Matthew Lee
Okay, good afternoon, everyone. Thank you so much for joining us today. I am Matthew Lee Senior Wealth Strategist with Wilmington Trust based out of our New York City office, and very excited to be joined by my colleague Dolly Donnelly, Senior Wealth strategists out of Rochester. We are delighted that you are taking some time to spend this afternoon with us to learn and talk a little bit about a perennially important topic, year-end planning. This year we decided to do things a little bit differently than we have in years past rather than have one longer session on year-end planning, we've broken this year's program up into three 30 minute webinars. Today is our second installment of this program, and we're going to be doing another session next week at the same time and we hope that you'll be able to join us for that, as well.

So this is, as I said, our second installment, we hope that you were able to join us last week when we were joined by two of our colleagues Carlin Kristenson and Allison Pierce, who did a program on how families can build and refine their financial plan. So we're going to build off of that foundation and we're going to spend some time talking about some strategies that may be relevant to individuals and families that have more complex wealth needs. If you were not able to sit in on last week's session, the materials from last week are available online. The recording along with the checklist can be found at the research and insights section of Wilmington trust.com.

Today's presentation is entitled Maximizing Outcomes for Complex Wealth Plans. And again, we're very excited that you are going to be with us just for a little bit this afternoon.

So as we've done in years past, we decided to put together a 2025 year-end checklist to help you prioritize what you may want to focus on for the next few months of this year.

Today we're going to walk you through each of the items listed on the screen, and we're going to hit on some really important topics around gifts and estate taxes, income taxes, philanthropy, family governance, as well as some other topics, as well.

As I mentioned, the information from today, the checklist and the recording will be available to our online afterwards, and we hope that that's going to serve as a helpful tool for you to frame up what particular planning strategies you may want to consider. Before we get into the specifics though, just a quick word on why year-end planning is so important every year, but especially this year. As I suspect that many of you are aware or familiar, tax planning often is driven by the calendar year, and so there may be certain opportunities that are available to you now that may not be available to you in the future. In this way we think about year-end planning is really a potential to use it or or lose it opportunities.

So important to focus on particular issues as we close out 2025 to maximize the outcomes that are available to you. But 2025 is also a little bit unique. In July of this year, President Trump and Congress passed the so-called One Big Beautiful Bill. And this legislation significantly impacts high income individuals, families and business owners.

And among other things, it really brought a lot of clarity to tax laws and tax legislation that had been in flux for the past, you know, five or so years. And so we now really have a window where we have a sense of what the near-term and long-term future may look like, and as a result, I think that we can plan with a little more confidence.

So in today's program, we're going to highlight some of the key provisions of One Big Beautiful Bill, how they might affect you and and really what strategies from that you may want to focus on before year end.

But in addition to thinking about tax laws and tax legislation, how that might affect you, year end is also a really important time to take stock of what has happened in your life or in your family's lives that could affect your planning. So thinking about things, major milestones like a marriage or the birth of a child or the birth of a grandchild, have there been any changes there? Have there been any changes to your business? Are you thinking about selling your business for real estate? Are you considering making large charitable gifts?

These are all the types of things that happen outside of tax laws and tax legislation that can really impact your planning. And so important to take stock of those major milestones and think through how what you might want to do now and and going forward. In a minute I'm just going to talk, turn it over to, to Dolly, but again, very excited to be here and to talk about these particular issues for the last few months of the year. So Dolly with that, why don't you take us through the first portion of our checklist on potential tax mitigation strategies to consider.

Dolly Donnelly
Sure, thank you Matt. Good afternoon, everyone. I'm Dolly Donnelly Senior Wealth Strategist at Woman Trust, and I'm glad to be here today to highlight some key year-end planning and tax mitigation strategies for you to consider, especially in light of the tax law changes that have happened this year.

As Matt alluded to, and as many of you know, the One Big Beautiful Bill has made significant changes to the federal estate tax landscape. After the past several years, we've anticipated a sunset of the estate tax exemption in 2026. But under the new legislation that's changed. Instead, starting in 2026, the exemption will be permanently set at $15 million per person or $30 million per married couple adjusted annually for inflation. Now that change may make this year end feel a little different. In the past, there's been a real sense of urgency to use exemptions before a potential decrease. And while that urgency may have softened, it's still a critical time to focus on your broader year end wealth and financial planning. Now why? Because this kind of planning helps us assess your current tax exposures, whether it be the federal or state estate taxes, which are often subject to lower thresholds in the federal amount, as you'll see noted here on the top of the slide and on both the right and left sides, as well as income taxes, which we'll talk about a little later.

But this kind of planning also helps us project future estate tax exposure. So even if you don't currently have federal estate tax exposure, through your year end wealth planning review, you may be able to identify your future exposure and be able to implement some strategies to mitigate it sooner than you otherwise would. At Wilmington Trust, this kind of analysis is our foundational step in our wealth planning process. It sets the stage for identifying strategies that align with your financial situation, your family goals, and your long-term vision. So let's walk through some of those strategies and their year-end planning considerations.

The first strategy you'll see here on the left side of the screen is lifetime gifting. Financial planning will help us assess where the strategy makes sense in your case. For instance, if projections show that you still have significant estate tax exposure, even with increased exemption amounts, and that that exposure could persist over multiple generations, perhaps you want to consider implementing a dynasty trust.

This would allow you to leverage both your estate and generation skipping transfer tax exemptions to mitigate taxes across multiple generations. Now as a slightly different scenario, let's assume that through financial planning projections indicate that you still may have a state tax exposure, but you're also concerned about your cash flow and your spending needs.

In that situation, a spousal lifetime access trust is also known as a flat, maybe a good option to consider instead. As you evaluate these strategies, keep in mind that year in timing can still be important even without a sunset occurring. For example, if both you and your spouse each want to create a slat, you may want to plan to do so in separate tax years. If so, it may make sense for one to be created before your end. Also, if assets need to be transferred between spouses to fund the slat. Completing the transfers before your end may help avoid negative impacts from the step transaction doctrine, which can treat closely linked steps as a single taxable event.

Timing also can be important for some of the other strategies mentioned here. Next on the right hand side, you'll see valuation discounts mentioned. These are another way to reduce potential estate or gift taxes. Valuation discounts apply when transferring interests like family limited partnerships or LLCs. By applying discounts for things like the lack of marketability or lack of control, we can lower the taxable value of the gift.

When looking to employ evaluation discounts, especially if you're a business owner, what you may find is that year end is a natural time for your tax advisors, evaluation experts to be looking at your financial information to prepare evaluation. Or year end may be the ideal time to make a gift if you expect the interest that you're planning on gifting to increase in value next year.

Similarly, next on the left, you'll see estate freeze techniques like grantor retained annuity trust, also known as GRATs or qualified personal residents trust. These techniques help shift future growth out of your estate at a decreased gift text value because you're retaining something for a set period of time.

Either an annuity payment in the case of the GRAT or the right to live in real property in the case of the QPR. And year end timing matters here too. For example, if you expect asset values to rise next year, again, acting now may reduce that gift tax value. Also establishing these trusts to span a full calendar year may be able to help simplify their administration. Additionally, because the gift tax treatment of these techniques is linked to interest rates, year-end planning is a good time to assess but the more favorable rates may be available this year or next.

Next below that, you'll see grantor trust mentioned. As a reminder, here's how they work. Although a grantored trust usually is structured to be outside of your estate for estate tax purposes, you as a grantor still pay income on the trust earnings. This may be one of the few times that you may be at least somewhat happy to pay a tax bill.

Why? Because your income tax payments on behalf of the trust are transferred tax free, effectively reducing your taxable state while also preserving trust assets and allowing them to grow.

Grantor trust planning, along with the next point on the right hand column, keeping in mind funding sources, continued cash flow needs and income tax planning are all important things to consider as the end of year approaches. Because by reviewing these items with your wealth advisor, you may find opportunities that you'll otherwise miss. For example, let's say that you anticipate a large sale of assets coming next year, as part of your year-end planning, you review your cash flow needs and your overall income tax picture with that sale in mind, and you may find that you won't need to retain all of the proceeds. So gifting may be a good option to consider. If you're also comfortable bearing the full income tax burden in that scenario, you may find that it's an ideal time to give to a grantor trust, so that you can shield the trust assets growth from those income tax consequences.

Finally, on the other end, you may have already engaged in significant planning when exemption levels were lower or were projected to be lower. When you review your whole wealth picture as part of your year-end planning in light of the recent tax law changes, you may find that some of the planning you previously undertook may be more complex than you currently need. So this kind of year end review may be an opportunity to look for ways to streamline your plan and increase its efficiency going forward.

And with that, why don't we shift our focus to some income tax planning? You know, often the focus has been estate tax. And that makes sense because the highest marginal tax rate for federal state taxes comes in at 40% versus the current top federal capital gains rate coming in at 20% plus the 3.8 net investment income tax.

However, with estate taxes potentially affecting less people, income tax mitigation may begin to take greater focus. And even for those who are still affected by estate taxes, we want to look for opportunities to mitigate income taxes that your heirs may face.

So how do we do this? You'll see that the first item listed here is to review basis planning opportunities. It's important to remember that assets that you gift during your life carry over your basis. While assets you hold until your death in your taxable estate receive a step up in basis to the fair market value of those assets at the time of your death. This can have a major impact on capital gains for your heirs to the extent that you gift low basis assets during your life, as opposed to holding onto them until your death.

Now, some of the basis planning opportunities we want to assess as part of our year-end planning include: If I'm considering gifting, what is the basis of the assets I'm looking to gift? Now it still may make sense to gift assets that are lower in basis for various reasons, but it's important to be aware of the income tax consequences of doing so. Along similar lines, if you've already gifted low basis assets to a grantor trust, you may have something known as a swap power included in that trust agreement, which allows you to exchange assets of equivalent value between yourself as grantor and the trust.

If this power is included in your trust agreement, it's a significant opportunity to look for low basis assets that you can bring back into your taxable estate in exchange for higher basis assets. Next, you may want to explore opportunities to defer or reduce capital gains. Two of those strategies are listed here.

You'll see qualified opportunities zones also known as QOZs or qualified small business back QSBS. First for qualified opportunity zones, the One Big Beautiful bill has provided new opportunities for investing in these assets. The Qualified Opportunity Zone program was originally created under the 2017 Tax Cuts and Jobs Act to encourage investment in economically distressed areas. Under the One Big Beautiful Bill, the program has been permanently extended and significantly enhanced.

Key changes to the program include rolling tenure designations, so starting in 2027, governors will now nominate new census tracks every ten years with each designation of an area lasting for a full decade. This should create a more predictable and ongoing opportunity for investors to participate in the program. Additionally, rural opportunity zones have become a major focus of the updated program. The One Big Beautiful Bill introduced qualified rural opportunity funds which offer enhanced benefits, including a 30% step up in basis after five years compared to the 10% up for standard zones.

The One Big Beautiful Bill has also provided for a rolling gain deferral, meaning that for investments made after 31 December 2026 gains are deferred for five years from the investment date rather than from a fixed calendar date. This rolling deferral model should add flexibility for planning.

Despite those enhanced benefits, the One Big Beautiful Bill has imposed some stricter eligibility criteria for areas to qualify as eligible zones and has imposed enhanced reporting requirements.

Now turning to qualified small business stock, while this type of planning has been available for much longer, it's a tool for excluding gains on the sale of stock and qualifying small businesses tax to C corporations. The One Big Beautiful Bill has expanded the benefits of the strategy. Previously, there was a five year holding period required for QSBS to defer any gains. Now pure holding periods have been implemented with the ability to defer 50% of gains for stock held up to at least three years, 75% of gain for stock held up to at least four years, up to the per cap, per issuer cap.

Now that cap has also been raised. Previously it was $10 million per taxpayer, but it will become $15 million per tax payer in index for inflation starting in 2027.

Finally, the gross asset threshold for a company to qualify has been increased from 50 million to 75 million. With these changes in mind, to the extent that you hold QSBS, you may want to explore your options to shield additional gains through stacking exclusion amounts through non grantor trusts or if you have a business that is not currently a C corporation, but may otherwise qualify as QSBS, you may want to assess whether to convert to a C corporation to attain these benefits. So with that overview of estate and income tax planning strategies, I'm going to turn it back to Matt to discuss some charitable planning strategies.

Matthew Lee
Excellent. Thank you so much, Dolly. A lot of really great information there. So yeah, so let's talk a little bit about charitable giving. So charitable planning and charitable giving is, is often a component of many wealth plans that we hear we see here at Wilmington Trust. If philanthropy is already part of your plan or you're thinking about incorporating it as a component of your plan, year end is a really important time and a really important time to plan and act. Of course, you know, charitable giving is meaningful and impactful throughout the year, but oftentimes to maximize the tax benefits, it does require some thoughtful planning.

So much of the One Big Beautiful headlines I I think were really focused on a number of the areas that Dolly touched on, but it does also have the potential to impact charitable giving as well. So in, in particular, the legislation could impact how much itemizing taxpayers could deduct for their charitable gifts. In particular beginning next year in 2026, deductions will only apply if the aggregate value of the charitable gifts exceeds 0.5% of a taxpayer's gross income, which means that you'd have to give more than 0.5% of your income to charity to get the full tax benefit.

And that's a really significant change than where we are currently. So what does that mean for you? If you are thinking about making a large charitable gift next year, if you have the ability to do so, you may want to think about accelerating that year in 2025, so that you're able to get the full tax benefit and not be subject to that floor next year.

Giving this year could also be a really good idea if you've had a substantial liquidity event. So if you've had the sale of the business or real estate or some other large event, now maybe the time to act. Generally speaking, it's better to do charitable giving in the year where you have the highest amount of income because you can benefit from the deduction.

And so if you wait until next year, still going to be very impactful from a charitable standpoint, but you may have missed the best opportunity from a tax standpoint. If you'd like to give to charity this year because of any of those reasons, but you're not exactly sure which types of organizations you'd like to support, don't worry, there are ways that you can plan for that.

So establishing something like a private foundation may make sense where you can get the tax benefit in 2025, but you're not necessarily obligated to identify the recipient institutions. Other alternatives or options that may be worth considering in addition to private foundations could be a donor advised fund. Operates similarly to a private foundation from a tax standpoint, but it would allow you, it would be slightly simpler structure, but you still get the have the ability to make the gift in 2025 and then defer making a decision about the recipients until future years. If you haven't had a liquidity event this year, but you think that you may have one next year, we oftentimes will talk to clients about the benefits of pre transaction planning and charitable planning could play a part in that, as well.

So one thing that you might consider is creating a split interest trust, which could be a charitable remainder trust or a charitable lead trust of funding and transferring assets to it and funding it this year, what could provide you with income and estate tax benefits. So if you do the planning this year and then take the, have the event next year or take a business to sale next year as an example, could smooth things over from a tax planning standpoint.

In addition to, you know, the tax benefits created by all this charitable planning, we also like to remind our clients that philanthropy can be a great way to open the door to have conversations with your, your family around bigger picture issues around wealth and family values and things of that nature. So we like to remind our clients to think about charitable planning, not just from a tax standpoint or a financial planning standpoint, but really to, to focus and and bring the family into the conversation and provide those other benefits, as well.

Speaking of of family, the next item on our checklist revolves around family governance and family office or infrastructure. Year end is also a great time, as I said earlier, to take stock of where you're at, where your family's at, and what potential planning you may want to want to think about.

Oftentimes, I think advisors tend to focus on the legal and tax structures, but in our view, family governance, family alignment is just as important and sometimes even more important to the overall success of a family's wealth and well being. The holidays, of course, present a natural opportunity to do this. Perhaps you have family members that are traveling from across the country or going to be gathering around the holiday tables. It's a really great time and opportunity to talk about what's working for the family, what opportunities there may be ahead. What would you like to see in the future that's not the case now? These are all the types of things that we think can make sense to engage in at this time of year.

Understanding where your family is is a really critical part of this process and something that we spend a lot of time working with our clients at Wilmington Trust on.

Another question that you may want to think about as part of this is whether or not you're at a point where you may want to formalize the management of your wealth by creating a family office or other formalized structure. The term family office gets used quite a bit, and it means different things to, to different families and individuals, but in our view, it's really a coordinated approach to help manage the complexity that often comes with substantial family wealth.

So thinking about myriad assets, multiple providers, advisors that are sometimes coordinated or sometimes out of sync. But the idea is to try to create some structure that's going to help achieve your ultimate goals for your for your family wealth. If this sounds familiar, this year, looking into next year maybe a time to think about what's going to be the right structure for you and your family, and that's certainly something that we can can help with.

The ultimate idea here is to create a group of professionals that's going to streamline operations, coordinated advisors, and ultimately bring clarity to to your planning.

So finally on our list, checklist for 2025 is to review your aggregate asset picture. At year end, there's a tendency to focus on reviewing liquid investments, so bond portfolios, investment portfolios, so on and so forth. But it's also really important to look at those assets within the broader context of overall wealth. So thinking about things like real estate, private investments, private businesses, and much more. Taking an aggregated view of all of those assets together helps to uncover potential planning opportunities that might otherwise get missed. It also provides a clearer picture of your financial landscape, which we think is essential for making informed decisions.

So if you're not doing this, there are tools that can help you track organize, and coordinate your your data and information, whether that's technology platforms, reporting systems or other types of advisory support, we think that it really does make sense, and and year end is a good time to think about what's working now and what might be a good fit going forward.

So with that, I'm going to turn it back over to Dolly, but before I do, I just want to say thank you again for joining us this afternoon. Delighted that you took some time to to sit with us and learn more about year-end planning, and I wish you success at the end of this year and in the years ahead.

Dolly Donnelly
Okay. Thank you Matt. Thank you everyone for joining us today. We hope that today's conversation gave you some helpful ideas to consider as you wrap up the year. Even small steps taken now can make a big difference in keeping your wealth plan aligned with your goals both for today and the future. If you have any questions or would like to continue the conversation, we encourage you to reach out to your advisor or visit WilmingtonTrust.com to connect with our team. Now before we wrap up, as Matt mentioned at the beginning, we wanted

to remind you that we have another upcoming webinar next Tuesday, 21 October entitled Forward Looking Planning for Business Owners. If you're a business owner or an entrepreneur thinking about year end decisions or longer term strategies, this session could be a great resource for you to consider joining. You can find registration details available at WilmingtonTrust.com. Thank you again for joining us today.