

BKD's Private Client Services COVID-19 Webinar Series

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COVID-19 Tax Considerations for Family Business Owners



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CPAs & Advisors

Agenda

- CARES Act provisions applicable to individuals, pass-through business owners & sole proprietors
- Wealth transfer strategies in the current environment

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CARES Act – Federal Income Tax

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Recent Events

- April 24, 2020 – President Trump signed the *Paycheck Protection Program and Health Care Enactment Act*
 - Provides an additional \$310 billion for the Paycheck Protection Program (PPP)
- April 14, 2020 – Small Business Administration (SBA) issued interim final rules on PPP eligibility requirements for self-employed individuals

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Individual Income Tax Provisions

Recovery rebate of \$1,200 (\$2,400 married); subject to phaseout

Ability to withdraw coronavirus-related distributions from qualified retirement accounts up to \$100,000 without incurring 10% early withdrawal penalty

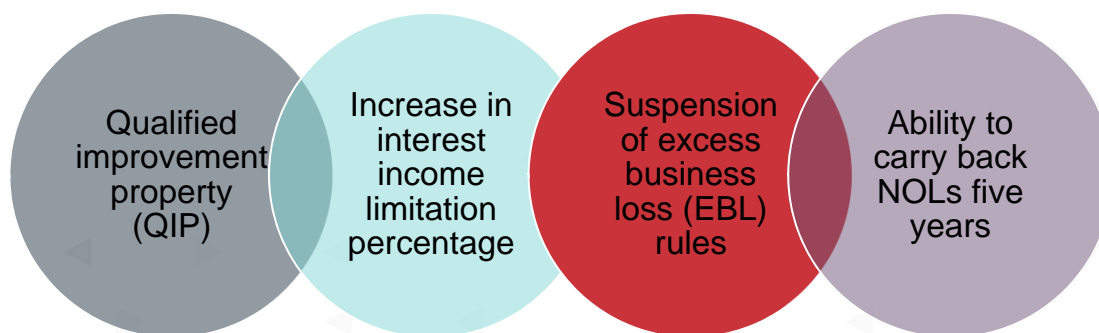
Temporary waiver of required minimum distribution rules for certain defined contribution plans & IRAs for 2020

Suspension of the 60% AGI limit on the charitable contribution deduction for 2020; above-the-line deduction for contributions up to \$300

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Business Income Tax Provisions

(For Pass-Through Owners & Sole Proprietors)



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PPP – Application to Self-Employed Individuals Filing Schedule C or F

- PPP loan & loan forgiveness eligibility
 - Schedule C & F filers with self-employment income are eligible if they were in business on February 15, 2020
 - Principal place of residence is in the U.S. & you filed or will file a 2019 Schedule C or F
 - A partner or LLC member receiving self-employment income cannot submit a loan application (instead, the partnership or LLC can)
- Reminder: Participation in the PPP might reduce eligibility for state unemployment assistance programs
- Additional guidance forthcoming for self-employed individuals in operation on February 15, 2020, but not in 2019 (filing Schedule C or F in 2020)

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Action

- Review your 2018 & 2019 (if filed) income tax returns for any QIP, EBLs or NOLs
 - If so, considering filing an amended return, carryback claim or Form 3115 (for QIP)
- Adjust your 2020 estimated income tax payments to reflect economic environment & any amendments to 2019 income tax returns
- Determine your eligibility for PPP loan & loan forgiveness. If eligible, contact your **BKD Trusted Advisor™** to help calculate the potential maximum loan & loan forgiveness amount

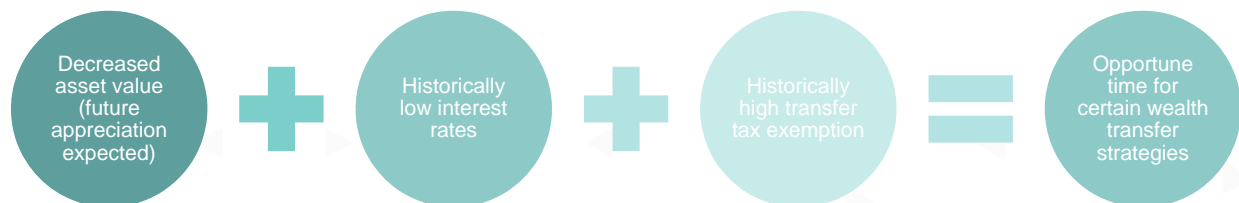
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Wealth Transfer Strategies

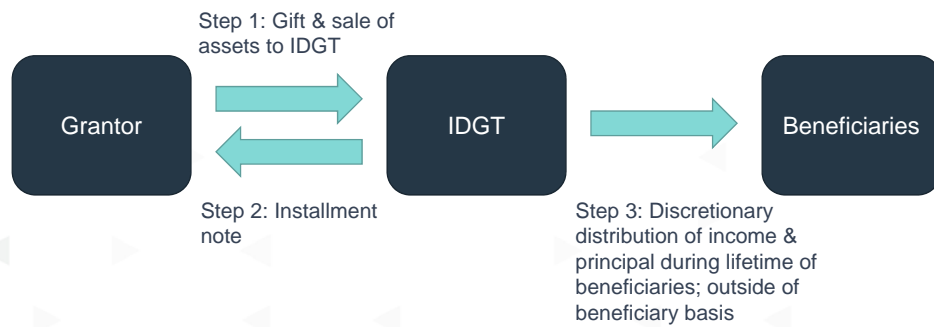
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Review of Gifting Basics

- As a result of tax reform legislation enacted at the end of 2018, the estate & gift tax exemption nearly doubled to an inflation-adjusted \$10 million per taxpayer
- In 2020, estate & gift tax exemption is \$11.58 million per taxpayer (up from \$11.4 million in 2019)
- Under current law, the increased exemption is scheduled to “sunset” at December 31, 2025, & revert to inflation-adjusted \$5 million per taxpayer in 2026
- Annual exclusion amount remains \$15,000 per donee in 2020
- The estate & gift tax top marginal rate remains at 40%

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Intentionally Defective Grantor Trust (IDGT)



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IDGT Example

- Gift to trust: \$1,000,000
- Sale to trust: \$10,000,000
- AFR: 1.15% (May 2020 long-term AFR)
- Installment note term: 15 years
- Income (&/or appreciation) earned by trust: 7%

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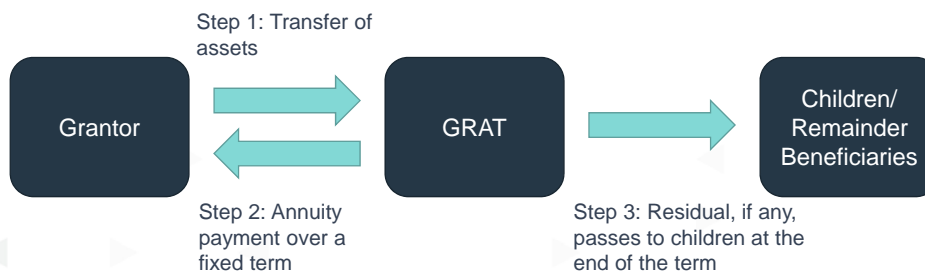
Year	Beginning Principal	Income of Trust	Payment on Note	Ending Principal
1	\$11,000,000	\$770,000	\$729,636	\$11,040,364
2	\$11,040,364	\$772,826	\$729,636	\$11,083,555
3	\$11,083,555	\$775,849	\$729,636	\$11,129,768
4	\$11,129,768	\$779,084	\$729,636	\$11,179,217
5	\$11,179,217	\$782,545	\$729,636	\$11,232,126
6	\$11,232,126	\$786,249	\$729,636	\$11,288,740
7	\$11,288,740	\$790,212	\$729,636	\$11,349,316
8	\$11,349,316	\$794,452	\$729,636	\$11,414,132
9	\$11,414,132	\$798,989	\$729,636	\$11,483,486
10	\$11,483,486	\$803,844	\$729,636	\$11,557,694
11	\$11,557,694	\$809,039	\$729,636	\$11,637,098
12	\$11,637,098	\$814,597	\$729,636	\$11,722,059
13	\$11,722,059	\$820,544	\$729,636	\$11,812,967
14	\$11,812,967	\$826,908	\$729,636	\$11,910,240
15	\$11,910,240	\$833,717	\$729,636	\$12,014,321

Gift tax value on transfer: \$1,000,000

Future value of remainder: \$12,014,321

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Grantor Retained Annuity Trust (GRAT)



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GRAT Example

- Section 7520 rate: 0.80% (May 2020)
- Income earned by trust: 2%
- Trust term: Two years
- Annual growth of principal: 4%
- Pre-discounted FMV: \$1,000,000
- Interest retained by family member (§2702 applies)

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GRAT Example

Year	Beginning Principal	4% Growth	2% Annual Income	Required Payments	Distributed Discount	Remainder
1	\$1,000,000	\$40,000	\$20,400	\$354,197	\$143,056	\$563,147
2	563,147	22,526	11,488	354,197	146,875	96,088
Total	\$1,000,000	\$62,526	\$31,888	\$708,394	\$289,931	\$96,088

Asset Value: \$1,000,000
 Retained Interest: \$700,000
 Remainder Interest: \$386,019
 Taxable Gift: \$0

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	GRAT	IDGT
Best Use Scenario	<ul style="list-style-type: none"> ❑ Rapidly appreciating or high income-producing property, e.g., commercial real estate, closely held stock & family limited partnership (FLP) interests ❑ Historically low Section 7520 rates 	<ul style="list-style-type: none"> ❑ Rapidly appreciating or high income-producing property, e.g., commercial real estate, closely held stock & family limited partnership (FLP) interests ❑ Historically low AFR rates
Advantages	<ul style="list-style-type: none"> • If the property in the trust grows more than the Section 7520 rate, the excess growth passes to remainder beneficiaries transfer tax free • Any income tax paid by grantor reduces the gross estate 	<ul style="list-style-type: none"> • Any appreciation in property is transferred to beneficiaries transfer tax free • Any income tax paid by grantor reduces the gross estate
Disadvantages	<ul style="list-style-type: none"> • If the GRAT property does not produce a return that exceeds the Section 7520 rate, there will be no tax savings achieved • If the grantor dies during the GRAT term, the property in the trust will be included in its gross estate 	<ul style="list-style-type: none"> • Trust is irrevocable, so trust terms cannot be changed & grantor can no longer access the property transferred to the trust
Income Tax	<ul style="list-style-type: none"> • Considered a grantor trust for income tax purposes (all income & deductions flow through to the grantor) 	<ul style="list-style-type: none"> • Considered a grantor trust for income tax purposes (all income & deductions flow through to the grantor)
Gift Tax	<ul style="list-style-type: none"> • Taxable gift upon transfer of property • Can be structured to produce a gift with a value close to zero (useful when grantor has utilized lifetime exclusion amount or doesn't wish to make taxable gifts) 	<ul style="list-style-type: none"> • Taxable gift upon transfer of property (except for any portion sold to the trust for an installment note) • Minority &/or marketability discounts can be taken when determining sales price/gift value
Estate Tax	<ul style="list-style-type: none"> • If the grantor dies during the GRAT term, the property in the trust will be included in its gross estate 	<ul style="list-style-type: none"> • Trust property excludable from grantor's gross estate

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Action

- Review your estate & succession plan & meet with your BKD Trusted Advisors to discuss implementation of these or other strategies

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Questions



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Thank You

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