2014 Trust And Estate Planning Steps - Part 1: Introduction

2013 was a year of tremendous change in the estate planning field. The American Taxpayer Relief Act of 2012 ("ATRA") gave us higher income tax rates, a "permanent" unified estate, gift, and generation-skipping transfer tax exemption of $5 million indexed for inflation, portability of the estate tax exemption, and an estate tax rate of 40%. Based on the Affordable Care Act imposed a new 3.8% tax, the Net Investment Income Tax ("NIIT") on many types of passive income received by high-income taxpayers. Finally, the Tennessee inheritance tax exemption increased to $1.25 million per person, with scheduled increases to $2 million in 2014 and $5 million in 2015 before this tax disappears in 2016.

The net effect of all these changes is that fewer people need to worry about estate and inheritance taxes. For individuals who have more than $5 million, or couples who have more than $10 million, the higher gift tax exemption and portability open up a lot of planning opportunities to reduce or eliminate estate taxes.

The news is not so good on the income tax side. Most of you will be paying significantly more income taxes for 2013 than you did in prior years.

The combination of lower estate taxes and higher income taxes has led to a new tax environment in which some familiar planning techniques need to be discarded and new planning techniques have emerged. In some cases, income taxes can be reduced by unwinding or modifying trusts or business entities that you previously established. We will examine these new opportunities in a series of articles over the coming weeks.