Updates
April 13, 2020

Tax Relief and Estate Planning Strategies in the Wake of COVID-19

IRS Grants Automatic Extension of Federal Tax Returns

Between March 17 and April 9, 2020, the U.S. Department of the Treasury and the Internal Revenue Service issued a series of notices automatically extending to July 15 the deadline for the filing of all federal income and gift tax returns and all federal estate tax returns due on or after April 1. They also extended payment of all federal income, gift, and generation-skipping transfer (GST) tax in respect of the 2019 taxable year, and payment of all federal estate tax and estimated federal income tax for the 2020 taxable year otherwise due on or after April 1, 2020, and before July 15, 2020. Interest, penalties, and additions to tax for these returns and tax payments will not accrue during the April 1 to July 15 period.

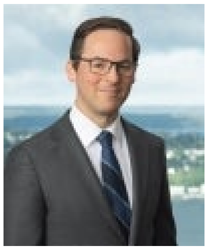
Planning Options in a Volatile Market

The steep decline and volatility in the market in the wake of COVID-19 may allow individuals to leverage significantly lower asset values and historically low interest rates into estate and gift tax savings. Lower market values can increase the benefit of a gift or sale of property, allowing the transfer of more property while using less estate, gift, and GST tax exemptions ($11.58M per individual in 2020, scheduled to be reduced by half in 2026). Lower interest rates can make loans to descendants and other estate planning strategies more attractive. Those interested in taking advantage of depressed asset values and low interest rates may want to explore the following:

- Making gifts or sales of publicly-traded stock or family business interests to trusts for descendants
- Allocating GST tax exemption to existing trusts for descendants that would otherwise be subject to GST tax
- Funding a grantor retained annuity trust (GRAT) or charitable lead annuity trust (CLAT) with assets expected to appreciate at a rate faster than the IRS-prescribed rate for calculating asset growth
- Making loans to descendants (or trusts for their benefit), who can then invest those assets to earn a return greater than the IRS-prescribed interest rates (in April, 0.91% for loans less than three years, 0.99% for loans longer than three and less than nine years, and 1.44% for loans longer than nine years)
- Refinancing existing intra-family loans at these lower rates
- Transferring assets that currently have low values but are expected to appreciate to an existing irrevocable grantor trust in exchange for assets inside the trust that are not expected to appreciate

The suitability of making lifetime gifts depends upon individual circumstances. Consult with an experienced estate planner and a financial advisor to determine if current conditions are favorable for the strategies discussed above. Now may also be a good time to review existing estate planning documents to ensure that the disposition of your estate and the designated executors, trustees, guardians of minor children, and attorneys-in-fact remain consistent with your wishes.

Authors



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