SMART INSIGHTS FROM PROFESSIONAL ADVISERS

Coronavirus Crisis Brings Estate Tax Opportunity

A confluence of financial conditions during this challenging time means that some families with very large estates may want to consider taking steps soon that could potentially help them avoid paying federal estate taxes later.

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By JOHN M. GORALKA, Founder | The Goralka Law Firm
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The coronavirus is causing major economic impacts as can be seen with the declining stock market. This adverse impact and the uncertain prospects for the future are a source of concern and worry for us all. However, this set of unfortunate circumstances has created a unique opportunity for the very wealthy to minimize or avoid estate taxes.

There are three factors that play roles in this opportunity:

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- **The current reduction in investment account values people are seeing in today's bear market.** While no one wants to see their investment accounts plummet, the hopefully temporary reductions in investment values means we can transfer assets out of your estate while using less of your federal gift tax exclusion.
- **A hefty federal gift tax exclusion whose days may be numbered.** The current lifetime estate and gift exemption is $11.58 million. Under current law, that exemption drops to under $6 million on Jan. 1, 2026. If there is a change in the administration due to the election in November, the exemption would almost certainly be reduced before then. In 2016, many commentators noted the Obama administration's desire to reduce the exemption to $3.5 million.
- **Interest rates at historic lows.** The applicable federal rate ("AFR") for short-term loans (up to three years) is only 0.91%, for midterm loans (up to nine years) is only 0.99% and for long-term loans is only 1.43%. A low interest environment rate makes certain estate play techniques more effective. Grantor Retained Annuity Trusts (GRATs) and Intentionally Defective Grantor Trusts (IDGTs) may be great tools for wealthy Americans seeking to reduce their taxable estates. These are just two of the many tools available.

The time to act could be sooner rather than later, because the ability to use these tools to minimize estate tax may be lost if the political climate changes with the elections in November. GRATs and IDGT mentioned above, and fractional interest discounts for estate tax reductions are just a few of the techniques to minimize estate tax that could be lost.

You should contact your estate attorney, your certified public account, and your financial adviser to determine the steps that are consistent with your family's long-term goals. While this planning can be complex, it can be completed even if you are unable to leave your home due to the coronavirus quarantine or stay at home orders.

This may very well be the best, last chance opportunity to minimize or avoid estate tax.

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*Founder of **The Goralka Law Firm**, John M. Goralka assists business owners, real estate owners and successful families to achieve their enlightened dreams by better protecting their assets, minimizing income and estate tax and resolving messes and transitions to preserve, protect and enhance their legacy. John is one of few California attorneys certified as a Specialist by the State Bar of California Board of Legal Specialization in both Taxation and Estate Planning, Trust and Probate.*

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