March 20, 2020

Tax and Estate Planning Considerations in Light of the Coronavirus

The Coronavirus (COVID-19) has presented many unique challenges to us all. The health and safety of family and friends is top of mind for many. Market volatility has also created an environment of financial uncertainty. In these turbulent times, there are some key developments and steps you can take to help bring some peace of mind.

1. Extension of time to pay 2019 taxes and first quarter estimated taxes

On March 18, 2020, the U.S. Treasury Department issued Notice 2020-17 that made several important announcements regarding tax payments and filings due on April 15, 2020. The Notice provides for an automatic 90-day extension for payment of 2019 tax due and first quarter 2020 estimated taxes, so taxes normally due on April 15, 2020 must now be paid no later than July 15, 2020. For taxpayers who owe less than $1,000,000 combined tax on April 15, no interest and penalties will be assessed on the tax payments deferred until July 15. The extension of payment time applies to individuals and trusts, but does not apply for any taxes due on gift tax returns or estate tax returns that are due prior to April 15, 2020.

There is no automatic extension of time to file returns, so taxpayers should still file their tax returns, or request an extension, by the April 15 filing deadline. The extension of time to pay does not apply to second quarter 2020 estimated taxes due on June 15, 2020. Some states are also extending their filing deadlines, but Wisconsin, Colorado, Utah, and Illinois have yet to announce any deadline extensions.

2. Review of estate planning documents and beneficiary designations

We know that estate planning might not be top of mind for you right now. As you consider your financial picture during these turbulent times, an up-to-date estate plan is part of creating financial security for you and your family. We encourage you to review the status of your estate planning

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documents, including any existing Wills, trusts, and financial and health care powers of attorney, and to consider whether the titling of your assets and your beneficiary designations are up to date and coordinated with your overall estate plan. We would also like to remind you that children over the age of 18 should have financial and health care powers of attorney.

3. Consider the impact of down markets and low interest rates

For those looking to minimize estate taxes, the current environment of depressed market values, low interest rates, and high federal estate tax exemption amounts creates opportunities to maximize tax planning. Here are some planning considerations:

- Make gifts this year to use your federal gift tax exemption. In 2020, the gift tax annual exclusion amount is $15,000, and the federal gift tax exemption is $11,580,000. Using assets with a lower value due to stock market volatility can allow you to give away more. In addition, as the stock market rebounds, the appreciation on those assets will be out of your estate for estate tax purposes.

- Many sophisticated estate planning techniques, such as grantor retained annuity trusts (GRATs), installment sales or other transfers to a defective grantor trust, intrafamily loans, and charitable lead trusts (CLTs), work best when interest rates are low.

- Existing intrafamily loans can be refinanced to take advantage of lower interest rates.

- For grantor trusts with a power of substitution, there can be opportunities to swap assets. For example, swapping low basis assets held by a trust for higher basis assets can allow the low basis asset to receive a “step up” on a taxpayer’s death.

Please reach out to a member of the Wealth Planning team with any questions.

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