



Global Private Client Services

Post-Election tax planning for high-net-worth individuals and the businesses they own

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Sarah Allen-Anthony, CPA
Partner

David A. Lifson, CPA
Partner

Disclaimer

The information provided herein is educational in nature and is based on authorities that are subject to change. You should contact your tax adviser regarding application of the information provided to your specific facts and circumstances.

Your presenters



**Sarah
Allen-Anthony**

PARTNER, CROWE LLP

Sarah.Allen-Anthony@crowe.com



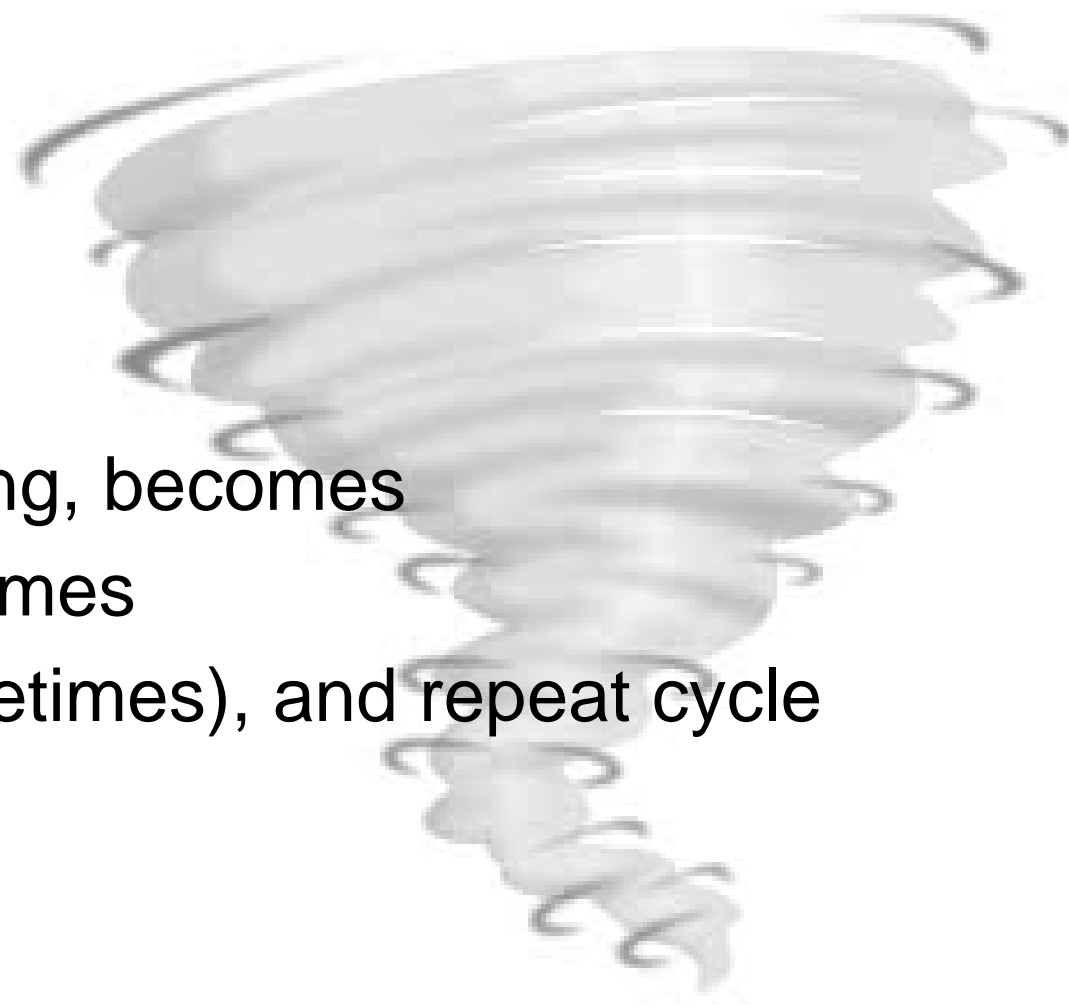
**David
Lifson**

PARTNER, CROWE LLP

David.Lifson@crowe.com

Agenda

- Introduction
- The Tax Vicious Circle
 - Tax Consulting/Planning, becomes
 - Tax Compliance, becomes
 - Tax Controversy (sometimes), and repeat cycle



INTRODUCTION

Who are you?

**U.S. persons domestically and globally,
and foreign persons doing business
in the U.S. – “private clients”**

INTRODUCTION



Who are we?

Professionals that support the full cycle of tax consulting and planning, compliance and post-filing controversy services. Often, the annual compliance exercise enables our team to efficiently provide future planning and prepare for questions from various governments and examinations

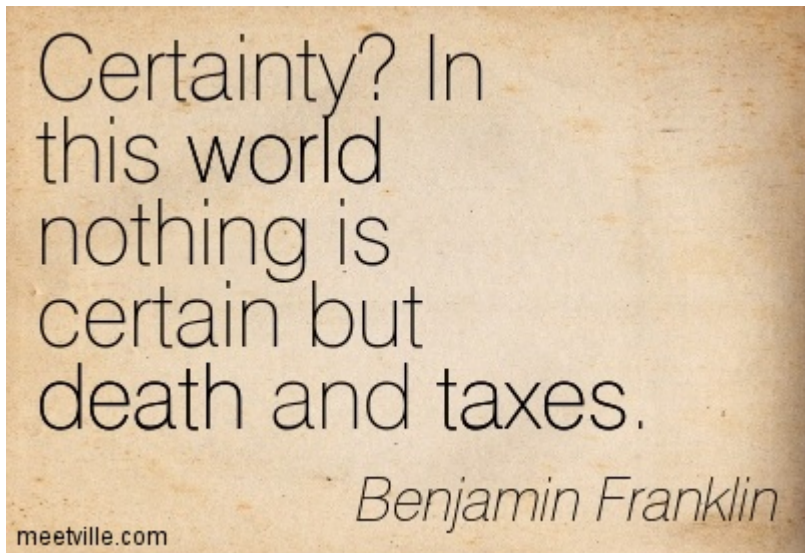
Global private client services

Services to executives,
entrepreneurs, high-net-worth
families and their businesses

TAX CONSULTING/ TAX PLANNING

Uncertainty is the only certainty

We will not know 2021 tax laws until after 12/31/2020, making tax planning especially challenging



Although taxes are certain, the amounts due are unpredictable and often subject to interpretation

What kind of TAX?

Our clients need to know about ALL taxes

- Federal income TAX
- Federal wealth transfers through gifts and death TAX
- Federal disclosures of foreign and domestic activity, integrated into the system of self-assessment TAX
- State and local income and franchise TAX
- State and local property ownership, and transfer TAX
- State wealth transfers, depending on jurisdictions, through gifts and death TAX
- Federal, state and local responsibilities for payroll TAX
- State and local responsibilities to assess, collect and remit sales and use TAX
- Foreign jurisdiction TAX (too many to list)

Tax Rate vs. Tax Base

Tax Rates... (and it is not just federal income tax!)

Biden Campaign Tax Proposals

- Highest federal income tax rate 39.6%
- Investment taxes –
 - LT capital gains and qualified dividends 39.6% if income over \$1mm
 - Net investment income tax remains 3.8%
- Estate tax 45% with unified credit possibly \$3.5mm
- Income tax at death?

Current Law

- Highest federal income tax rate 37%
- Investment taxes –
 - LT capital gains and qualified dividends 20%
 - Net investment income tax 3.8%
- Estate tax 40% with unified credit \$11,580,000

Tax Base

- Adding 12.4% payroll tax on earned income over \$400,000 - the “donut hole”
- Cap on tax savings from itemized deduction - 28% deduction benefit
- Phase-out 20% pass-through deduction
- Elimination of like-kind-exchanges (IRC Sec. 1031)
- Elimination of basis step-up on death
- Ever-changing interest expense deduction rules (IRC Sec. 163(j))

Pay attention to economic incentives and benefits

TAX PLANNING



Areas of Focus

Estate Planning

- Review estate plan
- Annual gifting of \$15k from each individual per recipient
- Consider larger gift to use lifetime exemption versus loss of basis step up
 - No claw-back
 - Larger discounts
 - Low interest rates
- Consider local changes – i.e. California

2020 Income Tax Planning

- Income and deduction timing
 - Bonus depreciation
 - Accounting method changes
- Loss carrybacks and carryforwards
- PPP uncertainty – will Congress act?
- State conformity implications

Ideas from other Democratic Influencers

- Green new deal – energy taxes and deficits
- Income inequality
- 70% federal income tax rate
- Wealth tax
- VAT?

Keep in mind that most tax law changes are pulled “off the shelf” after being discussed by someone for some period of time

What next?

- Likelihood tax rates will increase
 - How much?
 - When?
- Watch all changes, including those that affect base and aspects other than rates
- The Clash: Choice of entity – should I stay or should I go?
- Keep in mind all taxes, not just federal income tax

Do not plan in isolation. Plan in total, taking into account all impacts.

TAX COMPLIANCE

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Keeping up on changes

New and Changing Forms and Requirements

- Partnership changes:
 - Tax Basis Capital reporting for partnerships beginning in 2020
 - AAR versus amended K-1s
 - 2019 changes, including disregarded entity reporting, 704(c), etc.
- Other changes
- Qualifying for opportunity zone deferrals
- 2020 Form W-4
- Distinguishing between expenses deductible and not deductible by trust/estate
- More electronic filing allowed/required, i.e. amended returns 2019
- Entity level SALT workaround

TAX COMPLIANCE



Disclosures

Disclosures

- Virtual Currency
- FBARs
- Reportable Transactions

- Downward attribution
- Disregarded entities
- High penalties
- Ever changing requirements

TAX CONTROVERSY

TAX CONTROVERSY



Government Enforcement Efforts

IRS Initiatives

- Campaigns
 - Sale of partnership interest
 - SECA
 - Partnership stop filer
 - 965
 - TCJA
- Big Data i.e. virtual currency
- Global High Wealth
- High Income Initiative
- Large Partnership Compliance – coming soon

Individual and Entity Audits

	IRS high-income initiative	Global high-wealth program
Audit program began	2020	2009
IRS division	Joint effort LB&I and SB/SE	LB&I
Number of returns audited	1040 plus at least 1 related entity	Average of 4 different returns
Criteria for audit program	Based on income	Based on income and/or assets
Length of audit	Approximately 18 months	Generally lasts 24 months

Centralized Partnership Audit Regime

- All partnerships are subject to Bipartisan Budget Act of 2015 (BBA) for taxable years beginning on or after January 1, 2018
 - Certain small partnerships may elect out of BBA
- BBA is intended to improve the IRS's ability to perform partnership audits
- BBA audits are underway

Individuals owning partnership interest will be affected in multiple ways:

- More partnership audits
- Less involvement/control from partners
- No longer able to amend BBA (i.e. most) partnership returns
 - Filing through AAR process which will result in partners receiving Form 8986 which will require additional action on behalf of partner
- Further complications at state level - state processes vary

More Controversy

States are more active

- Correspondence audits
- Residency audits
- More notices even for rounding differences
- Federal and state programming errors that require a response
- Informational correspondence
- Lack of clarity on how states handle things differently than federal law, especially when change occurs

WHAT'S NEXT



So what's the score?



Thank you

Sarah Allen-Anthony

Partner

+1 574 235 6818

sarah.allen-anthony@crowe.com

David Lifson

Partner

+1 212 572 5555

david.lifson@crowe.com



crowe.com/keepscore

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