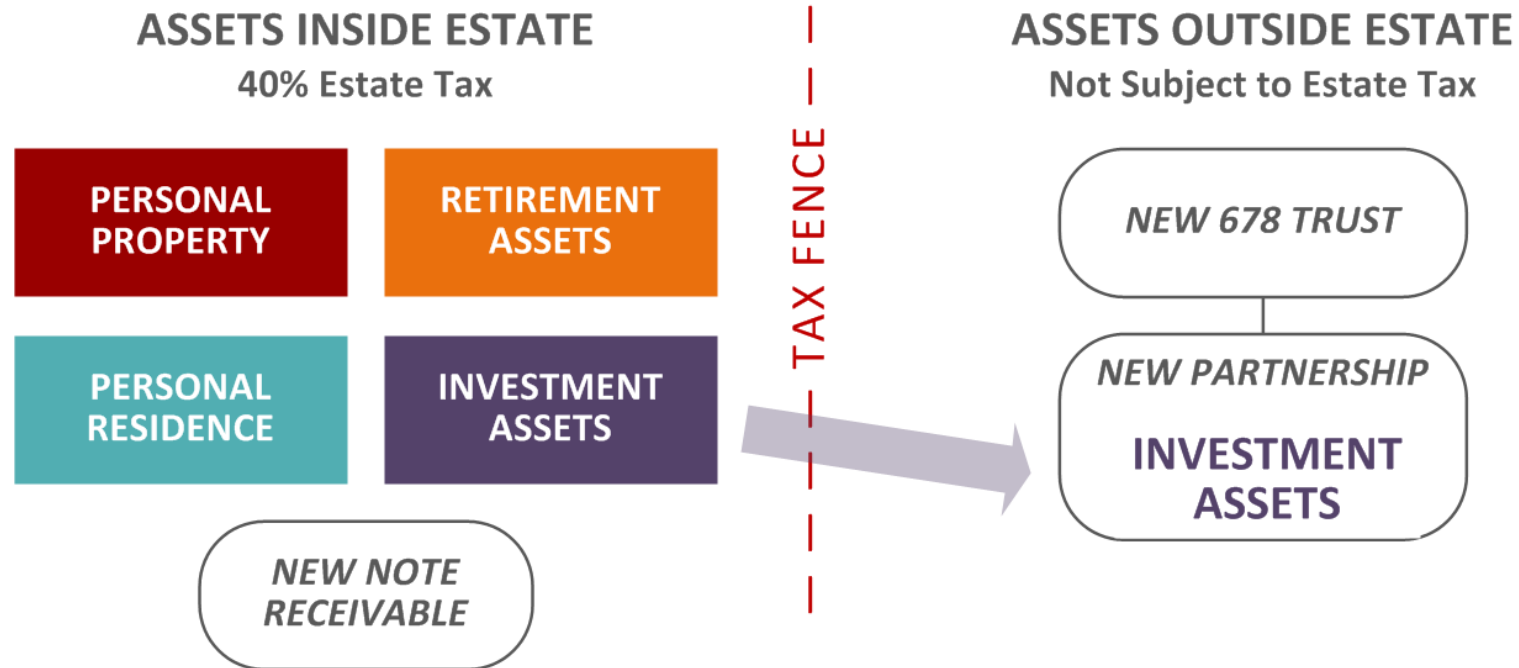


Squeeze, Freeze, and Burn with 678 Trusts retains access to/control of assets

- 1st) Put assets into LP/LLC to “**squeeze**” down value
- 2nd) Sell LP/LLC to 678 Trust to “**freeze**” estate value
- 3rd) “**Burn**” down assets left in estate



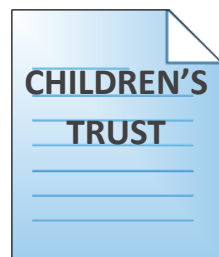
Future growth happens outside of taxable estate





Basis Planning with Higher ESTATE TAX Exemption

Idea 1 Move appreciated assets back into estate to get step up at death





Basis Planning with Higher ESTATE TAX Exemption

Idea 2 Partition to avoid step-down at death of ill spouse

- Make high-basis assets separate property of spouse with longer life expectancy
- **No step-down** when ill spouse dies



Basis Planning with Higher ESTATE TAX Exemption

Idea 3 Use Parent's unneeded exemption to get step-up

- Client creates trust benefiting parent, funds with low-basis assets
- Trust gives parent GPOA over trust assets
- Parent's Will leaves assets to client



Investment Fees No Longer Deductible

Did the client choose investments instead of life insurance because fees were deductible?

Save for retirement by **building up value in a life insurance policy** instead



Deductibility of Alimony Payments Changing Soon

- Currently, alimony deductible by payor and taxable to recipient
- For divorces after 12/31/2018, **no longer deductible** (and not taxable to recipient)
- Spouse that will be paying alimony will want divorce final by 12/31/2018



Take Advantage of New Deduction for Pass-Through Income

- New 20% deduction of pass-through income for business owner
- Only applies to some taxpayers
- If total income **less** than \$157,500 (single)/\$315,000 (married couple), **full deduction** with **no limitations**



Use Qualified Retirement Plan to Qualify for Deduction

- Adopt qualified retirement plan
- Contributions to plan reduce taxable income
- Get income below \$157,500/\$315,000
- Take 20% deduction on pass-through income



The Big Hiccup

New 20% pass-through deduction **doesn't apply** for taxpayers with income over \$157,500/\$315,000 if income is from “**specified service businesses**”

Health

Consulting

Law

Financial Services

Accounting

Investing, Trading

Performing Arts

And More



New 20% Deduction on Pass-Thru Income

Taxpayer's Total Income	Income from Specified Service Businesses	Income NOT from Specified Service Businesses
< \$157,500 (single) < \$315,000 (married)	Full deduction, no wage cap	Full deduction, no wage cap
\$157,500-\$207,500 (single) \$315,000-\$415,000 (married)	0	Part of deduction subject to wage cap
> \$207,500 (single) > \$415,000 (married)	0	Entire deduction subject to wage cap

Wage cap is greater of: (i) 50% of W-2 wages, and (ii) 25% of W-2 wages plus 2.5% of unadjusted basis of business assets



A Tale of 2 Pass-Throughs

TAXPAYER DONNY

- Real estate developer
- \$5M annual income
- 20% deduction = \$1M
- 7% rate of return
- 80% reinvested

When Donny liquidates after 20 years, total of distributed and reinvested income =

\$104.2M

TAXPAYER DOC

- Heart surgeon
- \$5M annual income
- 20% deduction = \$0
- 7% rate of return
- 80% reinvested

When Doc liquidates after 20 years, total of distributed and reinvested income =

\$89.4M



Take Advantage of New C Corp Rate by Restructuring

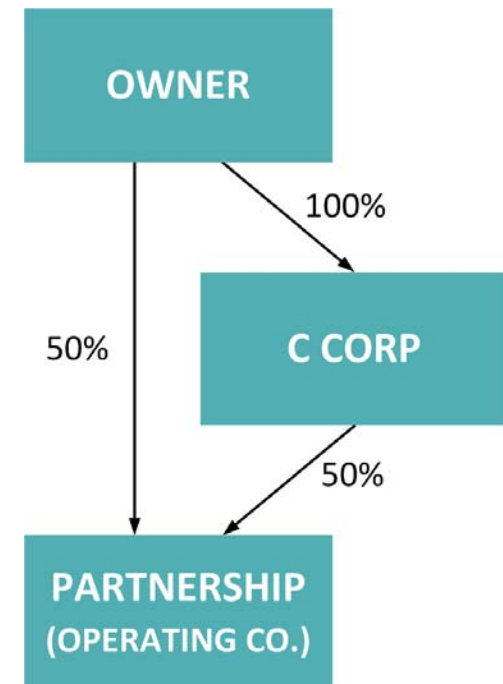
Assumptions: \$5M income, 5% rate of return, 0% dividend rate

TOTAL AFTER 20 YEARS	
1. Pass-through, no deduction (37% rate)	\$85.9 M
2. Pass-through with deduction (29.6% rate)	\$99.7 M
3. C Corp (21% rate), pays out assets as dividend taxed at 20%	\$93.6 M
4. C Corp (21% rate), owner dies, family gets step-up and dissolves corporation	\$117.0 M



Half and Half Might Be Most Beneficial

- Client needs half of profits to live on and will reinvest rest
- Each year, operating company distributes half of profits to C Corp and passes-through other half to owner
- C Corp profits are reinvested

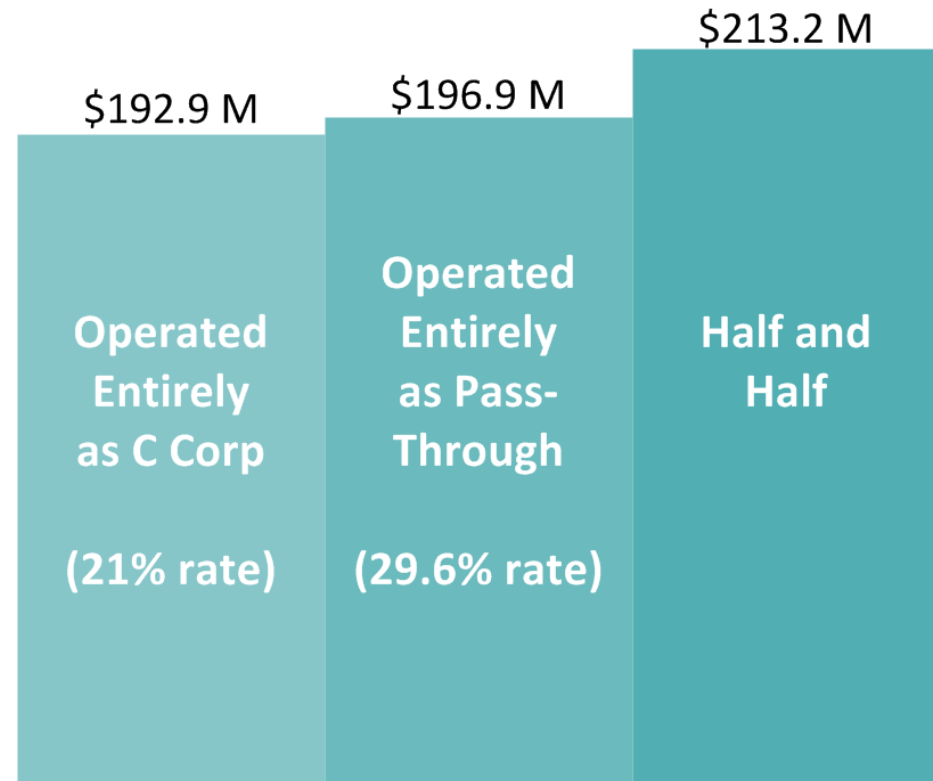




Total Received Following 20 Years and Liquidation

Assumptions:

- Total \$5M annual business income
- 20% rate of return





- Additional C Corp considerations: personal holding company tax, accumulated earnings tax, and intended exit strategy
- Bottom Line – **Not “one size fits all”**
- Need individualized modeling to determine solution



Questions?

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