

Ten Tools Every Estate Planner Should Know How to Use

MICKEY R. DAVIS
DAVIS & WILLMS, PLLC
HOUSTON, TEXAS
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Transfer Taxes – TCJA 2017 (pp. 1-2)

▶ Unified Transfer Tax System

- \$10,000,000 exclusion/exemption for gift, estate and GST tax - for years between 2018 and 2015
- Indexed for inflation using "Chained CPI" (C-CPI-U)
 - **\$11.18 million for 2018**
 - **\$11.40 million for 2019 (Exhibit A)**
- For years 2011-2017 (and after 2025), \$5 million adjusted for inflation
- 40% rate on excess

▶ Income Tax Rates

- Trusts and estates hit the top bracket at:
\$12,500 for 2017 and 2018; \$12,700 for capital gains
- 3.8% additional NII tax

The Analysis Has Changed

- ▶ Ordinary income tax rates exceed estate tax rates
- ▶ High capital gain rates (23.8%) make basis more important
- ▶ High estate tax exclusions make estate tax savings illusory for most people
- ▶ The definition of "married couple" has changed
- ▶ For couples in the \$2 to \$22 MM range, is the complexity and federal income tax exposure worth trust's non-tax benefits?

Ten Essential Estate Planning Tools

1. Portability (pp. 3-14)
2. Bypass Trusts (pp. 14-19)
3. Marital Trusts (pp. 19-24)
4. Intra-Family Loans (pp. 24-27)
5. Outright Gifting (pp. 27-30)
6. Irrevocable Life Insurance Trusts (pp. 30-32)
7. Sale to Intentionally Defective Grantor Trust (pp. 32-37)
8. Grantor Retained Annuity Trusts (pp. 37-41)
9. Charitable Lead Annuity Trusts (pp. 41-44)
10. Qualified Personal Residence Trusts (pp. 44-46)

1 Portability (pp. 2-15)

- ▶ Allows surviving spouse to "inherit" or "port" unused gift and estate tax exclusion of deceased spouse
- ▶ Enacted in 2010; made permanent by ATRA 2012
- ▶ Vocabulary: (p. 3)
 - "Basic Exclusion Amount"
 - "Applicable Exclusion Amount"
 - "Deceased Spousal Unused Exclusion Amount" (DSUE amount)
 - "Executor"
 - "Last deceased spouse"

1 Example 1, the Basics: (p. 3)

- ▶ H dies in 2011 with \$3 million estate
- ▶ \$2 million to spouse; \$1 million to children
- ▶ DSUE amount available to W = \$4,000,000
 - $\$5,000,000 - \$1,000,000 = \$4,000,000$
- ▶ Wife's 2011 Applicable Exclusion Amt=\$9,000,000
 - Basic Exclusion Amount: \$5,000,000
 - DSUE amount: \$4,000,000
 - Applicable Exclusion Amount: \$9,000,000
- ▶ Wife's 2018 Applicable Exclusion Amt=\$15,180,000
 - Basic Exclusion Amount: \$11,180,000
 - DSUE amount*: \$ 4,000,000
 - Applicable Exclusion Amount: \$15,180,000

*DSUE amount does not adjust for inflation

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