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**PUTTING IT ON & TAKING IT OFF:  
MANAGING TAX BASIS TODAY (FOR TOMORROW)**

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**TABLE OF CONTENTS**

**I. INTRODUCTION**

- A. Tax Reform
  - 1. Generally
  - 2. Pertinent Changes to the Income Taxation of Individuals and Trusts
  - 3. Pertinent Changes to Transfer Taxation
  - 4. Qualified Business Income of “Pass-Thru” Entities
  - 5. Pertinent Provisions of the 199A & 643 Proposed Regulations
    - a. Generally
    - b. Trade or Business Defined
    - c. Aggregation
    - d. Multiple Trust Provisions
  - 6. Carried Partnership Interests and Transfers to Related Parties
  - 7. Temporary TCJA Estate Planning Landscape
- B. The Old Paradigm: When In Doubt, Transfer Out
- C. The “Permanent” Tax Landscape
  - 1. Generally
  - 2. Pertinent Provisions of ATRA
    - a. Federal Transfer Tax Landscape (Assuming No TCJA)
    - b. Pertinent Income Tax Provisions (Assuming No TCJA)
  - 3. 3.8% Medicare Tax on Net Investment Income Tax
  - 4. 3.8% Medicare Tax: Trusts and Interests in Pass-Through Entities
    - a. Generally
    - b. Non-Grantor Trusts
    - c. Pass-Through Entities
    - d. Qualified Subchapter S Trusts
    - e. Electing Small Business Trusts
    - f. Charitable Remainder Trusts
  - 5. Disparity among the States
- D. Planning in the “Permanent” Landscape
- E. Portability Considerations
- F. Transfer Tax Cost vs. Income Tax Savings from “Step-Up”
- G. Community Property Considerations

**II. SECTION 1014 AND THE TAX NATURE OF CERTAIN ASSETS**

- A. General Rule: The “Step-Up” in Basis to Fair Market Value
- B. Defining “Property Acquired From a Decedent”
  - 1. Generally
  - 2. Section 1014(b)(1): Bequest, Devise, or Inheritance
  - 3. Section 1014(b)(2): Revocable and Retained Income Trusts

- 4. Section 1014(b)(3): Retained Control Trusts
  - 5. Section 1014(b)(4): Exercised Testamentary General Power of Appointment
  - 6. Section 1014(b)(6): Community Property
  - 7. Section 1014(b)(9): Asset Subject to U.S. Estate Tax
  - 8. Section 1014(b)(10): QTIP Marital Trusts
  - C. Basis Consistency and Reporting Rules for Property Acquired from a Decedent
    - 1. Generally
    - 2. Temporary and Proposed Regulations
      - a. Introduction
      - b. Property Subject to the Basis Consistency Rules
      - c. Reporting Requirements
      - d. Property Subject to the Reporting Requirements
      - e. Effect of Post Death Adjustments
      - f. Identity of the Beneficiaries Who Must Receive a Statement
      - g. Supplemental Information and Subsequently-Discovered Property
      - h. Reporting Subsequent Transfers
  - D. Section 1014(e): The One Year Conundrum
  - E. Community Property and Elective/Consensual Community Property
  - F. Establishing Community Property and Maintaining the Character
  - G. The Joint Revocable Trust and the “JEST”
  - H. Section 2038 Marital Trusts
  - I. The Tax Nature of Particular Assets
    - 1. Generally
    - 2. Creator-Owned Intellectual Property, Intangible Assets, and Artwork
      - a. Generally
      - b. Copyrights
      - c. Patents
      - d. Artwork
    - 3. “Negative Basis” and “Negative Capital Account” Partnership Interests
    - 4. Traditional IRA and Qualified Retirement Assets
    - 5. Passive Foreign Investment Company (PFIC) Shares
    - 6. Qualified Small Business Stock (QSBS)
- III. MAXIMIZING AND MULTIPLYING THE “STEP-UP” IN BASIS
- A. Generally
  - B. Swapping Assets with Existing IDGTs
    - 1. Generally
    - 2. Swapping with a Promissory Note of Grantor
  - C. Valuation Discounts On or Off?
    - 1. Generally
    - 2. Conversion to General Partnership
    - 3. The *Powell* “Solution”
  - D. General Powers of Appointment
    - 1. Generally
    - 2. Rights of Creditors
    - 3. Formula
    - 4. Trust protectors
  - E. Forcing Estate Tax Inclusion
    - 1. Different Strategies for Causing Estate Tax Inclusion
    - 2. Tax Consequences of Estate Tax Inclusion
  - F. “Reverse” Estate Planning: Turning Your Poorer Parent into an Asset

1. Generally
  2. Estate and Generation-Skipping Tax Benefits
  3. Income Tax Benefits
  4. Creditor Protection for Child
  5. Limiting Parent's Ability to Divert Assets
  6. Parent's Creditors
  7. Upstream Sale to a Power of Appointment Trust (UPSPAT)
  8. Accidentally Perfect Grantor Trust
  - G. Assets in IDGTs and the Installment Notes Included in the Estate
    1. Generally
    2. Assets in IDGTs
      - a. Generally
      - b. Foreign Trust Rulings
        - (1) PLR 201544002
        - (2) PLR 201245006
    3. Installment Notes
      - a. Generally
      - b. Valuation
      - c. SCINs and CCA 201330033
  - H. The Upside of Debt
    1. Generally
    2. Qualified Unpaid Mortgages and Indebtedness
    3. Debt on Assets in Trust
  - I. NINGs/DINGs/WINGs and Other Things
  - J. Private Derivative Contracts to "Transfer" but Still Own for the "Step-Up"
- IV. PLANNING WITH NON-U.S. GRANTORS, TRUSTS, AND HOLDING COMPANIES
- A. Introduction
  - B. Foreign Holding Companies
  - C. Qualifying for a Basis Adjustment at the Grantor's Death
  - D. Basis Planning with Controlled Foreign Corporations
  - E. Estate Tax Issues
- V. TAX BASIS MANAGEMENT AND THE FLEXIBILITY OF PARTNERSHIPS
- A. Generally
  - B. Entity Classification
  - C. Anti-Abuse Rules
  - D. Unitary Basis Rules
  - E. Contributions of Property
  - F. Current and Liquidating Distributions
    1. Non-Liquidating "Current" Distributions
      - a. Cash Distributions
      - b. Property Distributions
      - c. Partnership Inside Basis
    2. Liquidating Distributions
    3. Distributions and "Hot Assets"
    4. Mixing Bowl Transactions
      - a. Generally
      - b. Contributed Property to Another Partners-Section 704(c)(1)(B)
      - c. Other Property Distributed to Contributing Partner-Section 737
    5. Disguised Sale Rules

- 6. Leveraged Distributions and Disguised Sales
- 7. Distributions of Marketable Securities
- G. Partnership Liabilities and Basis
  - 1. Introduction
  - 2. Current Treasury Regulations
  - 3. 2016 Proposed Regulations
  - 4. 2017 Treasury Action under Executive Order 13789
- H. Loss of Grantor Trust Status with Partnership Liabilities
- I. Basis Issues with Transfers of Partnership Interests
  - 1. Generally
  - 2. Estate Planning Implications
- J. Capital Accounts and Estate Planning
  - 1. Generally
  - 2. Capital Accounts and Transfers of Partnership Interests
  - 3. Capital Accounts, Liquidations, and Redemptions
  - 4. Example
- K. Section 754 Election and Inside Basis Adjustments
  - 1. Generally
  - 2. Basis Adjustments under Section 743(b)
  - 3. Basis Adjustments under Section 734(b)
  - 4. Allocating Inside Basis Adjustments under Section 755
  - 5. Mandatory Inside Basis Adjustments
- L. Partnership Divisions
  - 1. Generally
  - 2. Tax Treatment of Partnership Divisions
  - 3. Partnership Divisions in Tax Basis Management
- M. Death of a Partner
  - 1. Generally
  - 2. Inside Basis Adjustments at Death
  - 3. Section 732(d) Election: Avoiding the Section 754 Election
- N. Partnership Terminations
- O. Maximizing the “Step-Up” and Shifting Basis
- P. Basis Shifts to Diversify Concentrated Stock Positions
  - 1. Introduction
  - 2. Shifting Basis from a Diversified Position to a Concentrated Position
  - 3. Using Debt to Exchange a Concentrated Position for a Diversified Position
- Q. Basis Shifts with Grantors and Grantor Trusts
  - 1. Introduction
  - 2. Basis Shift Example
  - 3. Possible Income Tax Implications of Basis Shifts
    - a. Generally
    - b. Disguised Sale
    - c. Mixing Bowl Transaction
  - 4. PLR 201633021
- R. Family Partnership Examples
  - 1. Example 1: Indemnifications and Divisions
  - 2. Example 2: In-Kind Distributions and Section 754 Election
- S. Planning with Charitable Entities
  - 1. Generally
  - 2. Basis Shifting with Charitable Entities
  - 3. Creating Basis and Shifting Charitable Deductions

- 4. Charitable Family Limited Partnerships
      - a. Purpose and Mechanics
      - b. Economics of the Basic Transaction
      - c. IRS Position
  - T. Sale of Partnership Interests vs. Distributions In-Kind
    - 1. Taxable Sale of Partnership Interests
    - 2. Liquidating Distributions
    - 3. Planning for FLPs: Sales vs. Distributions
  - U. 704(c) Elections that Shift Income Tax Items
- V. PLANNING WITH DISREGARDED ENTITIES
  - A. Generally
  - B. Are Grantor Trusts Disregarded Entities?
  - C. May Discounts Be Used When Valuing Interests in Disregarded Entities?
  - D. Conversion of Disregarded Entity to Partnership
  - E. Conversion of Partnership to Disregarded Entity
  - F. Disregarded Entities: Subchapter K and Capital Accounts
  - G. Planning Opportunities with Disregarded Entities
    - 1. Inherent Leverage with No Income Tax Consequences
    - 2. Disregarded Entities and S Corporations
    - 3. Eliminating Outstanding Installment Notes

## VI. CONCLUSION

### **Disclosure:**

These materials do not constitute and should not be treated as, legal, tax or other advice regarding the use of any particular tax, estate planning or other technique, device or suggestion, or any of the tax or other consequences associated with them. Although reasonable efforts have been made to ensure the accuracy of these materials and the presentation, neither Paul S. Lee nor The Northern Trust Corporation assumes any responsibility for any individual's reliance on the written or oral information presented during the presentation. Each attendee should verify independently all statements made in the materials and during the presentation before applying them to a particular fact pattern, and should determine independently the tax and other consequences of using any particular device, technique or suggestion before recommending it to a client or implementing it for a client.

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**I. INTRODUCTION**

**A. Tax Reform**

**1. Generally**

a. On December 22, 2017, the “To provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018”<sup>2</sup> act, more commonly known as the “Tax Cuts and Jobs Act” (“TCJA”) became law. TCJA makes significant changes to the U.S. income tax system including reducing the top income tax rate but eliminating most itemized deductions of individual taxpayers, limiting the deductibility of business interest expense, reducing the corporate tax rate to 21%, adding a special deduction for business income of “pass-thru” entities, and changing the taxation of foreign earnings.

b. A complete discussion of the TCJA is beyond the scope of this outline, but a number of significant changes were made to the income and transfer taxation of individuals and partnerships, disregarded entities, and other non-corporate entities. These are discussed in detail in these materials.

c. Unless otherwise indicated, all changes are effective for tax years beginning after December 31, 2017, and most of the provisions will expire after December 31, 2025, due to the “Byrd rule,”<sup>3</sup> as adopted by the U.S. Senate, which require the affirmative vote of three-fifths of the members (60 Senators if no seats are vacant), which did not occur with TCJA. Thus, most of the provisions of TCJA will “sunset,” reverting back to the law that was in place when the provisions were enacted (as discussed later in these materials).

**2. Pertinent Changes to the Income Taxation of Individuals and Trusts**

a. TCJA adds subsection 1(j) to the Internal Revenue Code of 1986, as amended (the “Code”), that temporarily decreases the highest Federal ordinary income tax rate from 39.6% to 37% (for individual taxpayers with taxable income over \$500,000, married

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<sup>1</sup> These materials were initially prepared for the 52<sup>nd</sup> Annual Heckerling Institute on Estate Planning (2018), published by LexisNexis Matthew Bender, and are reprinted with the permission of the Heckerling Institute and the University of Miami. Portions of this material have been previously presented by Turney P. Berry & Paul S. Lee. See also Turney P. Berry and Paul S. Lee, *Retaining, Obtaining, and Sustaining Basis*, 7 Est. Plan. & Community Prop. L. J. 1 (Fall 2014).

<sup>2</sup> P.L. 115-97. The Senate parliamentarian removed the short title “Tax Cuts and Jobs Act” as extraneous. Hereinafter, P.L. 115-97 will nonetheless be referred to as the “Tax Cuts and Jobs Act” or “TCJA.”

<sup>3</sup> Section 313 of the Congressional Budget Act of 1974, as amended (2 U.S.C. 644).

individuals filing joint returns with taxable income over \$600,000, and trusts with taxable income over \$12,500).<sup>4</sup>

b. TCJA adds temporarily increases the standard deduction to \$12,000 for single filers and \$24,000 for joint return filers,<sup>5</sup> but also temporarily limits the deduction for state and local sales, income, or property tax to \$10,000.<sup>6</sup>

c. TCJA adds new subsection 67(g) of the Code that temporarily suspends all miscellaneous itemized deductions that are subject to the 2 percent of adjusted gross income floor (for example, unreimbursed employee expenses, tax preparation fees, and other expenses to produce or collect income or expenses to manage, conserve, or maintain property held to produce income).<sup>7</sup> Notably, it is unclear from the wording section 67(g) of the Code whether this suspension also includes trustee fees, which are exempted from the 2 percent floor under section 67(e)(1) of the Code.

d. Effective for 2018, TCJA permanently amends the measure of inflation used for indexing of both income and transfer tax purposes, relying on “chained CPI” (Chained Consumer Price Index for All Urban Consumers or C-CPU-I) rather than CPI (CPI-U) used prior to the enactment of TCJA. The IRS has issued Revenue Procedure 2018-18,<sup>8</sup> publishing the new values for certain items adjusted for 2018 using chained CPI.

### 3. Pertinent Changes to Transfer Taxation

a. Effective for estates of decedents dying and gifts made after December 31, 2017, TCJA adds new subparagraph section 2010(c)(3) to the Code that temporarily doubles the basic exclusion amount from \$5 million to \$10 million, which means, as adjusted for inflation, the Applicable Exclusion Amount for 2018 is \$11.18 million per person.<sup>9</sup>

b. As a result, the GST exemption amount for 2018 will also be approximately \$11.2 million per person.<sup>10</sup>

c. In order to address the issue of “clawback” (the risk that prior gifts covered by a gift tax exclusion that is greater than the estate tax exclusion available at the time of death, thereby giving rise to the risk of an estate tax liability), TCJA adds section 2001(g)(2) of the Code, which provides, “The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out this section with respect to any difference between—(A) the basic exclusion amount under section 2010(c)(3) applicable at the time of the decedent’s death, and (B)

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<sup>4</sup> § 1(j) of the Internal Revenue Code of 1986, as amended (the “Code”). Hereinafter, all section references denoted by the symbol § shall refer to the Code, unless otherwise noted. *See* Rev. Proc. 2018-18, 2018-10 I.R.B. 392.

<sup>5</sup> § 63(c)(7).

<sup>6</sup> § 164(b)(6).

<sup>7</sup> § 67(g).

<sup>8</sup> Rev. Proc. 2018-18, 2018-10 I.R.B. 392.

<sup>9</sup> *Id.*

<sup>10</sup> *See* § 2631(c).



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