



Estate Planning Tips in a Volatile Market

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Depressed assets may offer a golden opportunity to pass more wealth to your heirs

Volatile markets are never easy. But savvy investors know that falling prices can signal great buying opportunities in mispriced securities. They may be able to snap up cheap shares of high-quality companies, or find other attractive bargains left by investors heading for the exits. Similarly, the depressed assets left in the wake of a market downturn can offer plenty of appeal as you review your estate plans.

Estate planning helps individuals and families pass assets down through the generations in the most efficient and thoughtful ways possible. One strategy to maximize the value of the assets being passed down is to minimize the necessary tax bill. As a result, there are several estate

planning strategies that help mitigate tax exposure. And in periods of market turmoil, falling asset prices can make some of these strategies even more appealing.

Here are some estate planning moves to consider amid the current market downturn.

Take advantage of a Roth conversion. The SECURE Act passed by U.S. lawmakers in late 2019 upended rules on how IRAs are treated in estate plans. In particular, the act does away with the so-called “stretch IRA” provision that allowed the tax-deferred benefits of traditional IRAs to be extended over several generations. As a result, individuals who inherit IRAs must withdraw all of that account’s assets within a 10-year period.

The change to stretch IRA rules may throw a wrench in your carefully laid estate plans. One solution is to convert a traditional IRA into a Roth IRA. The benefit is that taxes are paid upfront on Roth IRA assets, allowing assets to grow tax free as they are passed from generation to generation. The challenge for many individuals, however, is the financial burden of paying taxes on that conversion. As asset values decline, those tax bills can move lower and lower, offering a unique opportunity to pass along assets that can continue to grow tax-free for generations.

Gift investments directly to your heirs. The IRS allows individuals to give up to \$15,000 to any single recipient once a year without triggering a gift tax liability. But those gifts don’t have to be made in cash: Investments such as stock shares or even shares in a family partnership can be gifted with no tax liability, as long as the asset is under \$15,000. And when volatile markets are pushing asset values down, you may be able to make an even more valuable gift to their heirs than you could when markets were higher.

Investments, such as stock shares that are passed to heirs after the grantor’s death, can benefit from a step-up in cost basis, in which the investment’s original cost basis is replaced by the value of the investment on the day it was inherited. While you can’t take advantage of the step-up provision when transferring investments during your life, the value in this strategy is in giving recipients an asset that is likely to appreciate in value over time. And by taking advantage of depressed asset prices, you may be able to give a higher number of shares to the recipient. Over several decades, that can result in a substantially more valuable gift.

For example, say you owned shares of a blue chip stock trading at \$50 a share. You could gift up to 300 shares of that stock to your nephew without triggering any gift tax liability. But before you could make the same gift to your niece, that blue chip’s shares fell to \$40 a share — a 20% decline. As a result, you could give her up to 375 shares to stay under that \$15,000 threshold. Fast forward a few years and that stock has risen to \$60 a share. The nephew’s 300 shares are now worth \$18,000, but the niece’s shares are worth \$22,500.

There are other estate planning strategies that can allow you to take advantage of falling asset values. These include specialized trusts such as an intentionally defective grantor trust (IDGT), which can help remove assets from a grantor’s estate while also minimizing tax bills and

potentially leaving a larger financial legacy to heirs. Assets such as stock shares are “sold” to an IDGT by the grantor, and the trust repays the grantor over a period of time. If those shares gain in value over time, that appreciation can pass tax-free to heirs.

Another option is a grantor retained annuity trust (GRAT), in which appreciation of assets also can be passed to heirs free of taxes. GRATs offer appeal to grantors, too, as they can receive annual payments from that trust for a period of time, giving them more financial flexibility than some other types of trusts. Ultimately, you should consult with an estate planning attorney or financial advisor to discuss these more sophisticated — and complex — tools. Depending on your financial situation, these types of estate planning vehicles can offer a powerful solution as you explore leaving a financial legacy to your heirs.

You may be tempted to take action in volatile markets, whether selling investments to avoid further losses or adopting strategies to take advantage of depressed asset prices. Don't let that desire jeopardize your carefully considered financial plans. Instead, weigh whether taking advantage of an opportunity today also will benefit you and your heirs in future years. Doing so can help you make the most of the assets you've worked hard to accumulate, both today and for generations to come.

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