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Summer, 2018

As we head into the summer months, we are of course continuing to process extended returns and just to remind you, corporate and partnership income tax returns are extended until September 17, 2018 while individual income tax returns have an extension date of October 15, 2018. Extended estate and trust income tax returns have a due date of October 1, 2018. We appreciate our clients providing us with the organized information which allows us to better serve you and complete the returns in a timely manner. Additionally, we would like to let our clients know, **effective May 1, 2018** we will be assessing a 1-1/2% late payment fee on accounts outstanding more than 90 days. Please note the statement to this effect will now appear at the bottom of our invoice form.

REMINDER:

Individual Estimated Income Tax Payments are due by June 15, 2018.

On a sadder note, we would like to announce Sarah Flynn will be leaving us as of June 15 to join her husband, Liam, in California. Liam is in the Marine Corps and their next assignment is in sunny California. Sarah has certainly been a valuable asset to our office and we would like you to join us in wishing her the best as she begins this next chapter of her life… we wish her much success!

This newsletter will focus on the estate, gift and GST tax exclusions in the 2017 Tax Cuts Act.

2017 Tax Cuts Act: Estate, Gift and GST Tax Exclusions Increased

The tax Cuts and Jobs Act doubles the basic exclusion amount for federal estate and gift taxes and the exemption amount for the generation-skipping transfer (GST) tax. For the estates of decedents dying and gifts made after 2017 and before 2026, the amount increases from $5 million to $10 million, as adjusted for inflation.

Estate and gift tax exclusion doubled. For the estates of decedents dying and gifts made after 2017 and before 2026, the basic exclusion amount for purposes of federal estate and gift taxes is doubled from $5 million to $10 million, as adjusted for inflation. Accordingly, the estate and gift tax basic exclusion amount applicable to the estates of decedents dying and gifts made in 2018 is estimated to be over $11 million, as adjusted for inflation. For a married couple using portability, the maximum applicable exclusion amount would be doubled again, estimated to be more than $22 million. ***Example***: Carol Cologne, a wealthy widow, dies in 2018 leaving a taxable estate of $20 million. Her late husband dies earlier in 2018, having used only $2 million of his available estate tax exclusion amount. Her estate will owe no federal estate tax. However, if the couple had died under the same circumstances in 2017, the estate tax payable would have been $4,408,000. Because the doubling of the estate and gift tax exclusion amount expires for decedents dying and gifts made after December 31, 2025, the next several years present a tremendous opportunity for wealthy individuals and married couples to make large gifts, including those that leverage the amount of the available exclusion, such as those to grantor retained annuity trusts (GRATs).

(Continued on page 2)

Estate and Gift Tax Exclusion (Cont'd) According to the IRS Statistics of Income tables presenting data on estate tax returns for tax year 2016, a total of 5,219 taxable returns were filed as compared to 7,192 nontaxable returns. Of the taxable returns, just over 2,400 fell within the $5 to $10 million gross estate range, with almost 1,300 in the $10 to $20 million range. Only 300 returns were filed with gross estates in excess of $50 million. These statistics primarily reflect data from the estates of decedents who died in 2015, when the basic exclusion amount was $5.43 million, but also include some returns for decedents who died in years prior to 2015, as well as a small number of estates with respect to deaths that occurred in 2016. The large increase in the basic exclusion amount after 201 will no doubt lead to further decreases in the number of taxable estates.

GST tax exemption amount. Because the exemption from the GST tax is computed by reference to the basic exclusion amount used for estate and gift tax purposes, the GST exemption amount for GSTs occurring in 2018 is also estimated to be more the $11 million. Portability does not apply for purposes of the GST tax.

Corresponding adjustments with respect to prior gifts. In addition to the increase in the basic exclusion amount, the Tax Cuts and Jobs Act modifies the computation of gift tax payable and estate tax payable in cases where gifts have been made in prior years. With respect to the computation of gift tax payable, the tax rates in effect at the time of decedent's death are used rather than the rates that were in effect at the time the gifts were made.

Inflation adjustments going forward. A separate amendment of the Tax Cuts and Jobs Act requires that future inflation adjustments mandated throughout the Internal Revenue Code be made using the "Chained" Consumer Price Index for All Urban Consumers (C-CPI-U rather than the CPI adjustment used under current law. This change, effective for tax years beginning after December 31, 2017, will generally service to slow down inflation adjustments to provisions throughout the Code, including the estate and gift tax exclusion amounts.

Tips for Taxpayers for Hurricane Preparedness

With hurricane season upon us, the IRS offered advice to taxpayers who may be affected by these types of storms, as well as other natural disasters. The IRS also wants taxpayers to know that the agency offers a special toll-free hotline to people in federally declared disaster areas, staffed with IRS specialists trained to handle disaster-related issues.

Don't Forget to Update Emergency Plans. Because a disaster can strike any time, be sure to review emergency plans annually. Personal and business situations change over time, as do preparedness needs. When employers hire new employees or when a company or organization changes functions, they should update plans accordingly and inform employees of the changes. Make plans ahead of time and be sure to practice them.

Create Electronic Copies of Key Documents. Taxpayers can help themselves by keeping a duplicate set of key documents including bank statements, tax returns, identifications and insurance policies in a safe place such as a waterproof container and away from the original set. Doing so is easier now that many financial institutions provide statements and documents electronically, and financial information is available on the Internet. Even if the original documents are provided only on paper, these can be scanned into an electronic format. This way, taxpayers can download them to a storage device such as an external hard drive or USB flash drive, or burn them to a CD or DVD.

Document Valuables. It is a good idea to photograph or videotape the contents of any home, especially items of higher value. Documenting these items ahead of time will make it easier to claim any available insurance and tax benefits after the disaster strikes. The IRS has a disaster loss workbook, Publication 584, which can help taxpayers compile a room-by-room list of belongings. Photographs can help anyone prove the fair market value of items for insurance and casualty loss claims. Ideally, photos should be stored with a friend or family member who lives outside the area.

Check on Fiduciary Bonds. Employers who use payroll service providers should ask the provider if it has a fiduciary bond in place. The bond could protect the employer in the event of default by the payroll service provider.