

2020: A PERFECT STORM FOR PLANNING OPPORTUNITY

In the midst of all of the tragic developments of the 2020 pandemic, planners have been presented with a unique opportunity to take advantage of several excellent planning techniques for their clients, namely the GRAT (Grantor Retained Annuity Trust) and the IDGT (Intentionally Defective Grantor Trust).

Interest rates announced by the IRS are at historic record lows. The Code Section 7520 rate for June 2020 is 0.6%! The GRAT and IDGT are best utilized when interest rates are low.

The decline in the stock market from where it was in December 2019 has been substantial. Lower values suggest an opportunity for gifting. GRATs and IDGTs work best when the assets used to fund them have declined in value.

Business valuations have dropped significantly from where they were just a few months ago. An appraisal of most businesses in May or June of 2020 will yield a value well below where it had been at the end of 2019. GRATs and IDGTs can both be used to transfer business interests within a family and accomplish a very favorable business succession plan.

Valuation discounts for transfers of minority interests and for lack of marketability remain available under the law.

Combining all of these factors: low interest rates, declining values, and the availability of discounts creates the “perfect storm” for wealth transfer planning in 2020.

But there may be urgency to act required here. Looming in November is the 2020 election. If the political power structure remains divided as it is today, the planning techniques available in 2020 are likely to continue for several more years, at least. However, if the political power structure moves to the left, it is very likely that the favorable planning techniques enjoyed by wealthy clients will be eliminated, quite possibly early in 2021.

2020 could be the last year of the “Golden Age of Estate Planning” – where techniques such as the GRAT, IDGT, SLAT (Spousal Lifetime Access Trust) and Dynasty Trust should be used – with the risk that they may be eliminated in 2021 and beyond. Be the thought leader for your clients and discuss these important opportunities with them – before they may be lost.