

POTENTIAL IMPACT OF RECENTLY PROPOSED TAX LEGISLATION ON YOUR ESTATE



Senator Bernie Sanders (D-VT) introduced a bill, the **For the 99.5% Act ("99.5% Act")**, in the Senate at the end of March 2021 that would make sweeping changes to the estate, gift and Generation-Skipping Transfer (GST) tax laws and could increase estate taxes payable by your estate as well as eliminate many current estate tax mitigation strategies. Although nothing new has passed yet (as of 4/5/2021), and any final legislation may look different than the proposed version, the 99.5% Act may provide a framework for tax law changes that may be around the corner for wealthy families.

The example below hypothetically compares the impact of estate taxes under current law to that of the 99.5% Act as it pertains to the proposed changes to the estate tax exclusion amount and rates:

	TODAY		AFTER 15 YEARS	
	Current Law	Proposed Law	Current Law	Proposed Law
Taxable Estate for a Married Couple	\$50 million	\$50 million	\$78 million ¹	\$78 million ¹
Federal Estate Tax Exclusion Amount	\$11.7 million per Spouse	\$3.5 million per Spouse	\$7.87 million ² per Spouse	\$4.71 million ³ per Spouse
Federal Estate Tax	\$10.6 million	\$20.9 million	\$24.9 million	\$33.8 million
Effective Tax Rate	21.3%	41.7%	31.9%	43.3%
Net to Children	\$39.4 million	\$29.1 million	\$53.1 million	\$44.2 million

And you do not have to be ultra-wealthy to be affected by this proposed act:

	TODAY		AFTER 15 YEARS	
	Current Law	Proposed Law	Current Law	Proposed Law
Taxable Estate for a Married Couple	\$10 million	\$10 million	\$15.5 million ¹	\$15.5 million ¹
Federal Estate Tax Exclusion Amount	\$11.7 million per Spouse	\$3.5 million per Spouse	\$7.87 million ² per Spouse	\$4.71 million ³ per Spouse
Federal Estate Tax	\$0	\$1.35 million	\$0	\$2.74 million
Effective Tax Rate	0.0%	13.5%	0.0%	17.7%
Net to Children	\$10 million	\$8.65 million	\$15.5 million	\$12.76 million

¹Assumes the taxable estate appreciates at a rate of 3% per year.

²Assumes an inflation rate of 2% per year and the tax rates and Federal Exclusion Amount in effect under Current law which sunsets after 2025 and the Exclusion Amount reverts to \$5 million indexed for inflation.

³Assumes an inflation rate of 2% per year and the tax rates and Federal Exclusion Amount proposed within the 99.5% Act.

Moreover, another bill was proposed shortly after the 99.5% Act by Senator Chris Van Hollen (D-MD) called the Sensible Taxation and Equity Promotion Act ("STEP Act") one of the provisions of which would cause recognition of any unrealized capital gains in your assets at death for income tax purposes, thus effectively eliminating the income tax-free step-up in basis at death and possibly subjecting your estate to additional income tax on top of estate tax.

It is important that you discuss with your tax and legal professional the potential impact of these acts, if enacted, as well as estate and income tax planning decisions you can implement beforehand to take advantage of any existing opportunities that may fade or vanish. It may also be important to consider additional liquidity needs that may arise and discuss coverage options with a life insurance professional.

Lion Street does not provide tax or legal advice. Taxpayers should seek such advice from a tax or legal professional.