STANCIL SEMINARS

TAX STRATEGIES FOR HIGH WEALTH TAXPAYERS

2013

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Stancil Seminars

Tax Strategies for High Wealth Taxpayers - 2013

I. Impact of new tax laws – Affordable Care Act and the American Taxpayer Relief Act.

A. The new highest income tax rate.

- *Income tax rate 39.6%* - above $400,000 for singles and $450,000 for marrieds.

B. The new capital gain and qualified dividend rate.

- Capital gain and qualified dividends tax rates rises to 20% from 15% if taxable income is greater than $400,000 for singles and $450,000 for marrieds.

C. New taxes are introduced.

1. *Net Investment Income Tax (NIIT)* - 3.8% on investment income. Applies to the following types of income
   - Investment income including interest, dividends, capital gains, annuities, and royalties, but not tax-exempt income.
   - Passive income including rental income
2. *Medicare surtax* –0.9% on earned income - above $200,000 for singles and $250,000 for marrieds.
   - This applies to wages and self-employment income

D. Old phase-outs are resurrected.

1. *Phaseout of itemized deductions* for married with gross income greater than $300,000 and singles with gross income greater than $250,000.

- Itemized deductions are reduced by 3% of the amount of gross income in excess of the threshold.

2. *Phaseout of exemptions* – for married with gross income greater than $300,000 and singles with gross income greater than $250,000.
   - For marrieds, exemptions phase out ratably from $300,000 - $422,500.
   - For singles, exemptions phase out ratably from $250,000 - $372,500

II. What is my new tax rate??

A. Married taxable income $72,500, Single taxable income $36,250.
   - Federal = 15%, NC = 7%

B. Married taxable income $146,400, Single taxable income $87,850.
   - Federal = 25%, NC = 7.75%

C. Married taxable income $250,000, Single taxable income $200,000.
   - Federal = 37.7%, NC = 7.75%

D. Married taxable income $450,000, Single taxable income $400,000.
   - Federal = 45.5%, NC = 7.75%

E. Married taxable income $450,000, Nonworking spouse earns $10,000 in self-employment income.
   - Federal = 60.8% (including self-employment tax), NC = 7.75%

III. Permanent structure for Estate & Gift Tax Law Established

A. Estate Tax Provisions.

1. <u>*$5 million dollar*</u> inflation-adjusted estate exemption established.
    - $5,250,000 for 2013 and $5,340,000 for 2014.

2. Estate tax rate set at <u>*40%*</u>.

3. <u>*"Portability*</u>" of unused exemption between spouses established.
    - May eliminate or lessen the need for a credit shelter trust.

B. Gift Tax Provisions.

1. Lifetime gift tax exemption <u>*equals the estate tax exemption*</u>.
    - $5,250,000 for 2013 and $5,340,000 for 2014.

2. Gift tax rate set at 40%.

3. Annual gift tax exclusion is established at <u>*$14,000*</u>.
    - Amount will be inflation-adjusted in the future.

IV. Top 30 Tax Strategies for wealthy taxpayers

1. Manage your tax brackets

A. Control effective tax rate by controlling the *timing of income and deductions*.

B. *Tax Benefits begin to phase out* at incomes between $100,000 - $160,000

C. AMT impacts taxpayers generally in a range of $200,000 - $500,000.

D. New ***Net Investment Income Tax (NIIT)*** and ***Additional Medicare Tax*** apply once *gross* income exceeds $200,000 for singles and $250,000 for marrieds.

E. Once *taxable* income exceeds $400,000 for singles and $450,000 for marrieds.

- Income tax rate climbs to 39.6%
- Income tax rate for qualified dividends and long term capital gains climbs to 20%.

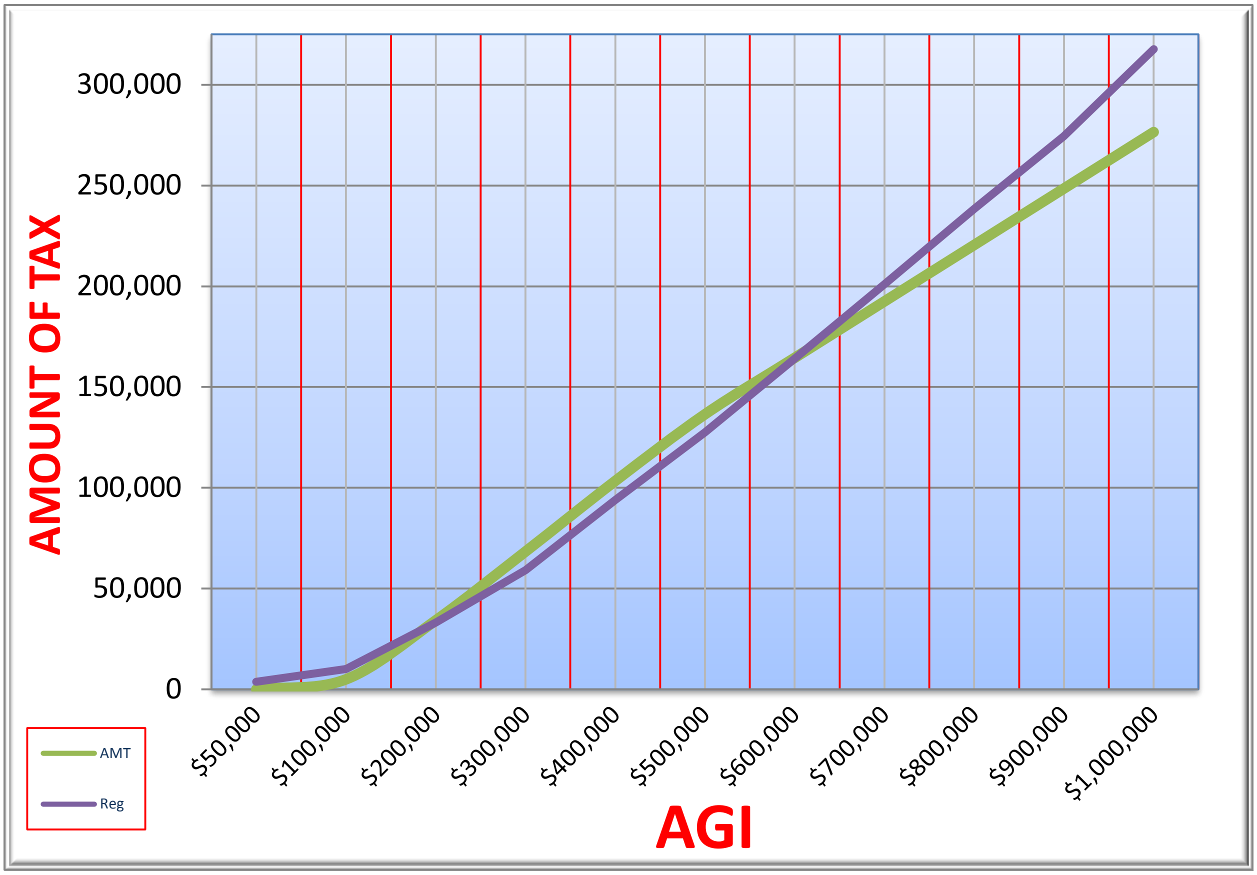
2. Time the payment of property and state income taxes to a year when not in AMT.

A. AMT most often occurs when income is within a *$200,000 - $500,000 range*.

B. This strategy is most relevant when *income is more variable*.

C. Property tax and state income tax deductions only reduce regular tax, not AMT. So if you make the payments in a year when you are subject to AMT, you receive no tax benefit.

D. In contrast, tax deductions can reduce federal tax by up to 39.6% of the payment for years when one is not in AMT.


AMOUNT OF TAX
300,000
250,000
200,000
150,000
100,000
50,000
0
$50,000
$100,000
$200,000
$300,000
$400,000
$500,000
$600,000
$700,000
$800,000
$900,000
$1,000,000
AGI
AMT
Reg

3. Consider Tax-wise Investing Strategies

A. *Investment strategy* always ***trumps*** tax strategy.

B. *Tax exempt interest* from muni bonds becomes more attractive now due to the Net Investment Income tax.
   - *NC Muni bonds are also nontaxable for NC tax*, but muni bonds of other states are taxable for NC.
   - If in highest tax rate, *multiply muni bond yield by 2* for after-tax equivalent of taxable investment.

C. Seek investments that pay *qualified dividends*.
   - Qualified dividends include most dividends on *US corporations and foreign corporations traded on a US stock market*.
   - Does not include dividends paid from REITs.

D. Seek *appreciation* rather than current income.

E. Sell shares which have a *long-term holding period* (12 months)

F. Harvest *capital losses*.
   - *Offset capital gains* in years when subject to the 20% long term capital gain rate and the NIIT.
   - Unused capital losses *carryforward until death*.

4. Avoid 20% capital gain rate.

A. Consider an *Installment Sale* of property.
   - Advantageous if it allows *more of the capital gain to be taxed at 15%*, and/or avoid the NIIT. See ***Example*** below.

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Installment Sale					
Assumptions					
Married - taxable income:	200,000				
Gain on Property Sale:	500,000				
			Installment Sale		
Federal Tax	Year 1		Year 1	Year 2	Total
Income Tax	87,500		37,500	37,500	
NIIT	17,100		7,600	7,600	
Total Tax	**104,600**		45,100	45,100	**90,200**

B. Harvest *capital losses*.

C. Transfer property to *children* before sale.
- Strategy assumes children are in *lower tax bracket*.
- Child cannot be *under age 19, or under age 24* if your dependent.
- Consider *gifting* implications.

D. Harvest *capital gains* in 0% or 15% capital gain rate year.
- Sale investment property to *related party* or entity and immediately repurchase.
- Consider strategy if property has *significant unrealized gain* and expect ultimate sale within a *1-5 year horizon*.
- Consider *transfer costs*.
- See ***Example*** below.

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Related Party Sale			
Assumptions			
Expect to sell property in Year 2		Alternative - sale to related party - year 1	
Unrealized gain In property - Year 1	800,000	Income Tax	131,250
Unrealized gain In property - Year 2	900,000	NIIT	21,850
Married - taxable income - Year 1	25,000		153,100
Married - taxable income - Year 2	250,000		
		Sale to 3rd party - year 2	
Sale of Property to 3rd party - Year 2		Income Tax	15,000
Income Tax	170,000	NIIT	3,800
NIIT	34,200		18,800
Total Tax	**204,200**	**Total Tax**	**171,900**

5. Consider investing in Deferred Annuities

A. Deferred Annuities are *not currently taxable* as they accumulate income.

B. Deferred Annuities could be designed to pay out in post-retirement *lower tax rate years*.

C. Make sure you *understand terms and costs*.

6. Consider Investment in Oil & Gas Partnership.

A. Most of the investment (90% - 100%) is *deductible in year of investment* due to special rules for “intangible drilling costs”

B. Good tool in year of *especially high income*.

C. Future income is *100% taxable at ordinary income tax rates* due to first-year write-off.

D. Some consider a *high risk high reward* investment.

7. Consider investment in "Qualified Small Business Stock".

A. If held for more than 5 years, a portion of the gain is not taxable.
   - If acquired before *December 31, 2013*, the entire gain is not taxable.
   - Without Congressional action, the *exclusion drops to 50%* for stock acquired after December 31, 2013

B. Qualifying Stock.
   - Must have less than *$50 million in assets* when stock is issued.
   - Must be *C corp* stock.
   - Must be *original issue* stock.
   - Stock in corporations engaged in *certain industries* do not qualify.

8. Avoid Net Investment Income Tax by reducing rental income in a self-rental situation.

A. Execute a new lease agreement with rent established at the *lower end of the fair rental value spectrum*.

B. Balance with *impact to your tenant business activity*.

9. Avoid Net Investment Income Tax by structuring rental activity as a trade or business activity.

A. Strategy only available on *Self Rentals*, or if you are a *Real Estate Professional*.
   - Planning difficult due to *VERY unclear rules*.
   - IRS very reluctant to comment.
   - It is clear that a *net lease is NOT a trade or business*.

- Responsibility for arranging for *repairs, hiring and supervising janitorial service, providing building supplies, maintaining common areas*, and paying property tax and insurance increases the likelihood of being a trade or business.

10. Avoid Net Investment Income Tax by avoiding passive activities.

A. Taxpayers are nonpassive if they work more than 500 hours/year in the business.

B. *Group multiple activities* to avoid passive characterization.

C. Example from tax regulations:

- *Taxpayer C has a significant ownership interest in a bakery and a movie theater at a shopping mall in Baltimore and in a bakery and a movie theater in Philadelphia. In this case, after taking into account all the relevant facts and circumstances, there may be more than one reasonable method for grouping C's activities. For instance, depending on the relevant facts and circumstances, the following groupings may or may not be permissible: a single activity; a movie theater activity and a bakery activity; a Baltimore activity and a Philadelphia activity; or four separate activities. Moreover, once C groups these activities into appropriate economic units, paragraph (e) of this section requires C to continue using that grouping in subsequent taxable years unless a material change in the facts and circumstances makes it clearly inappropriate.*

D. IRS is providing taxpayers a "one-time opportunity" to *"re-group" activities in 2013 or 2014*.

- Also consider impact on suspension of passive activity losses.

11. Borrow from Life Insurance Policies to fund short term cash need.

A. Alternative to tapping a taxable income source, particularly in high tax rate years.

B. Proceeds are *generally not taxable* unless the policy lapses or is surrendered.

12. Meet material participation requirements in vacation home rental activity.

A. Most vacation home rentals are *not considered rental activities* for tax purposes.

- Not a rental activity if *average rental period is 7 days or less*.
- Non rental character means activity is NOT automatically passive, with losses subject to passive activity rules.
- Non rental character means *not eligible for $25,000 active rental loss provision* for those with gross income less than $150,000.

B. Activity is considered nonpassive if taxpayer can meet "*material participation*" standard in rental activity.

- *500 hours* year, or
- *100 hours* and more than any other individual, or
- *Substantially all* of the time invested in the activity.

C. *No annual limitation on amount of loss* if activity is nonpassive.

- Must demonstrate activity is engaged in with *profit motive* in order to take any loss. See ***Example*** below.

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Vacation Home	
Gross Rents	50,000
Repairs & Maintenance	7,500
Commissions	***7,500***
Insurance	5,000
Mortgage Interest	40,000
Property Tax	4,000
Utilities	6,000
Depreciation	25,000
Total Expenses	95,000
Total Loss	(45,000)
Allowed Loss if Materially Participate	(45,000)
Allowed Loss if Passive	0

13. Rent vacation home tax-free up to 14 days per year.

A. Rent to business for *board meetings, staff retreat*, etc.

- Such events should not be in conjunction with recreational events unless recreational use is clearly de minimis or occurs on non- rental days.

B. Rent to 3rd parties during *special events*.

14. Determine best ownership of business vehicle.

A. Advantages of corporate ownership.

- All *expenses can be paid by the corporation*.
- Corporation is able to *depreciate* the vehicle, including bonus depreciation that may be available, which may provide large first-year deduction.

B. Disadvantages of corporate ownership.

- Corporation must *add value of personal use to the W-2* of the person who uses the car.
- Depreciation deduction for most vehicles other than trucks and large SUV's *is severely limited*.
- Some *costs may be higher* under corporate ownership, such as insurance.

C. Advantages of individual ownership.

- Corporation can make tax-deductible *payment to individual for business use of the vehicle*. In high mileage situations, the reimbursement may be more than actual costs of the vehicle.
- Value of personal use is not added to one's W-2.
- Some costs may be less, such as insurance

D. Disadvantages of individual ownership.
   - *Individual must pay for expenses* of the vehicle.
   - Unless the individual is a sole proprietor, *depreciation cannot be taken on the vehicle*.

15. Plan wise combination of business and personal travel.

A. Business and personal travel can be combined for purposes such as attending *conferences or conducting board and/or managerial meetings*.

B. Cost of travel to and from destination is fully deductible if the trip is shown to be *primarily business*.

C. Cost of travel to and from destination is fully nondeductible if the trip is shown to be *primarily personal*.

D. The determination of "primarily business" vs. "primarily personal" is a "*facts and circumstances" determination*.
   - *Time spent* on business activities vs. time spent on personal activities is a key indicator.
   - For a day to be considered a business day, *at least four hours* of the day should be devoted to business activities.
   - An argument could be made that the trip is "primarily business" if one can demonstrate that the *trip would not have been undertaken but for the business purpose*.

E. *Lodging and meals* are deductible for primarily business days and nondeductible for primarily personal days.
   - If family members travel, the lodging is still deductible except for the *incremental cost of adding the family member*.
   - If it can be shown there is a *valid business reason* for the family member(s) to travel, their incremental costs are deductible.

F. It is wise to *keep detailed records* demonstrating the business purpose, business activities, and time devoted to business activities.

G. All deductible business expenses are subject to the *"ordinary and necessary" standard*.

16. Consider benefit of Health Savings Account (HSA).

A. Deductible contributions can be made into a Health Savings Account for payment of qualified medical expenses.
- Maximum annual contribution for 2013 is *$3,250 for self-only* coverage and *$6,450 for family coverage*.

B. To be eligible for an HSA contribution, one must have a qualified *High Deductible Health Plan (HDHP).*
- For 2013, an HDHP must have an *annual deductible* of not less than $1,250 for individual coverage or *$2,500 for family coverage*. Maximum *out-of-pocket expenses* can't exceed *$6,250 for individual coverage* and *$12,500 for family coverage.*
- An HDHP may cover *preventive care* with no deductible.

C. Withdrawals can be made tax-free for *any qualified medical expense*.

D. Unlike Flexible Spending Accounts, any *unused balance belongs to the taxpayer* and can be retained indefinitely.

E. Income earned by the HSA is *not taxable*.

17. Make tax-free IRA payments to Charity.

A. Available to those who are at least *70 ½* by year-end.

B. *Maximum* that can be paid to charity is *$100,000*.

C. Counts toward the IRA owner's *required minimum distributions* (RMD).

D. *Beneficial to some* taxpayers, indifferent to others.
   - Not included in income, nor deductible as charitable contribution.
   - *Exclusion from gross income* *may preserve other tax benefits* such as non-taxability of social security benefits or exclusion from NIIT.
   - Charitable deduction may be of no benefit if taxpayer uses the *standard deduction*, or has otherwise *maxed out allowable charitable deduction*.

E. Set to *expire after 2013*

18. Make charitable gifts of appreciated property.

A. *Fair market value of gift is deductible*, but unrealized gain is never taxed.

B. *Appraisal* is required if value is greater than $5,000.

C. Annual deduction is limited to *30% of gross income*, with a 5 year carryover of any excess.

D. Don't make gifts of *depreciated investments*.

   - Sell to deduct the loss, then gift the proceeds.

19. Don’t underestimate value of ***noncash gifts***.

A. Seems to be a *common misconception* that such deductions are limited to $500.

B. Gifts over $5,000 require *qualified appraisal*.

C. Gifts should generally be valued at the *thrift shop value*.

D. Gifts of clothing and household goods must be in “*good condition or better.*”

E. Gifts over $250 require a *written receipt* from the charity *obtained before you file* your tax return.

20. Establish a non-grantor Charitable Lead Trust (CLT) as an estate tax planning tool.

A. A “*split interest*” trust is devised, with the “income” part of the interest being transferred to a charity for a defined term, and the “remainder” part of the interest being transferred to one’s heirs.

B. The *CLT is taxed* on annual income, but takes a deduction for the annuity paid to the charity.

C. When established, the remainder interest is considered *a gift to the heirs*, but at *a reduced amount* since the receipt of the gift is delayed.

- The value of the remainder interest is lower when interest rates are lower, making this a good time for establishing CLTs.
- See ***Example*** below.

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Charitable Lead Annuity Trust				
<u>Assumptions</u>			**<u>Results</u>**	
FMV of Trust	$ 250,000		FMV to Heirs	358,649
Term of Trust	10		Gift Tax Amount	137,718
Percentage Payout	5.00%		Amount Escaping Estate Tax	220,931
Growth of Trust	6.00%		Estate Tax Saved	88,372
Annual Payment to Charity	$ 12,500		Income Tax Saved	56,750
Aggregate Income Tax Rate	45.40%		NPV of future income tax	27,600
Estate Tax Rate	40.00%			
<u>Conclusion:</u>				
Gifts to Charity	125,000			
Net Income Tax Saved	(29,150)			
Estate Tax Saved	(88,372)			
Net Cost (Savings)	7,478			

21. Establish a grantor Charitable Lead Trust (CLT) as an income tax planning tool.

A. The grantor CLT is also a <u>*"split-interest"*</u> trust except the remainder interest is typically retained by the grantor.

B. A grantor receives a <u>*charitable deduction*</u> for income tax purposes in the year established for the value of the income-interest transferred to the charity.

- If the payout rate of the CLT is high, or the terms of the trust are long, the <u>*charitable deduction could be as high as 100% of the amount transferred to the trust*</u>.
- Suitable for a <u>*high income year*</u> of the taxpayer.
- Charitable deduction is <u>*limited to 30% of gross income*</u> on the grantor's 1040, with a five year carryover of any excess.

C. Warning – income of the CLT in <u>*subsequent years is taxable to the grantor*</u> even though it will be transferred to the charity.

22. Establish a Charitable Remainder Trust (CRT)

A. This is also a "*split interest" trust*, except the ownership of the interests is reversed. The taxpayer retains ownership of the income interest and transfers the remainder interest to the trust.

B. Unlike CLTs, CRTs are *tax-exempt* trusts.

C. Because of the tax exempt nature, CRTs are an *excellent tool to transfer appreciated assets*.
   - *Gain on sale of appreciated asset is not taxable* to the trust nor to the individual.
   - Without any tax, there is *more to invest* for future income.
   - There *cannot be a commitment to sale* before the transfer of the asset to the trust.

D. Individual receives a *charitable deduction* for the remainder value of the amount to be transferred to a charity.

E. *Annual annuity* paid by the CRT to the taxpayer is taxable.

F. CRTs can also be used *without sale of assets* to achieve current charitable deduction and deferral of income.
   - A *NIMCRUT* is used to invest in assets producing low current income and future growth.
   - Most of the income is paid out in retirement years when expect *lower tax bracket*.

G. Remember that assets contributed to the trust will *go to a charity and not to your heirs*.
   - Some taxpayers *replace these assets by purchasing life insurance* and making the heirs the beneficiaries. See ***Example*** below.

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Charitable Remainder Unitrust				
Assumptions			**Results**	
Value of Property	$ 1,000,000		Taxable Capital Gain	0
Basis in Property	$ 100,000		Charitable Deduction	218,370
Unitrust Amount	7.00%			
Growth of Trust	8.00%		Capital Gain Taxes Saved	266,400
Capital Gain Tax Rate	29.60%		Income Taxes Saved	99,140
Aggregate Income Tax Rate	45.40%		Total Taxes Saved	365,540
Trust Type	Life			
Ages	65 & 64			
Remaining Lifetime	23			
Conclusion				
After-tax Proceeds Given Up	634,460			
Annual Annuity Rec'd	70,000 - 84,677			
Remainder Gift to Charity	$ 1,220,161			

23. Establish 529 plans for children/grandchildren

A. 529 plans *grow tax-free* and withdrawals are not taxed as long as proceeds are used for college expenses.
- Can invest in the *plan of any state* and can be used to *attend any accredited college.*
- *Withdrawals not used for college education are taxable* and subject to a 10% early withdrawal penalty
- If student's *expenses are covered by scholarship*, withdrawals are taxable, but not subject to 10% penalty.

B. Contributions are considered a *gift to the beneficiary*.
- Can use *$14,000 annual gift tax exclusion* to make contributions.
- Special rule allows taxpayers to use up to *5 years of annual exclusion* in one year.

C. Can *change beneficiaries* on the 529 account.
   - No tax consequence if new beneficiary is in the *same generation as the former beneficiary*.
   - Considered a gift from former beneficiary to new beneficiary if *new beneficiary is in a lower generation*.

24. Contribute to Roth IRA of children or grandchildren.

A. A single Roth IRA contribution of $5,500 made at age 15 will grow to a *value of over $250,000 at age 65* with an annual return of 8%.

B. The child must have *earned income* at least as much as the amount of the Roth IRA contribution.
   - Some have used this as a *motivation for younger children/grandchildren to generate earned income*.

C. The contribution to the Roth IRA will be *considered a gift*.

25. Consider a Roth IRA conversion.

A. Amount converted is *taxable in year of conversion*.

B. Roth IRAs have *several benefits*.
   - Qualified *withdrawals in the future* are not taxable.
   - Roth IRAs *do not have Required Minimum Distributions*.
   - Roth IRA withdrawals are *not taxable to beneficiaries*.
   - Payment of tax upon conversion is a strategy to *reduce one's taxable estate*.

C. Rule of Thumb – Conversion is wise if the *tax rate in year of conversion is less* than expected tax rate in year of withdrawal.

D. Conversion can be undone or *"recharacterized"* anytime before the due date of the tax return for the year of conversion.

26. Make a nondeductible IRA contribution followed by a Roth conversion.

A. This strategy is a "back door" method to make a Roth IRA contribution if *income is too high to make a normal Roth IRA contribution*.

B. Conversion is taxable only to the extent of *growth in value between initial contribution and date of conversion*.
   - The *rules on this transaction are very technical*. Please consult with your CPA before completing this transaction.
   - Taxable income upon conversion could be significantly higher *if you have other IRAs*.
   - Complication created by existence of other IRAs could be mitigated by *rolling those IRAs into an existing 401K plan*.

27. Utilize the annual gift tax exclusion to reduce one's taxable estate.

A. Taxpayers can make annual exclusion gifts to any individual up to a specified amount each year.
   - Specified amount is *currently $14,000*, and is adjusted in $1,000 increments for inflation.
   - *A couple can make $56,000 annual exclusion gifts* to a child and spouse.

B. Annual exclusion gifts do not consume any portion of one's *lifetime gifting exemption*.

C. Annual exclusion gifts can be made to an *unlimited number of recipients*.

D. Gifts can be made in *cash, securities, transfers to trusts, or fractional interests* in property.

E. Gifts of any amount are *not taxable to recipient*.

28. Direct payments of medical or education expenses are NOT counted as gifts.

A. Such payments do not count as annual exclusion gifts nor do they consume part of one's lifetime gift exclusion.

B. Rules for *Education payments*.
- Must be *paid directly* to the educational institution.
- Payment can be for *tuition only*.
- Payment can be for *primary, secondary, high school, preparatory, or college* education.
- Under certain conditions, *prepayment of tuition* can be made under this exception.

C. Rules for *Medical payments*.
- Must be *paid directly* to the medical provider.
- Applies to payment of any *deductible medical expense*
- Cannot reimburse an expense *already paid by the patient*.
- Cannot pay an expense that will be *reimbursed by insurance*.

29. Utilize a Family Limited Partnership to reduce taxable estate.

A. Contribute investment or business assets into a Family Limited Partnership or LLC for ease of management.

B. Make gifts of fractional interests of the LLC to family members.

C. Value of gifts are *"discounted"* because the interests are minority interests, lack governing rights, and/or lack marketability.
- Range of discount is normally from *25% - 50%*
- Value must be supported by a *qualified appraisal.*

D. This is a *very complicated*, but also a *tried and tested strategy*.
- See ***Example*** below

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Family Limited Partnerships				
Assumptions			**Results**	
Value of Assets in Partnership	$ 5,000,000.00		Value of gift	2,000,000
Gifted Interest	40.00%		less marketability Discount	(300,000)
Marketability Discount	15.00%			1,700,000
Minority Interest Discount	20.00%		less minority interest discount	(340,000)
			FMV of Gift	1,360,000
Conclusion				
Gift without FLP	2,000,000			
Gift with FLP	1,360,000			
Gift Reduction	640,000			
Tax Savings	256,000			
Note: Allowable discounts vary depending upon individual facts and circumstances.				
Discounts used in this illustration are purely hypothetical.				

30. Utilize a Spousal Limited Access Trusts (SLAT) for estate planning purposes.

A. Assets are contributed to an **irrevocable** trust where the *beneficiaries are one's spouse and children.*

B. The transfer to the trust is a taxable gift *utilizing one's lifetime gift tax exemption*.

C. The trust is included in *neither the taxpayer nor the spouse's taxable estate*, effectively removing the asset from the estate.

D. The trustee can make distributions to the beneficiaries of the estate based on an *"ascertainable standard"*.
   - This standard for distributions is typically for the beneficiaries *"health, education, maintenance, and support" (HEMS)*
   - The *spouse can be the trustee*, although some planers advise against this.

E. This is a rare tool that allows one to remove an asset from his/her taxable estate, while *still retaining access to the asset*.
   - Such access would be lost in the event of the *spouse's early death.*
   - Such access would be lost in the *event of divorce*.

F. For income tax, a SLAT can be designed to be a grantor trust. This means the *taxpayer remains taxable on the income* of the trust, affording another opportunity to remove assets from one's taxable estate.

V. Future Tax Reform

A. Reduce top individual tax rate.
   1. Top individual tax rate of 25% - 28%

B. Eliminate or Reduce Tax Expenditures

   1. *Top 10 most expensive tax expenditures* for individuals (2014) as projected by the Joint Committee on Taxation – estimated 1-year cost.
      - Exclusion of employer health contributions - **$143 billion**
      - Exclusion of pension plan contributions and earnings **-$108.5 billion**
      - Reduced tax rates on dividends and capital gains - **$91.3 billion**
      - Home mortgage interest deduction **$71.7 billion**
      - Earned income tax credit **$67 billion**
      - Exclusion of Medicare benefits **$66 billion**
      - Child Tax Credit **$57.9 billion**
      - Deduction for state and local taxes **$51.8 billion**
      - Exclusion of capital gains at death **$48.4 billion**
      - Deduction for charitable contributions **$46.4 billion**

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All strategies presented have varying effects depending upon one's individual circumstances. There are exceptions and technicalities concerning each strategy that are not presented here. Please consult a tax professional before attempting to implement any of these suggested strategies.