ClearView Wealth Management

Investing with Clarity and Vision

Clarion Newsletter May 2015

Tax Law Changes Prompt Need to Take a Fresh Look at Your Estate Plan

If your will includes a credit trust, you should review your estate plan.

Federal and State of Washington Estate Tax Disconnect

One reason for reviewing your current estate plan if your will has a credit trust is that many married couples still have wills that were drafted when the federal and State of Washington estate tax systems were integrated. Those wills were designed so that no estate tax would be due upon the death of the first spouse to die, but could now result in paying tax to the State of Washington upon the death of the first spouse to die.

For example, a married couple with $5,000,000 of assets could pay up to $44,600 to the State of Washington upon the death of the first spouse to die. A married couple with $10,860,000 of assets could pay up to $450,160 to the State of Washington upon the death of the first spouse to die. The wills can be modified to delay that tax. This disconnect has existed for years, but the stakes are much higher now because the difference between the federal and State of Washington estate tax exclusion amounts has become much larger.

Credit Trusts Versus Portability With QTIP Trusts

Another reason to review your plan is that the American Taxpayer Relief Act of 2012 (“ATRA”) has caused a shift away from traditional “tried and true” estate planning techniques, such as the use of a credit trust. ATRA increased income and capital gain tax rates, set the estate, gift, and generation-skipping transfer (“GST”) top rate at 40 percent, and increased the estate, gift, and GST exclusion

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Upcoming Seminars

Wednesday, June 10th

Portfolio Review

Call us today to make an in-person or phone appointment to review your portfolio.

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amounts to $5,000,000, with annual increases for inflation ($5,430,000 in 2015). Using a credit trust may preclude getting an additional step-up in income tax basis upon the death of the surviving spouse, which may mean more capital gain tax when the asset is later sold.

Rather than the traditional credit trust technique, a more appropriate plan could be one that preserves the ability to make postmortem decisions through qualified disclaimer planning or the use of qualified terminable interest property ("QTIP") trusts and elections.

The new watchword is "portability," which was made permanent by ATRA. Portability is the concept that allows the surviving spouse of a married couple to use the federal exclusion (for estate and gift tax purposes but not for GST purposes) not used by the first spouse to die. Using a QTIP trust, rather than a credit trust, is a key tool in positioning for maximum flexibility in portability planning.

Think Twice Before Making Large Lifetime Gifts

Instead of focusing on reducing transfer tax at all costs by making lifetime transfers up to the federal estate tax exclusion amount, it is even more important now to take the income tax implications of such transfers into account. When you make a lifetime gift, the recipient of your gift gets your income tax basis in the gifted asset. If the recipient received the asset upon your death instead, he or she would get an income tax basis stepped up to fair market value of the asset at your date of death. Rather than consuming your federal exclusion amount during your lifetime, it may be better to preserve it and maximize the step-up in basis upon your death.

State of Washington Estate Tax Changes

Washington increased its estate tax exclusion amount to $2,054,000 in 2015, but also increased its top estate tax rate to 20 percent. Washington now has the dubious distinction of having the highest state estate tax rate in the country. When taking advantage of the federal portability election, care must be taken to avoid several traps for the unwary in the State of Washington estate tax system.

The new paradigm resulting from these tax law changes requires a case-by-case analysis of the role that income tax planning now plays in your estate planning.

Marcia Fujimoto is a Partner with Miller Nash Graham & Dunn LLP with more than 30 years of experience counseling individuals and families about wealth transfers and succession planning, including estate planning and administration, probate, trusts and related tax matters. She can be contacted at 206-777-7475.

Cycle of Real Estate Values and 1031 Exchanges

Real estate values have continued to rise in many parts of the country and this has created an opportunity for many property owners to sell as well as an opportunity to buy for others. The Great Recession caused a dramatic reduction in building and the ongoing recovery has fueled an increase in demand. The gap in supply and demand has created upward pressure on real estate prices. The low interest rate environment has added some fuel to the upward trends, as the costs of ownership are decreased by low debt costs. We are seeing a significant increase in "rollovers" of existing 1031 exchange investments, REITs and individual ownership as real estate investors seek to optimize returns.

While the real estate cycle is on the upswing, there are still opportunities for investment in real estate. Sophisticated real estate investors focus on opportunities for investment in properties that have either long-term appreciation potential or strong current income or both. This may mean that acquisitions are concentrated in targeted growth markets, and not in the higher priced A markets.

We are seeing an emphasis on multifamily, healthcare and necessity retail in many of the current offerings in both 1031 Exchanges and REITs. The offerings are trending to lower loan to value (LTV) than previously seen prior to the Great Recession to reduce the risks associated with over-leveraging. More conservative leverage, lower costs of debt and a continuing strong economy are key factors that portend a strong environment for real estate in the coming years.

Commercial property investments are trending toward necessity retail, with longer term triple net leases with credit worthy clients. Necessity retail is viewed as being resistant to the online takeover from brick and mortar stores, as people are still shopping for groceries, picking up prescriptions or buying home maintenance items from stores.

Multifamily investors are looking at the potential for both current income and growth. Demographic trends are key drivers of demand for multifamily. Millennials are happily moving out from their parent's home as the economy creates jobs and they are not displaying the earlier generation's drive to settle down and buy a house as soon as possible. Multifamily operators are providing additional amenities to increase rents and are finding little resistance from renters who want to upscale their apartments with granite countertops, wood floors and pet play areas. Opportunities for growth in multifamily is seen as more millennials get jobs and more baby boomers decide to shed the shackles of homeownership.

What does this mean for you? It is almost impossible to predict or participate in the peak of a

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cycle. If you are tired of the 'tenants, taxes and toilets' and want to move from managing your own property and don't want to pay the taxes, you may want to consider an investment in a 1031 Exchange/DST through our broker dealer, Centaurus Financial. You must be an accredited investor to participate. Private Placement Memorandums (PPMs) are available for accredited investors only.[1] Please read the PPMs carefully for an explanation of the potential risks and benefits associated with each property.

At ClearView, we have helped our clients successfully complete over 350 1031 exchanges into securitized real estate investments over the last decade. We have a lot of experience in this investment class and can help our clients evaluate and determine if the 1031 exchange into securitized real estate is suitable for them. Give us a call to learn more.

[1] Accredited investor: those with a net worth of $1,000,000, excluding the value of the primary residence, or income exceeding $200,000 in each of the two most recent years or joint income with a spouse exceeding $300,000 for those years and a reasonable expectation of the same income level in the current year.

Bob Cannon

With great sadness, I wanted to let you know Bob passed away on May 3. He was at peace and without pain.

As many of you know, Bob was diagnosed with cancer last October and had been undergoing treatment. He experienced a dramatic downturn in the last month of his life, and succumbed to the disease.

Please know that ClearView will continue. We are continuing to support our clients and their existing investments and look forward to new business as well.

Bob was a good man. I know he will be missed by many.

Thank you for your support and kindness.

Leslie Cannon

Thought for the Day

**"Some poems don't rhyme, and some stories don't have a clear beginning, middle, and end.
Life is about not knowing, having to change,
taking the moment and making the best of it,
without knowing what's going to happen next."**

~ Gilda Radner ~