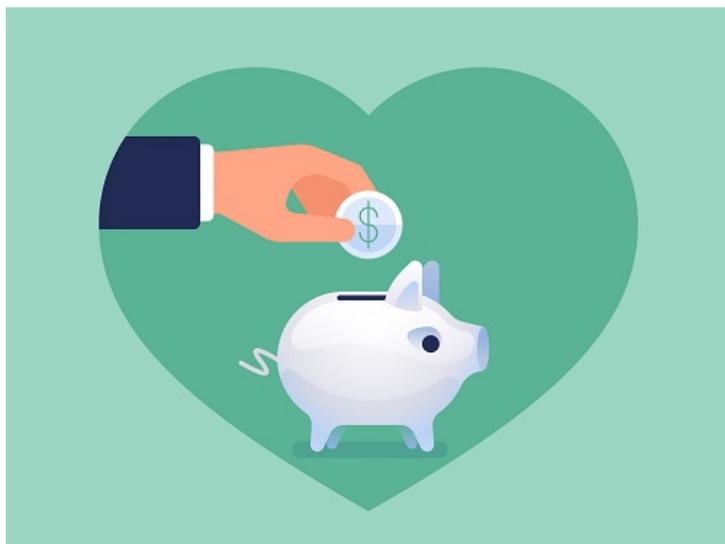




FEBRUARY 2022 NEWSLETTER

## This Valentine's Day – Think... Trust Income Tax Savings!

by Attorney, John M. Goralka



Trusts typically have the highest marginal tax rates in the United States (US) tax system. Good tax planning is generally to have trust income taxed to the individual beneficiaries whenever possible. Note that this article pertains to those with non-

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## COVID-19

grantor, typically irrevocable trusts that are subject to income tax. March 6, 2022 is the deadline to make distributions to beneficiaries under the “65-day rule” to avoid the much higher 2021 Trust income tax rates.

Many times when we think back on our lives, we wish we had a “do over.” Internal Revenue Code (“IRC”) section 663 (b) provides just that. IRC section 663 (b) simply provides that a distribution from a trust or an estate within the first 65 days of the tax year can be made effective as of the last day of the preceding tax year. For example, a distribution of \$10,000 of trust income by the trustee to a beneficiary made on March 1, 2022 can be treated for income tax purposes as if made on January 30 of 2021. The deadline for such a distribution is March 6 of each year (in “leap” years the deadline is March 5).

Why do we care? The primary advantage is a unique (and often overlooked) opportunity for income tax savings. A trust, an estate or an individual all pay income under graduated rates up to a maximum rate of 37%. However, this top rate for individuals is triggered with income for married taxpayers of \$622,051 and for single tax payers with income of \$518,401. For a trust or an estate, the top marginal tax rate is triggered with income of only \$12,950. To throw salt on the wound, an additional 3.8% Medicare surtax may also apply to a trust or an estate creating an effective marginal tax rate of 40.8%.

Income distributed from the trust to the beneficiaries provides the trust a income distribution deduction. This effectively passes the tax liability for the income from the trust, to the individual beneficiary who is taxed at a much lower marginal rate. However, trustees often do not even

## UPDATE



We are continuing to provide our legal services over the telephone and by Video Conferencing. We have limited in office meetings by appointment.

## Wine Down Wednesday is Postponed



We are sad to announce that we will need to postpone our February Wine Down Wednesday. We are working to get these back and running next month!

Stay tuned and we will be seeing you all very soon!

## THOUGHT OF THE DAY



know the amount of the income until after the December 31 year end. The 65-day rule allows a greater ability to plan and allocate income.

Note that an irrevocable election must be filed to allocate income tax payments (but unfortunately not any income tax withholding) to the beneficiaries for the prior year. The election is on IRS Form 1041-7 with the trust income tax return (IRS Form 1041). IRS Form 1041-T can be filed above alone if the trust tax return is not yet prepared. If so, that form must be filed by March 8, 2022.

Proper planning for trust income can provide a substantial tax savings each year. So... for Valentine's Day this year calendar March 6, 2022, and think "Tax Savings!"



Stay safe and be well,  
John

***“All you need is  
love...but a little  
red wine and  
chocolate helps...”***

– Unknown



## **A Tale of Two Celebrity Marriages and One Prenuptial Agreement**

**By John M. Goralka, Esq.**

*As Featured in Kiplinger*

*Johnny Depp and Amber Heard could've saved themselves a lot of grief if they'd had a prenup. Learn from their mistake.*

Prenuptial agreements can make a world of difference in a divorce. Two very different stories follow and highlight the difference.

Actors Johnny Depp and Amber Heard were married in February 2015. Their marriage lasted approximately 15 months. They did not have a prenuptial

agreement.

Heard filed for a divorce in May 2016 and sought spousal support from Depp. After several highly public and emotionally charged court proceedings, Heard is reported to be receiving a \$7 million settlement. In hindsight, a



prenuptial agreement would have better protected Depp from such a sizeable financial settlement. The prenuptial agreement may have even helped to avoid the very public litigation battle that many of us have read about.

Interestingly enough, Heard is contributing the settlement to charity. While a charitable donation should be applauded and encouraged, it may also indicate that litigation itself was fueled for reasons other than money, such as for earlier perceived wrongs or even revenge.

The point is that a divorce is emotionally charged and involves many issues beyond just the financial settlement. We have all heard stories of cars or even houses being destroyed to prevent the asset from going to the ex-spouse. Decisions are often made for reasons other than those centered on logic or common sense. Establishing the boundaries for divorce can help prevent a great deal of financial and emotional pain later.

Then there is actor Kelly Cuoco, star of hit television Show "The Big Bang Theory." Cuoco divorced professional tennis player Ryan Sweeting earlier this year. In 2015, *Forbes* named Cuoco TV's highest paid actress, tied with Sofia Vergara. She enjoyed \$28.5 million in earnings, including a salary of \$1 million per episode, according to published reports. Her ex-husband has an estimated net worth of \$2 million, about \$42 million less than Cuoco's reported net worth, according to *Forbes*.

Unlike Depp and Heard, Cuoco and Sweeting signed a... [READ ON](#)

## A SCUBA Diving Experience

Some of my favorite memories are scuba diving trips with my children. Both of my kids were certified divers at the age of 10, the youngest age possible.

Because I was diving with kids, I wanted the safest and most enjoyable experience for them. We traveled to and dove in many tropical places including Hawaii, Jamaica, Roatan (an island of Honduras, Cozumel and other spots in Mexico and the Dominican Republic. This was a favorite night dive off Kona, Hawaii. We visited with giant Manta Rays....

Have you ever been SCUBA diving? If so, when and where would did you go and what did you see? If not, would you ever try it if you could?



## Client Testimonial

***"Whenever a change is needed, Goralka Law Firm responds quickly and positively. The firm's expertise in trust law is current and in the clients' best interests."***  
—Leslie M.

***"John has provided expert estate planning for my parents as well as for me and my wife. His expertise was above and beyond our expectations and his fees are very***

***"We have found the Goralka Law firm to be friendly, efficient, and extremely knowledgeable in every need we have brought to John and his team. Particularly in areas in which we have felt at a loss, their expertise and personal care have given us confidence and peace of mind. These are people we absolutely trust for their wisdom and advice in navigating the complex world of estate planning***

***fair. Thank you John for all your help."***

—Frank & Carol S.

***and protection. We are grateful for their help, and have come to count them as personal friends."***

—Winston H.

Thanks so much for your kind words, Anne and Kay. And thanks to all of our clients for their business and referrals over the years. Reviews like these are a reminder about why we do what we do and reaffirms that we are not simply just preparing legal documents, but we're cultivating relationships and really helping families and their loved ones with transformational changes for generations to come.

If you are a client with The Goralka Law Firm, we encourage you to take the time to leave us some feedback and a review online at one (or more) of the following:



## RECIPE OF THE MONTH: Crab Soup

During the colder winter month of February, we wanted to share with you this crab soup recipe from Susan Alexander of Baltimore, Maryland. If you like

soup or crab, this is surely to become a new family favorite! And it's super easy to make too!



### **INGREDIENTS**

- 1 lb. carrots, sliced ½ celery, sliced 1 large onion, diced 2 10-oz. bags frozen Italian mixed vegetables
- 12-oz. can tomato juice or V8 juice
- 1 lb. ham, cubed
- 1 lb., beef, cubed
- 6 slices sauteed or cooked bacon, chopped 1 tsp. salt
- ¼ tsp. pepper
- 1 Tbs. old Bay seasoning
- 1 lb. claw crabmeat or langostino

### **DIRECTIONS**

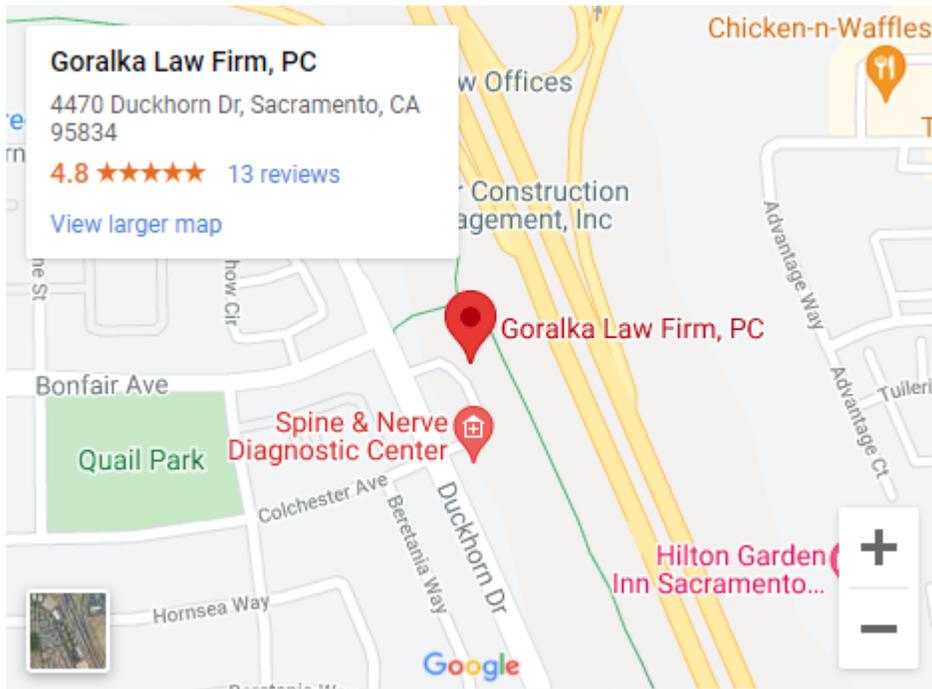
1. Combine all ingredients except seasoning and crabmeat in large slow cooker.
2. Pour in water until cooker is half-full.
3. Add spices. Stir in thoroughly. Put crab on top.
4. Cover. Cook on Low 8-10 hours.
5. Stir well and serve.

Enjoy! 😊

## **CONTACT US**

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*NOTE: The client testimonials featured in this newsletter and on our website are from actual clients of The Goralka Law Firm, PC. Their last names have been redacted to protect their privacy. These client testimonials do not guarantee your particular results.*