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**ESTATE PLANNING FOR MODEST
ESTATES:
PRACTICAL TOOLS EVERY PLANNER SHOULD KNOW**

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I. Introduction	1
II. Federal Estate, Gift, and GST Tax Laws	1
A. Permanent, Unified Transfer Tax System	1
1. Historical Perspective.....	1
2. American Taxpayer Relief Act of 2012, P.L. 112-240	1
3. Permanency	2
4. Portability	2
5. Tax Cut and Jobs Act of 2017, P.L. 115-97	2
6. The Net Investment Income Tax	3
III. Tools Every Estate Planner Should Know How to Use	3
A. Fundamental Tools	3
1. Wills and Revocable Trusts.....	4
2. Durable Power of Attorney	5
3. Medical Power of Attorney	6
4. Directive to Physicians	6
5. Physician Orders for Life-Sustaining Treatment ("POLST").....	6
6. Authorization for Disclosure of Protected Medical Information.....	7
7. Declaration of Guardian for Children.....	7
8. Declaration of Guardian for Oneself	7
9. Appointment of Agent for Disposition of Remains.....	8
10. Organ and/or Body Donation.	8
11. Coordinating Non-Probate Assets	8
B. Outright Gifting	9
1. What to Give	10
2. Clawback.....	10
3. Gift Tax and the Three-Year Rule.....	12
4. Carryover Basis	13
5. Disclosure to the Client	13
6. Income Tax Issues	13
7. Giving Discounted Assets.	13
8. Gifts By Both Spouses.	14
9. End-of-Life or End-of-Year Gifts	14
10. Qualified Tuition and Qualified Medical Payments.....	15
C. Intra-Family Loans	15
1. Section 7872 Loans	16
2. Term Loans.....	16
3. Demand Loans.....	16
4. Note Terms	16
5. Impact of Interest Rates.....	17
6. Income Tax Issues	17
7. Death During Term	17
8. Use with Grantor Trusts.	17
9. Rates and Yield Curves	18
10. Current Rates.....	18

11. Using a Balloon Note	18
12. Payment at Maturity	18
D. Irrevocable Life Insurance Trusts	19
1. Structure	19
2. Incidents of Ownership	20
3. The Three-Year Rule	20
4. The Life Insurance Trust as a Grantor Trust	20
5. Split-Dollar Arrangements	21
E. Spousal Lifetime Access Trusts	21
1. Structure of the SLAT	22
2. Giving Property to the Trust	22
3. Grantor Trust Implications	23
4. What Benefits Can the Grantor Retain?	23
5. What if the Spouses Divorce?	24
6. Benefit to Heirs	24
7. GST Tax Issues	24
8. Non-Reciprocal SLATs	25
9. SLAT Strategies	25
F. Grantor Retained Annuity Trusts	26
1. Structure	27
2. Setting the Annuity	27
3. Gift on Formation	27
4. Impact of Interest Rates	27
5. Zeroed-Out GRATs	28
6. Multiple GRATs	28
7. Grantor Trust Implications	28
8. Death During GRAT Term	28
9. Payments in Kind	29
10. Benefit to Heirs	29
11. GST Tax Issues	29
12. Short-term vs. Long-term GRATs	30
13. Insuring the GRAT	30
14. Other Limitations of GRATs	30
G. Qualified Personal Residence Trusts	31
1. Structure	31
2. Residence, Cash, and Proceeds	32
3. Gift Tax Considerations	32
4. Estate Tax Considerations	32
5. Income Tax Considerations	33
6. Joint Purchase of Residence	33
H. Sale to an Intentionally Defective Grantor Trust	34
1. Structure of the IDGT	35
2. Seeding of Trust	35
3. Impact of Interest Rates	35
4. Servicing the Debt	36
5. Grantor Trust Implications	36
6. Death of Note Holder	36
7. Benefit to Heirs	37
8. GST Tax Issues	37
9. Selling Discounted or Hard to Value Assets	37
10. Lack of Certainty and Planning Cautions	39
I. Accidentally Perfect Grantor Trusts	40
1. Structure of the APGT	41
2. Basis Issues	42

3. Impact of Interest Rates	42
4. Benefit to Heirs	43
5. Income Tax Issues	43
6. Estate Tax Issues	43
7. GST Tax Issues	44
8. Selling Discounted Assets	44
9. Combining with Other Techniques	44
IV. Charitable Planning	44
A. Cash Gifts	45
B. Gifts of Appreciated Property	45
1. Gifts to Public Charities	45
2. Gift to Private Foundations	46
3. Gain on Sale and Assignment of Income	46
C. Gifts of Qualified Appreciated Stocks	46
D. Tax-Free IRA Distributions	46
1. Structure	47
2. Income Tax Considerations	48
E. Qualified Charitable Distributions to Split-Interest Entities	49
F. Donor Advised Funds	50
1. Structure	50
2. Gift Tax Considerations	51
3. Estate Tax Considerations	51
4. Income Tax Considerations	51
5. Excise Tax Considerations	51
V. Planning Considerations for Transfers at Death	52
A. Portability	52
1. New Vocabulary	53
2. Overview of Regulatory Provisions and Observations about Portability	53
3. Portability vs. Bypass Trusts	63
4. Use with Bypass Trusts - It's Not "Either/Or"	64
5. Estate Administration Musts	64
B. Advantages of Trusts over Outright Bequests	65
1. Control of Assets	65
2. Creditor Protection	65
3. Divorce Protection	65
4. Protection of Governmental Benefits	65
5. Protection from State Inheritance Taxes	66
6. Income Shifting	66
7. Shifting Wealth to Other Family Members	66
8. No Inflation Adjustment for DSUE Amount	66
9. Risk of Loss of DSUE Amount	67
10. No DSUE Amount for GST Tax Purposes	67
11. Must File Estate Tax Return for Portability	67
12. Impact on Life Insurance Planning	67
C. Using Bypass Trusts	68
1. No Basis Adjustment at Second Death	68
2. Higher Ongoing Income Tax Rates	68
3. Some Assets Cause Greater Tax Burdens	69
4. Disclaimer Bypass Trusts	69
D. Using QTIPable Trusts	70
1. Control, Creditor, and Divorce Protections	70
2. Less Income Tax Exposure	70
3. New Cost Basis at Second Spouse's Death	70
4. Preservation of GST Tax Exemption	70

5. QTIPs and Portability	71
6. QTIPs and Using the DSUE Amount.....	71
7. No "Sprinkle" Power	72
8. Estate Tax Exposure.....	72
9. Income Tax Exposure.....	73
10. Is a QTIP Election Available?.....	73
11. <i>Clayton</i> QTIP Trusts	73
12. The QTIP Tax Apportionment Trap.....	74
E. Is a Life Estate Power-of-Appointment ("LEPA") Trust a Better Choice?	75
1. Structure of LEPA Trusts	75
2. Benefits of LEPA Trusts	75
3. Disadvantages of LEPA Trusts	75
VI. Conclusion.....	76
EXHIBIT A: Historical Estate & Gift Tax Exclusion and GST Tax Exemption Amounts & Top Tax Rates (1916-2025)	77
EXHIBIT B: Sample Pre- and Post- Nuptial Clauses Regarding Portability.....	78
EXHIBIT C: Sample Letter Regarding Portability	80
EXHIBIT D: Sample <i>Clayton</i> QTIP Trust Language	81
EXHIBIT E: Technique Comparison	82
APPENDIX: Overview of Charitable Deduction Rules	83

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I. INTRODUCTION

Estate planners have traditionally focused not only on planning for wealth transfers, but also on minimizing taxes associated with the transfer of a client's assets. Legislation that has dramatically increased the federal gift and estate tax exclusions over the past decade has changed the estate planning landscape for all but the wealthiest clients. Even with the scheduled halving of those exclusions in 2026, the availability of the portability of exclusions between spouses at death means that estate taxes are of no concern to many clients. All of this doesn't mean that we have had to throw out the estate planning toolbox and start over; it just means we have had to look at our tools with fresh eyes. In doing so, we find that, with a little polish, our existing tools can help our clients in new ways.

II. FEDERAL ESTATE, GIFT, AND GST TAX LAWS

A. Permanent, Unified Transfer Tax System

1. Historical Perspective

Prior to 2002, each person had a "unified" transfer tax credit which could be used to offset estate and gift taxes. IRC §§ 2010, 2505. This credit effectively sheltered a set amount of transfers (by gift or at death) without incurring any transfer tax. The Economic Growth and Taxpayer Relief Reconciliation Act of 2001, P.L. 107-16, 115 Stat. 38 (2001) ("EGTRRA") "de-unified" the estate and gift tax credit, with the estate tax exemption exceeding the \$1 million lifetime gift tax exemption from 2004 through 2009. The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, P.L. 111-312, 124 Stat. 3296 (2010) ("TRA 2010") reunified the estate and gift tax exclusions and the GST tax exemption, increasing them to \$5 million for 2011, with an inflation adjustment in 2012. In 2013, the law was scheduled to revert to the law in effect in 2001, immediately prior to the enactment of EGTRRA.

2. American Taxpayer Relief Act of 2012, P.L. 112-240

The American Taxpayer Relief Act of 2012, P.L. 112-240, 126 Stat. 2313 (2013) ("ATRA") was passed by Congress on January 2, 2013 and signed into law on January 4, 2013. ATRA adjusted tax rates and made the changes to the gift and estate tax exclusions and the GST tax exemptions first enacted in 2010 "permanent," while increasing the effective federal estate tax rate on the excess from 35% to 40%. As a result, ATRA kept the estate, gift, and GST tax laws unified with an exclusion of \$5,000,000, adjusted annually for inflation after 2011, and a top estate, gift, and GST tax bracket of 40%.² For 2017, after applying the inflation adjustment, this exclusion was \$5,490,000. For reference, a chart outlining the estate, gift, and GST tax exemptions since 1916 is attached as Exhibit A. At the same time, federal income tax rates were increased for individuals, trusts, and estates to 39.6% for ordinary income and to 20% for qualified dividends and capital gain tax.

¹ Some of the material in this paper was submitted as part of the paper presented by Turney P. Berry, Robert K. Kirkland, Suzanne Brown Walsh & Melissa J. Willms, *Not Too Rich, Not Too Poor: Goldilocks Planning for the Middle-Rich Clients Who Need Our Help*, 57th ANN. HECKERLING INST. ON EST. PL. (2023).

² Of course, a client may make lifetime use of his or her GST tax exemption without making a corresponding taxable gift, or may make a taxable gift without allocating GST tax exemption. As a result, at death, the remaining amount of these exemptions may be unequal or out of sync.

3. Permanency

As we all know, tax laws are never truly permanent. However, for the first time since 2001, ATRA meant there was no set expiration date for the estate, gift, and GST tax laws. From 2001 to 2013, the estate tax rules had expiration dates with a possibility that Congress would make them "permanent." There was continued uncertainty about "will they or won't they," but with ATRA's unexpiring exclusions, it literally meant that it would take an act of Congress to make a change. And then came December 2017.

4. Portability

TRA 2010 added, and ATRA made permanent, the notion of "portability" of a deceased spouse's unused exclusion amount. In essence, portability provides that upon the death of one spouse,³ the executor of that spouse's estate may file an estate tax return and elect on that return to allow the surviving spouse to effectively inherit any unused federal estate tax exclusion of the deceased spouse. In other words, the deceased spouse's unused exclusion amount can be "ported" to the surviving spouse. IRC § 2010(c)(2)(B). Final regulations were issued effective June 12, 2015 which provide guidance regarding portability. Treas. Reg. §§ 20.2010-2, -3. The unused exclusion amount is referred to in the statute as the "deceased spousal unused exclusion amount," otherwise known as the "DSUE amount." Once a spouse receives a DSUE amount, the surviving spouse can use the DSUE amount either for gifts by the spouse or for estate tax purposes at the surviving spouse's subsequent death. An individual can only use the DSUE amount from his or her "last deceased spouse." TCJA did not change the rules for portability. As a result, married couples can effectively shelter up to \$27.22 million (using 2024 figures) in wealth from federal gift or estate tax without utilizing any sophisticated estate planning techniques.

5. Tax Cut and Jobs Act of 2017, P.L. 115-97

With the passage of TCJA 2017, we lost permanency. TCJA 2017 essentially doubled the estate and gift tax exclusions and GST tax exemption for persons dying and transfers made between 2018 and 2025. As a result, we have unified estate, gift, and GST tax laws with an exclusion (and GST tax exemption) temporarily set at \$10,000,000, adjusted annually for inflation after 2011⁴ (scheduled to return to \$5,000,000 after 2025, but adjusted for inflation after 2011), and a top transfer tax bracket of 40%. For 2024, after applying the inflation adjustment, the exclusions and exemption are \$13,610,000.⁵ TCJA 2017 also adjusted income taxes, lowering the top bracket to 37% for ordinary income. Changes to the income tax rates maintain a spread between the top tax

³ A "spouse" may include persons other than those ceremonially married in the jurisdiction in which the decedent died. For example, persons who are married under the common law of one jurisdiction may be recognized as married for federal tax purposes, even if they later move to a jurisdiction that does not recognize common law marriage. See Rev. Rul. 58-66, 1958-1 CB 60. In addition, same-sex couples who are lawfully married in the jurisdiction in which the marriage ceremony is celebrated will be considered spouses for all federal tax purposes, even if they reside in a jurisdiction that purports not to recognize same-sex marriage. *United States v. Windsor*, 133 S.Ct. 2675 (2013); Rev. Rul. 2013-17, 2013-38 IRB 201. Subsequent to the issuance of Revenue Ruling 2013-17, the U.S. Supreme Court ruled that the Fourteenth Amendment of the U.S. Constitution requires states to license marriages between two people of the same sex, and to recognize all marriages between two people of the same sex when their marriage was lawfully licensed and performed out-of-state. *Obergefell v. Hodges*, 135 S.Ct. 2584 (2015). As a result, the marriage of a same-sex couple that is lawful in the state in which the marriage was performed cannot be ignored in other states for purposes of applying their laws. The constitutional basis for this holding likely means that laws in states that purport to limit marriage to one man and one woman can never have had valid application. A discussion of this issue is beyond the scope of this paper. For convenience, some examples in this paper denominate spouses as H and W. The IRS has issued Notice 2017-15, 2017 IRB 783 which outlines procedures to allow taxpayers and executors to recalculate remaining applicable exclusion amounts and GST exemption to the extent that exclusion amounts were used or exemption was allocated by a taxpayer lawfully married to a person of the same sex who the IRS did not treat as a spouse before the *Windsor* decision was issued. Unfortunately, the procedures outlined do not address the proper re-computation of adjusted taxable gifts, so further guidance is welcomed.

⁴ Prior to TCJA 2017, inflation was measured by changes to the Consumer Price Index ("CPI"), published by the U.S. Bureau of Labor Statistics. TCJA 2017 modified the index to the "Chained Consumer Price Index," ("C-CPI-U" or "Chained CPI"), which generally grows more slowly than CPI. Using CPI, the 2018 figure would have been \$11.20 million instead of the \$11.18 million that results from using C-CPI-U. Although many of the provisions related to individuals in TCJA 2017 are only effective for years 2018-2025, Chained CPI as the method of inflation adjustment is "permanent."

⁵ The 2025 basic exclusion amount and GST tax exemption will be \$13,990,000. Rev. Proc. 2024-40, 2024-45 IRB 1100.

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