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The Ascendancy of Income Tax Planning – Supplemental Basis Step-up Examples

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THE VALUE OF BASIS STEP-UP – INDIVIDUAL

Example 1 – Individual

Assumptions

Danny Decedent's Age	67	
Life Expectancy (Table 2000CM (2000)) (rounded)	16	
Current Year	2017	
Year of Death	2033	
Danny Decedent's Balance Sheet	FMV	Basis
Asset #1	5,000,000	-
Other Assets	4,000,000	4,000,000
Liabilities	-	-
Net Worth	<u>9,000,000</u>	<u>4,000,000</u>
Annual Growth (Asset #1)	6%	
Asset #1 Depreciation Life (S/L) (if applicable)	10	
Annual Growth (Other Asset)	2%	
Other Assets Depreciation Life	N/A	

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Example 1 – Individual

Assumptions (Con't)

Combined Income Tax Rate	45%
Combined Capital Gain Tax Rate	25%
Unified Transfer Tax Rate	45%
Exemption Equivalent (Current)	5,490,000
Exemption Equivalent Growth	3%
Projected Amounts (2033)	
Asset #1 FMV	12,701,758
Other Assets FMV	5,491,143
Exemption Equivalent	8,809,838
Projected Amounts (2043)	
Asset #1 FMV	22,746,915
Other Assets FMV	6,693,672

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Example 1 – Individual

Gift vs. No Gift Comparison	<u>Gift</u>	<u>No Gift</u>
Gift of Asset #1	5,000,000	-
Less Exemption Equivalent	5,000,000	-
Tax Paid	-	-
Danny Decedent's Death		
Tentative Taxable Estate	5,491,143	18,192,901
Adjusted Taxable Gifts	5,000,000	-
Taxable Estate	10,491,143	18,192,901
Less Exemption Equivalent	8,809,838	8,809,838
Tax Paid	756,587	4,222,378
Net to Heirs	17,436,314	13,970,523

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Example 1 – Individual

Alternative #1 - Sale of Asset #1 in 2033 (Capital)	<u>Gift</u>	<u>No Gift</u>
Asset #1 FMV (Capital)	12,701,758	12,701,758
Asset #1 Basis	-	12,701,758
Gain (Capital)	12,701,758	-
Tax Paid	3,175,440	-
Net Net to Heirs	14,260,875	13,970,523
Alternative #2 - Sale of Asset #1 in 2043 (Depreciable)	<u>Gift</u>	<u>No Gift</u>
Asset #1 FMV	22,746,915	22,746,915
Asset #1 Basis	-	-
Gain (Capital)	22,746,915	22,746,915
Tax Paid	5,686,729	5,686,729
Future Value of Depreciation Benefit	-	7,533,867
Net Net to Heirs	8,574,146	15,817,662

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