

The Weekly Scenario: Legislative Tax Update

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About two weeks ago, the House of Representatives Ways and Means Committee released an agenda as part of a \$3.5 trillion spending and tax bill that Democrats hope to pass.

Many of the details will likely change as the bill makes its way through a series of deliberations and votes. But the initial draft provides a good deal of insight about what we can expect. Below is a summary of the proposed changes in the estate tax and some key takeaways:

1. Lowers lifetime gift/estate tax exemption to \$5.85 million from \$11.7 million, effective January 1, 2022. Clients looking to maximize exemptions should make their gifts as soon as possible, especially gifts to grantor trusts, in case the date of enactment is moved up.
2. Irrevocable grantor trusts in estates, effective upon enactment. A grantor trust is a common estate planning tool which allows an individual (or 'grantor') to establish a trust for another (typically a family member). **The new provision pulls the assets held in a grantor trust into a decedent's taxable estate when the decedent is the deemed owner of the trusts. Prior to this provision, taxpayers were able to use grantor trusts to keep assets out of their estate while controlling the trust closely.**
3. Establishes an income tax on sales to grantor trust by grantor, effective upon enactment. Currently, a sale to a grantor trust would not trigger an income tax. Clients looking to sell assets to a grantor trust may wish to consider doing so now.
4. However, the proposal maintains stepped-up basis at death. In conjunction with reducing their taxable estates, clients should continue to keep highly appreciated assets in their taxable estates to the extent possible.

As always, if you have any questions or would like to learn more, please contact Steve Shane at sshane@offitkurman.com or [301.575.0313](tel:301.575.0313).