PRIVATE WEALTH MANAGEMENT

Planning Opportunities in Tumultuous Times

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Jefferies LLC
520 Madison Avenue
New York, NY 10022
212.284.2300

Jefferies

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As the US and the world deal with the fallout and consequences of COVID-19 our primary concern is that our extended families of clients and employees stay safe and healthy. We defer to the medical and health professionals regarding best practices of daily conduct.

Equally, we feel that we would be remiss if we did not initiate a conversation during a volatile time like this regarding our area of expertise; Wealth Management. With that in mind, for those interested in the discussion there are moves that can be made today to advantage your children and your estates. Below is very short description of several attractive planning opportunities during a market pull back. As with any discussion of planning, you should review any and all considerations with your tax and legal advisors to ensure that they are appropriate for you:

Gift to a Trust

With the current exemption amount of $11,580,000 per person ($23,160,000 for a married couple), many people have not fully maximized their gift. If you hold property whose value has been dramatically reduced by current market circumstances, and you expect the value to recover, gifting the property now would allow the value of that recovery to happen outside of your taxable estate. Recent guidance from the IRS removes the concern of an estate claw back in the event that the exemption falls in the future.

Grantor Retained Annuity Trust (GRAT)

There is no wrong time to execute a GRAT strategy, but now may be better than most. With the stock market indices so beaten down, even a return to prior valuations could move considerable assets out of your taxable estate. Adding further to the current advantages of a GRAT is the low interest rate environment; the IRS Section 7520 Interest Rate used in GRATs ("hurdle rate") is currently 1.8% for March 2020.

Accelerated Exercise of Incentive Stock Options (ISOs)

A common dilemma for executives with a large number of unexercised ISO grants is when, and how much, to exercise. The ideal scenario is to exercise all vested and in-the-money options immediately in order to get the one-year clock going for Long Term Capital Gains treatment. The obvious problem with this scenario is that significant in-the-money options could cause an AMT tax issue. With a potentially temporary reduction in the underlying stock, it may be possible to exercise many more ISOs without triggering AMT; you could then capture the return to prior prices as a Long-Term Capital Gain as opposed to ordinary income tax. Prior to any ISO strategy, you should speak with your tax advisor.

Roth IRA Conversion

As discussed in our January document discussing the SECURE Act, the end of Stretch IRAs had already created a favorable environment for Roth IRA conversions. The lower the value of your traditional IRA at conversion, the lower the income tax due with reference to the conversion. Converting large traditional IRA balances to Roth IRAs can achieve multiple goals (i) Eliminate double-taxation of estate and income tax for beneficiaries of traditional IRA beneficiaries (ii) Reduce size of taxable estate through paying income taxes on conversion (iii) Eliminate future RMDs for the Roth IRA account holder. Prior to any Roth conversion strategy, you should speak with your tax advisor.

If you would like to further discuss any of the above strategies, or any planning strategies, please reach out to your Private Wealth Advisor at Jefferies.

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