# NEW ADMINISTRATION MAY DRAMATICALLY INCREASE DEATH TAXES

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**56%...instead of 3%.** That's how much of your family's wealth could go to federal taxes at death based upon changes discussed by the new Biden administration. A person with a $25 million estate could go from owing $736,000 in taxes at death to owing $14,040,000! That's an unconscionable increase, but a handful of tax changes, if enacted, could make that a reality. The big drivers in the change are:

- Eliminating the current increase in tax basis ("step-up") for inherited assets to the fair market value at death and taxing unrealized appreciation of estate assets at higher capital gains tax rates of 39.6%[i]
- Decreasing the estate tax exemption per individual, currently at $11,700,000, to as little as $3,500,000[ii]
- Increasing the top tax rate for the estate tax from 40% to 45%[iii]

The loss of step-up in tax basis could result in even higher taxes in cases where there are no records to establish a cost basis too. Records to help determine basis would be available for recent major purchases or investments such as equities, businesses, or real estate property, but what about prior inherited property or personal assets? Lack of documentation could mean more taxes. The table below shows how the changes would have an outsized impact on estates under $50 million.

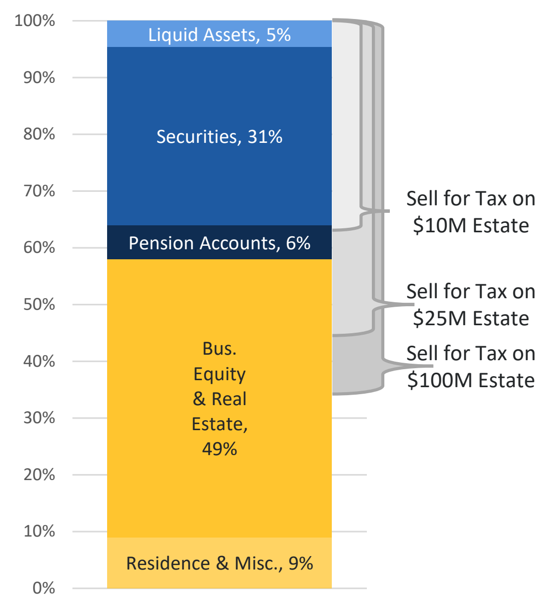
| Impact of Tax Law Changes on Various Estate Values[iv] | | | | | | | |
|---|---|---|---|---|---|---|---|
| Estate Value (In Millions) | $10 | $15 | $20 | **$25** | $30 | $50 | $100 |
| **% of Estate Value Needed for Liquidity for Federal Taxes at Death** | | | | | | | |
| Current Law | 0% | 0% | 0% | **3%** | 9% | 21% | 31% |
| Potential Law | 37% | 48% | 53% | **56%** | 58% | 62% | 66% |

## WHICH ASSETS WILL YOUR FAMILY SELL TO PAY THE TAXES?

Losing 37%-66% of your family's wealth to taxes will strain even the wealthiest families. That amount ignores the potential impact of state death/inheritance taxes which can reach 16% in some states. What assets will your family sell to pay the taxes? The graph to the right shows the average composition of wealth for the top 1% wealth class.[v] It also shows the assets that would have to be liquidated to pay the estate tax bill under the Potential Law scenario.

- Do you want all of your family's liquidity to be exhausted paying estate taxes?
- Do you want to introduce a new owner for part of your business in a time of transition?
- What will the real estate market be like when your family needs to sell a property?
- Will a rushed sale of a business or property fetch a fair price?

**Composition of Wealth for Top 1% Wealth Class**



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**Can you predict future changes?**

- Tax Rates & Timing
- Family Dynamics
- Asset Composition
- Economic Environment

**If not, do you have a hedge?**

## PREDICTING YOUR NEEDS AND RESOURCES IS CHALLENGING

It's impossible to accurately predict the tax environment in the future. How will you be taxed? When will you be taxed? What will the rates be? These things are always changing making planning difficult. It's also difficult to predict your liquidity levels decades into the future as your asset mix and concentrations will morph too. The economic environment is unpredictable. Will there be market highs or a Great Recession when a need for liquidity occurs? Even family dynamics come into play with marriages, divorces, births, maturity levels of children and other relationship issues playing a role in how and where you want your wealth distributed. Put simply: both your needs and resources will be in a state of change creating uncertainty in your ability to meet exposure to taxes at death.

## THE SIMPLEST HEDGE: LIFE INSURANCE

Regardless of the sophistication or extent of their current estate planning, many families choose to employ life insurance as both a liquidity source for estate taxes but also as a hedge against all the uncertainties around the ultimate needs and resources. Life insurance pays a stated benefit amount in cash at death. This cash pool provides a level of certainty for whatever needs may arise at death. When structured properly, it can also avoid inclusion in your taxable estate. The death benefit is also income tax free when properly structured.

Look back at the graphic on page 1. What if you bought enough life insurance to cover 30-50% of your estimated tax liability? Would your family business remain intact as intended? Would your family have some liquid assets left over? Would your family have choices in the timing of assets they have to liquidate so they can achieve better economics in the liquidation? Would they be able to keep family heirlooms or special properties like a ranch or vacation home? Life insurance can create a pool of cash that gives families choices.

## WHY NOW?

There are several reasons to explore life insurance and estate planning strategies now. There are some unique opportunities to take advantage of today's more favorable estate and gift tax laws before they change. Low interest rates also create some very powerful leverage opportunities for shifting wealth within your family and for funding life insurance premiums. Life insurance prices increase as you get older, and your ability to qualify for life insurance isn't a given whether it's a change in your health or external circumstances. For example, many carriers stopped offering policies to clients over certain ages and/or with certain risk conditions due to COVID. It's common to seek qualification for life insurance while you work on estate planning strategies too.

Life insurance is an affordable, accessible way to inject some certainty and protection against the unpredictable tax and economic environment that will shape how much wealth passes to your family down the road. Don't let complacency dictate the choices, or lack thereof, your family has down the road.

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i https://www.forbes.com/sites/robertwood/2020/11/02/bidens-tax-increase-on-death-that-no-one-is-talking-about

ii Ibid

iii https://taxfoundation.org/joe-biden-tax-plan-2020/

iv Current law assumptions: Married couple fully utilizing $11.7 million per person exemption, 40% estate tax rate, and step up in basis at death. Potential law assumptions: Married couple fully utilizing $3.5 million per person exemption, 45% estate tax rate, tax basis equal to 40% of assets, 39.6% capital gains tax on unrealized gain, no step up in basis at death, and no estate tax credit for capital gains taxes paid on unrealized gains.

v Deconstructing Household Wealth Trends in the United States, 1983 to 2016, Edward N. Wolff For Presentation at the First WID World Conference, Paris, France November 17, 2017.