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Trump Tax Cuts Are Set to Expire by 2026. What Money Pros Are Telling Clients.

BARRON'S

By Steve Garmhausen
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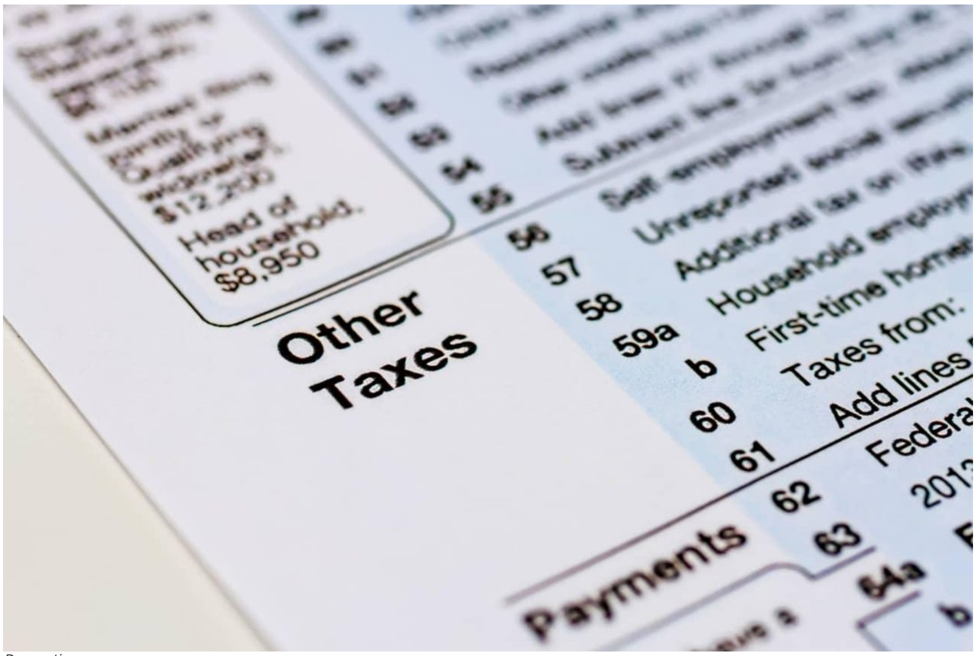
The expected sunset of many of the Trump tax cuts is a little more than 20 months away, and while that might seem like a long time, agreeing on and implementing estate-planning strategies can be a slow and deliberative process. So we thought we'd check in with financial advisors, whose clients face the potential halving of their estate-tax exemption as well as other tax setbacks unless legislators act. Our Barron's Advisor Big Q question for this week: How are you taking care of wealthy clients as the likely expiration of provisions of the Tax Cuts and Jobs Act approaches?



Dreamstime

Phil Hammitt, financial advisor, RBC Wealth Management: We might have a bit more clarity after the election in November, but we are approaching our planning as if [provisions of the TCJA] will sunset and go back to where they were before. For the sunset to happen, it requires no action from Congress or the White House; sunset is the default provision in the law. The important thing to understand is that planning on this takes time. I want to have in-depth conversations with our clients about their goals and tee up the strategies that would best accomplish those goals. For many of our clients, there will be a potential estate-tax issue whether there is a sunset or not. This environment of uncertainty keeps this planning at the forefront and motivates our clients to act.

Tara Thompson Popernik, senior national director, ultrahigh-net-worth services, Bernstein Private Wealth Management: We've been talking to our clients about the tax cut sunset since Congress passed the Tax Cuts and Jobs Act in 2017. While the potential expiration of the expanded exclusion is a motivating factor in getting clients engaged in estate planning, we're focused on proactive planning for our wealthiest clients regardless of what happens to the tax law. That means ensuring that clients' plans are aligned with their priorities, that they have the right professional team in place to execute on transfer strategies and that they aren't overplanning in advance of 2026. We use proprietary analytic tools to quantify how much clients need to retain to sustain their lifestyle with a high degree of confidence, in light of longevity expectations, inflation, and uncertain capital market returns. Any amount above this core capital can be used for other priorities such as wealth transfer or philanthropy.

Mark Parthemer, Florida regional director and chief wealth strategist, Glenmede: Sunset's definitely possible, so clients need to prepare. For income and alternative minimum tax changes, they should consider accelerating or deferring income, such as Roth IRA conversions, or bunching deductions, such as charitable contributions. For estate planning, we suggest they consider flexible planning. The possibility of sunset reinforces the need for clients to take action on estate planning. But since sunset could be delayed or eliminated by new law, we're discouraging clients from taking steps that could trigger "giver's remorse" if it doesn't happen.

Our advice is to act sooner rather than later because accessing advisors could be difficult if you start late. They'll be very busy by late 2025. Rushing it might open the door for an IRS attack. Recently, the IRS successfully unwound an attempted workaround by a wealthy spouse to give money to his children. He used his exemption to gift them money then also gave funds to his wife to regift that money to their kids using her own exemption. Nevertheless, both gifts were attributed to the wealthy spouse, triggering a gift tax. This doesn't mean it can't be done, but you need time to do it correctly.

Jaime Barnes, private wealth advisor, Skyeburst Wealth Management: We are proactively working with clients to take advantage of the current situation, with the future in mind. At the top of our list is helping them create tax efficiency, which may include converting IRA money to Roth to work within the current brackets and higher standard deductions. This serves multiple purposes: Clients pay tax at a lower rate today and keep required minimum distributions in check in future years, while at the same time lowering the tax burden on nonspouse beneficiaries in the future when qualified money ultimately passes to them.

For accumulator clients, we are considering with them whether it would be beneficial to leverage Roth and after-tax provisions of the 401(k) when available, again weighing current tax brackets with what we see as the inevitability of higher brackets in the future.

Jameson Van Houten, financial advisor, Beacon Pointe Advisors: Many high-net-worth and ultrahigh-net-worth clients still need to review or implement a plan to offset a possible sunset of the Trump tax cuts. Our conversations start with reassessing their financial goals, figuring out if anything has changed in the past few years, and how we can find the best set of solutions to get ahead of the impending changes. We invite their other professional advisors, CPAs, attorneys, and at times their family members to help inform the planning decision.

Encouraging these meetings, where everyone is in one room, allows for a comprehensive, holistic approach to planning with the client and helps provide them with more security and comfort in the decision-making process. Our goal for the meeting is to pinpoint what makes the most sense for our client. Whether it's exploring estate planning, using risk management solutions, or establishing various trusts and entities to leverage gifting as a strategy to protect their assets, we like to hear directly from everyone in the room. The conversation can help dictate the best avenue to prepare for a possible change of estate-tax rules at the end of 2025.

Douglas Stokes, managing partner, Stokes Family Office: The sunsetting provisions related to estate-tax exemptions and bonus depreciation are the two focal points we are discussing with our clients. As of 2024, individuals can transfer estates up to approximately $13 million and not be subject to federal or gift taxes. This exemption is set to be cut in half to about $6 million per individual. The 2017 bonus depreciation

Kelly Woo, CFP®, EA
Principal
Bene Financial & Insurance Group, Inc.

Office : 213-588-1880
kelly@benefg.com
BeneFG.com

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allowed businesses to deduct 100% of depreciation expenses incurred on qualified properties in the first year from their federal taxes. The allowable bonus depreciation has declined each year since its inception and is set to sunset in 2027. Real estate investors use bonus depreciation to accelerate depreciation and offset taxable income from properties.

We are currently making clients aware of potential sunsetting provisions, but we are not advising immediate action. In our opinion, there is a strong likelihood that these provisions will be extended or revised dependent upon the outcome of the November election. If there is no revision, we will have a full year to take advantage of current tax law before the year-end 2025 sunset, specifically for the estate-tax exemption.

Write to advisor.editors@barrons.com