

A photograph of three business professionals in a meeting. A man in a suit and glasses is looking at a document, a woman is looking at a laptop, and another man is looking at the woman. They are in a modern office setting.

Year-End Tax Planning

FOR PRIVATE CLIENT SERVICES

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Learning Objectives



Cite updates in the tax code or new cases in tax court that occurred in 2024 which impact high-net-worth individuals and families.



Describe tax planning techniques that can be used for mitigating income or estate tax liabilities, given the right set of facts and circumstances.



Recognize activities and/or behaviors which may trigger or complicate state tax audits for high-net-worth individuals.

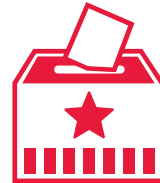
Our Agenda Today



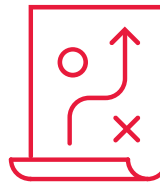
Adjustments for 2025



2024 Cases & IRS Activity

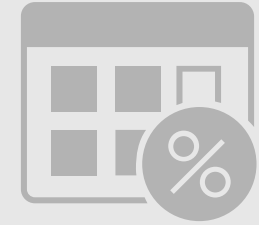


Political Update



Planning Opportunities

Notable Adjustments for 2025-2026



INCOME

- ▶ MFJ 37% bracket starts over \$751,600
- ▶ MFJ capital gains bracket starts over \$600,051
- ▶ 3.8% net investment tax not adjusted, MFJ \$250K
- ▶ 2026 sunseting:
 - 39.6% top bracket
 - Compressed brackets

ESTATE, GIFT, & GST

- ▶ Lifetime exemption increased to \$13,990,000
- ▶ Annual exclusion increased to \$19,000 (gift and GST are different)
- ▶ 2026 sunseting:
 - Lifetime exemption to be cut in about half

BUSINESS

- ▶ NOL limits up to \$626,000 MFJ
- ▶ Bonus depreciation down to 40%
- ▶ 2026 sunseting:
 - 199A goes away
 - 21% corporate rate is permanent

Connelly Holding

- ▶ Many businesses have agreements that provide for the redemption of interests at the death of an owner
 - Usually funded with some life insurance on the owners
- ▶ Previous: Redemption obligation may have precluded the inclusion of insurance proceeds from valuation
- ▶ *Connelly*: High likelihood business owned life insurance will be included in business value for estate tax purposes when an owner dies
- ▶ **This will increase the estate tax due at the death of an owner when the business holds a policy on the deceased**



Additional Cases & IRS Activity

- ▶ *Moore*: realized income may be taxed, remaining question about constitutionality of wealth tax
- ▶ *Loper Bright*: overturned presumed deference to governmental agencies allowing for more judicial interpretation of issues
- ▶ *Post*: for administrative regulations, the statute of limitations doesn't accrue until the harm to the plaintiff occurs, extending the time to bring action
- ▶ *Soroban Capital Partners*: Court agreed a “functional analysis” is required to determine whether a partner is active and subject to SECA. To be decided in a future decision is how a functional analysis should be applied.
- ▶ The IRS seems to have a renewed focus on economic substance in related party transactions. Potential relevance in the PCS space includes partnership “basis shifting” transactions and partnership freeze transactions.
- ▶ The IRS recently kicked off its new Passthroughs, Trusts, and Estate office and hired Jeffrey Erickson as the first Associate Chief Counsel. Combined with the increased level of activity we're seeing in terms of partnership exams the IRS is clearly stepping up its partnership game.

Political Update



- ▶ Likelihood of extension of provisions of the Tax Cuts & Jobs Act (TCJA)



- ▶ Potential increased tariffs
- ▶ Possibility of lowered corporate tax rate (15%-20%)
- ▶ Individual?



- ▶ Tax - large private university endowments
- ▶ Exempt - tips and Soc. Sec. income
- ▶ Other new policies?



- ▶ R&D
- ▶ Business interest expense deduction
- ▶ Other bills?
- ▶ Regulatory/IRS

FEDERAL TAX POLICY

Were We Might Go in the New Administration and New Congress President-Elect Trump's Policy Proposals

Business tax

- ▶ Lower corporate rate from 21% to 20% (15% if manufacturing in United States)
- ▶ Extend present-law carried interest rule, treating as LTCG if held 3 years
- ▶ Qualified opportunity zone capital gain deferral extended
- ▶ Like-kind exchanges limited to real property would be extended
- ▶ 20% qualified business income deduction would be extended
- ▶ Limitation on excess business losses for non-corporate taxpayers would be repealed
- ▶ Bonus depreciation extended or made permanent
- ▶ Retain certain fossil fuel incentives; repeal certain green incentives from the IRA
- ▶ Increase excise tax on large university endowments

FEDERAL TAX POLICY

Were We Might Go in the New Administration and New Congress President-Elect Trump's Policy Proposals

International Tax

- ▶ Foreign-Derived Intangible Income (FDII): rate set to increase from 13.25% to 16.4% after 2025; proposal would extend the 13.25% rate
- ▶ Global Intangible Low-Taxed Income: rate set to increase from 10.5% to 13.125% after 2025; proposal would extend the 10.5% rate
- ▶ Base Erosion and Anti-Abuse Tax (BEAT): rate set to increase from 10% to 12.5% after 2025; proposal would extend the 10% rate

Estate, Gift, and GST Tax

- ▶ Extend higher exemption amounts (\$13.61 million per person)
- ▶ 40% rate is permanent

FEDERAL TAX POLICY

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Individual Tax

- ▶ Extend lower rates
- ▶ Replace individual tax with tariffs
- ▶ Reduce top LTCG rate to 15%; index purchase price of assets
- ▶ Exempt from tax SS benefits, overtime, tips
- ▶ Extend increased standard deduction
- ▶ Extend elimination of personal exemptions
- ▶ Extend increased AMT exemption amounts
- ▶ Extend itemized deduction limitations (mortgage interest, charitable, casualty, suspension of other misc. itemized)
- ▶ Remove SALT cap of \$10,000
- ▶ Increase child credit to \$5,000; new tax credit for caregivers; auto loan interest deduction
- ▶ Eliminate double taxation of Americans abroad

Gift and Estate Tax Overview

Gift and Estate Tax

- ▶ 40% above exemption amount transferred (2024 \$13.61M per individual; 2025 \$13.99M)
- ▶ Exemption may be used during life, at death, or a combination
- ▶ CAVEAT: current exemption amounts sunset January 1, 2026 to about \$7M per individual without extended TCJA
- ▶ **Generation-skipping transfer (GST)** tax exemption may also be allocated to gifts and estates at the same \$13.61M per person, allowing for assets to be protected in trust for multiple future generations free from additional levels of estate and gift tax
- ▶ Unused estate exemption may be transferred to a surviving spouse, but not unused GST exemption

- ▶ Annual Gift Tax Exclusion
\$18,000 per donor per donee (\$19,000 2025)
 - In addition to the exemption amount
 - May be done annually and gift split on a tax return
 - Exclusion gifts are preferably made outside of trust, or to different trusts, due to different GST tax exclusion requirements
- ▶ Medical & Educational Expenses
 - Allowed in addition to exemption and exclusion gifting
 - Must be qualified expenses and made directly to the institution

Planning Opportunities



INCOME

- ▶ Plan income & deductions between 2024-2026 to use lower rate brackets
 - Consider top bracket may revert to 39.6% and expanded brackets may sunset after 2025

ESTATE

- ▶ Maximize estate, gift, and generation-skipping transfer exemption
- ▶ Remove asset growth with other transfer tax strategies: annual gifting, asset sales to trusts, paying medical and education expenses

BUSINESS

- ▶ May want to review transaction timing for favorable brackets
- ▶ Consider reviewing entity structure

Audience Question

Would you like someone from BDO's Private Client Services to contact you regarding today's webinar topic?

- A. Yes, please.
- B. No, thank you - not at this time.

Thank You!





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