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Transcript

But we know the drop. we Oh. Don't know the ocean.

Hello and welcome to the New Knowledge podcast. My name is Mark Singer, partner of Newton One advisors. The New Knowledge Podcast will provide meaningful content to our valued advisor community and anyone who is interested in learning more about sophisticated insurance related topics focused on estate planning and executive benefits. Our discussions will deliver unique insights into the people, processes and products that make our industry so critical. Newton one is a national life insurance planning firm delivering customized insurance solutions structured to help clients and advisors engaged in solving estate planning, wealth transfer, business succession and executive benefits challenges. We are a member of the M Financial Group, which grants. Our clients access to the nations elite carriers and exclusive products only available through our network. Today I'm joined by my friend and personal accountant Daniel Valentino, at his beautiful firm Fenstermacher and Co in Greenville DE the Great first state. How are we doing today, Dan? We're doing very well. Great day to do this. I mean, we're inside, but it's it's a phenomenal day and and thank you for that lovely introduction. So and and speaking about introductions, Dan, can you give us, you know, give us a a bio on yourself, your practice, what you focus on, what fence Demarker focuses on, but most importantly, your beautiful family as well. Sure, sure thing.

So. I've been practicing tax for probably over about 15 years CPA for most of that and the majority of my practice has been in the trust and the state field where I learned trust in the states at big banks and was able to kind of take that to a CPA firm like Fenstermacher. I've been here for about four years. Heading up the trust in the state practice. So what we do is we cater to a lot of our business clients and helping them out with both state planning and income tax planning and have that segue into the kind of the trust in the state realm. In addition, we also help a lot of clients that have trust and state needs either big banks that don't have that practice, the tax practice. Or just individual trustees that that need that tax return prepared or or guidance in that field we prepare around 200 trusts for trust and state like 1040 ones for our clients. And that also includes kind of like other estate type returns like the PA inheritance return 706 which is the estate return 709 is your gift tax returns as well as other types of various trust forms. From a business standpoint, that's kind of where we're at and what we do personally, my son just turned well. He's turning 7 and we just had a wonderful birthday party. My wife's doing very well.

And we're going to have to get both of our kids plus us out golfing soon and enjoy some of this amazing weather. The weather has been beautiful for that, and we need to. We need to do that. That's a definite. So how are you recovering from the tax deadline being over?

It was exhausting. I I will say it's kind of one of those accomplished, exhausting feels. So I'm not sure if you're aware, but there's less tax accountants than there used to be.

Why is that?

People are not choosing tax when they graduate in accounting. Accounting enrollment is actually down. So we were just. Bad. Westchester University I was speaking there and my alma mater and the the the enrollments down the interest is down. It could be the hours, the tax season hours. I mean it's there's a lot there. It could also just be the change in Peoples's idea of what they want to do for a living. I mean instead of being behind a desk. You want to. TikTok or zoom be an influencer, yeah. So. What that means is we have less tax accountants, more work. I mean, the work hasn't gone down. People still need their returns. And so we're trying to find different ways of getting all that done, but we still have a deadline. So we prepared more returns than we had in prior years, did it by 4:15. So I mean, it was, it was a very satisfying. Deadline, but we are absolutely exhausted afterwards. So. So now we are recovering. We're doing our our May 15th work and starting into the planning for the summer, so.

Well, we, I. Appreciate you taking the time to do this with us and I know we had to be strategic in our approach on when we were going to do this to be very. Cognizant of that deadline. So I'm glad you're here. Speaking of proactive planning. What can an individual do in preparing their their tax returns on an individual basis? This to to assist with their return.

There's two really good times to do tax planning. One is always at the end of the year, like you don't want to wait till December. But like October, November you you know what your year's income is gonna look like and then you can kind of make decisions in terms of expenditures and things like that to help reduce or plan accordingly. The other time is actually. Right after tax season, you've just gone through everything you have, all your information. What I like to do is have a like a post tax season meeting with some of our. Clients and and kind of like digest what we just did and and This is why your return was like this and what we can do over the summer if there's any type of gain harvesting or or loss harvesting more specifically or any other type of thing that was impacting their returns that you could take more advantage of. Now and plan for it going forward and even as simple as making sure the estimates are calculated correctly for 2022 or I'm sorry, 2023 is in. So having that done earlier in the year allows someone to be able to adjust their finances or expenses appropriately instead of having to like cut a big check or or do something big at the end of the year. In the end of the year is really when we like to do a lot of OK, here's where we're at. If you want to make. Your big charitable donation. This is kind of what you would be. Looking at if you want to invest in a trust, we would need to be doing it by year end. This is what the income tax and estate tax would be. So we do a lot of like estate income tax planning for the next year kind of towards at the end of the year. So one of the things that has been a popular. Talking point is Roth conversion, so income's been down. I mean we we've kind of gone through a hellish mark. It and with some people, it makes sense to do a Roth conversion. Have that income hit when your rate is as low as it can be. Pay the tax both so that you don't have to pay the tax when you're retire, but also when you pass your beneficiaries now can enjoy that tax free. So.

So do you think that's changed a little bit also due to the Secure Act and things that have changed in in those regards and mandatory distributions and senior limitation?

Yes, the rows are now more acceptable, like or or or. The appetite for Ross are higher because now with.

Yeah.

You can put it.

With the reduction of the stretch IRA, which is what you're talking about now, people like, OK, well, I have to take it on like a 10 year window. And now we're there's even talks about having to take it, like, radically over the 10 year window instead of just at the end of the year at the beginning of the year or or wherever you want it to withdraw the RMD so. Yeah. I mean, there's a lot of planning on just the Roth conversions alone. We I'm going through one client whose estate is big enough. Where do the Ross conversion pay the tax on it? It brings your estate down. Your beneficiaries are getting tax reinheit dance, so it kind of is hitting a lot of points. And also you're you're kind of getting your tax paid now. So it does kind of bring into the the the talking point. Of our taxes going to increase or decrease like will will the rate be higher or lower in the future and we just don't know. But I mean what we do know is what's going on right now and if it makes sense to do a Roth conversion. I mean it probably probably do it. Talk to your financial advisor. User talk to your estate lawyer. One of the things that I do make sure to bring into consideration is when we digest and the income tax plan we hit on things like estate or finances, they have to be brought, brought into play. You need all you need. All of the experts to do.

This correct that's. I mean that's our model is collaborating with the experts and advisors. Which is yourself the the estate planning attorney, the financial advisor, the wealth. Planner. It's funny you brought up just Roth conversions organically and and with income being lower, it makes sense to take that tax burden now versus having it distributed over a duration of time where your earnings may be higher as well As for your your beneficiaries. And that's something we're in the life insurance business. So when life insurance makes sense. As an opportunity or solution, that being one of them. If a Roth conversion, maybe that tax burden is too high. We've done briefings on leveraging certain distributions now putting them in a survivorship policy and then seeing what the IRR is from a premium to death benefit standpoint really to increase inheritance with minimal taxation, just as one solution in conjunction with the Roth conversion.

Well, and you even hit so and this kind of goes back to a conversation you and I had probably a year or two ago where we're trying to do. To we're trying to hit a lot of goal posts at once, so I don't wanna just do an income tax plan because that may negatively impact the finance or the estate or so. One of the things that you and I were talking about was a number of years ago, we were talking about Krauts, General Remainder Trust, which is a good income tax and estate plan tool, but. You're giving a lot of asset away and it's going to charity. So your beneficiaries aren't getting it. But the A beauty to something like that is you get a payback in return, which you then can turn around and use to pay a life insurance policy premiums, a life. So you're you're making up the beneficiary inheritance, you're taking a taxable product, giving it to charity, getting an income tax benefit and then taking the premiums. And getting into a policies to get it out of your estate if done right or or just kind of helping out from an after tax or or non taxable standard standpoint for the beneficiary? So I mean, there are ways to do that type of plan to help the beneficiaries or whomever your inheritance is going to to be tax free. And raw convergence is one that that little crunch thing that we were talking about with the insurance premiums has actually been very interesting as well.

And the key component of that is. Everyone has to be on. The same page. Yeah, yeah, yeah.

You need you need. You need a few hats. I mean, you're not. You're not doing a crunch with a life insurance rider without talking to to Someone Like You. And also the state lawyer needs the to sign off on everything as well. I mean. It it does take a number of hats, but when when it works, I mean you're you're you're talking big savings.

Yeah, for sure. So we're in Greenville. Greenville is beautiful, by the way, related related like this area. So we're headquartered in Newark. I'm sure you hear this all the time. Delaware trusts. What are the advantages and in in terms of having a CPA involved with your? Your trust, administration and trust planning work. Why is that so important? And why are Delaware trusts so, so unique in their own regards?

Let's take it off for why Delaware, like why Delaware trust and and Delaware has a very long. Long, litigious history with trust, so there's a lot of court cases around trust, which is very good in the planning aspects. Lawyers using predetermined core cases like settled settled law to build trust product in a way that they know it's going to survive being challenged by the courts. There is a very rich history with Delaware in terms of we know these trusts that we're putting in front of you are going to stand up against. Any type of. Litigious nature that is out there. So Delaware asset protection trusts are are very popular and and they're there for that reason. They're using a lot of core cases that that have gone through. So. So when we provide a product, we know it's going to stand up. The other aspect I mean and then there are a few but the other. Another aspect is. If you have someone outside of Delaware wants to create a trust, Delaware will allow an income tax deduction for beneficiaries outside of Delaware. So you put the money in in a Delaware trust, it just accumulates and earns and and eventually will pay out. But it won't pay Delaware tax as long as the beneficials. Live outside of Delaware, so from a tax standpoint, you can avoid Delaware taxation state tax. And then finally, one of the big ones is the perpetuity laws. So a Delaware trust can last a lot longer than most other states, and a lot of states will have a a year capped on it. So that after us after it reaches their their term, then it has to distribute. Out go into someones estate because they they want the money to actually get to the next generation or the beneficiaries. Delaware will allow it to to keep going, so it's.

Yeah. What about you? Brought up. Where are taxes going? And I'd love to know if you had the answer to that specifically, but I know we don't have a crystal ball, but in terms of some of the legislation that's out there now, the exemption is set to sunset. What are your thoughts on that as well as just taxes in general ongoing?

I mean, we don't really know where taxes are going, but we do know some things that are happening. So in 2026, we know the estate exemption, which was doubled with the passing of the tax cut and JOBS Act. So it's now sitting around. What is it like 12 million something? Yeah, per per person. So you almost have, like, 25 and a half million for a a married couple. And in 2026 it's going. Yeah. Yeah. By far and in 2026112026. It's going to sunset.

12.6. Hmm. The highest it's ever been. Yeah.

Back to what it was before, so around 6,000,000 per person at 12 million. A lot of people, the states are fully covered at 6,000,000, not so much. So one of the things that I've been doing is talking with my clients. Hey, in, in a couple of years. We're going to have a serious conversation. Where is your estate at and do we need to start planning for this and starting the conversation now helps a. Oh my

God, what's going to happen in December of 2025, especially if Congress doesn't come together and and work together to extend? If, if that's even what they do.

It never happens.

Yeah. So what I like to do is find something that not only just works and utilizes the the very high estate lifetime exclusion now, but even if it didn't sunset and it it continues, it's still beneficial for them so. Trust that that protect the assets from from divorces for beneficiaries, I mean that that that's huge considering the divorce rate that's going on. Special needs trusts are very important. Even the charitable remainder trust with with the interest rates being as high as they are, they're very beneficial like. I mean giving the the assets directly to the charity is great. Giving the assets to the charity in 20 years and getting a continual payment back the entire time. I mean, sometimes that that makes even more sense. So there's a lot of planning that goes on and each client is different. So starting to talk and and. Finding out well, what are your goals? Do you want your children to live tax free off of your inheritance? Maybe those Roth conversions? I mean it it hits a number of things, but the biggest impact yet is is the sunset of the lifetime exemption as well as some of the things that came into that double double the personal exemptions and things like that. One of the things that is very important, especially in the trust and state. Build of navigating that is making sure that the CPA knows the trust in the state process. There's a lot of CPA firms that that will prepare them 41, but something like that we have here in fenstermacher. Is the expertise of being able to assist guidance on well, what's what's in your trust? So I threw out things like CRUD or special needs trust, but like, what really makes them that and and how from an individual individual trustee, why do they need like a CPA to help them with it? And it's one of the big reasons is because you can blow something up unintentionally, like the best of best of intentions and still blow up a trust and have it fail. And and maybe even be challenged by the courts. So having someone that that knows the just not even just the prep of the 1041, but knows how it's supposed to work to provide guidance, make sure that you're not paying expenses on behalf of the trust, just to kind of get it ready for filing and making sure that the trust pays it. So there are there are a number of of nuances that come with. Being a trustee or creating a trust that you want to make sure you have that constant. Source of guidance on and and that's something that I've really seen that that I've really been able to bring to our clients.

Is that something, Chad, when Fenstermaker was founded, is that has been, has that been their practice or is this something relatively new? I know it's unique. To the industry.

Chad and Bill Well, Bill yeah, founded the company being a a family friendly tax office. I mean family, family firm. And we have always built close relationships with our clients and been able to offer them guidance in their tax needs. As much as possible, we started having a very specialized trust and state practice. Probably I think it was before I got here, but what caused me to step into the role was she retired, so we needed to keep that going and one of the things the reason why Chad found someone like me was. He realized that having that in depth experience in trust in the states is very. Valuable because not just anyone can answer a question about gifting or or a state or trust. I mean you need someone as knowledgeable as that as that as on the business side, someone that that can point to the the distribution versus wage compensation for S corporations, I mean. Tax is a huge umbrella, and having those specialists. In each field is very, very valuable.

That's why our firms have worked so closely over the years because of the the knowledge within the estate planning world, and specifically trusts, which brings me to my next question, grantor trusts and the proposal of actually including it in in the Grand Tours estate upon death essentially from. Our perspective is taxing death benefit proceeds from life insurance policies have housed in in the. For us, so that was somewhat alarming in our industry because that's one of the huge advantages these solutions provide for our clientele from a tax mitigation standpoint. What are your? Thoughts on that proposal? And I know it was shot down, but it it was the first time that it was brought up, so it's somewhat alarming.

It it is and I mean what we see is depending upon, I guess the party in charge or or the party going for in charge will like Democrat like like what you were bringing up. It was in the in Bidens build back better.

Yeah.

And a portion of that was stating. Grant or trust would be included in the estate for estate tax purposes. The IRS just released a revenue ruling a little bit ago and said irrevocable grantor trusts that are not included in the estate don't get a step up in basis. So they're kind of providing a reverse guidance on this. Not all grant or trusts are included in the estate and. Just kind of goes to the earlier point, depending upon the the type of powers, there's a lot of different grantor powers. One of the abilities or or one of the powers for the Life Insurance Trust that you were talking about is it does not have the trust get included. Yeah. So it it doesn't get a step up, but it's also not in the estate. So it. It works for the planning that you guys are still doing. But there's always a concern that that something like that could get through in the bill back better. It was dropped along with, I think there was like a loss of step up in basis or or taxing capital gains currently or unrealized gains currently. I know it wasn't that that's tough to say. It wasn't a popular idea because it made. The bill, but it did get shot down and I know that there was a few versions of Bill back better and I don't know if it survived to the last one before it got shot down, but. It it can always come back, the one thing I do like though is planning right now when something like that came up, we all kind of got those memos to show, hey, you know what this is in there and I think even Chad and I had a webinar about the build back better and everything in it, I think.

Yeah.

By the time we released it, all provisions were dropped out. So we're like, this is a little stale. But, but I mean, and that's something that we try and provide like routine guidance on that like you you've.

Yeah.

On on a webinar that we've had for our clients, we try and do that on any new topics that are coming through like the the grant or trust not getting step up if they're not included in the states. It sounds like some CPA's were trying to kind of have your cake and eat it too and saying, hey, we got to add to your state. You use your lifetime exemption so that it's not including your state, but we're going to step it up in basis. I mean, that's. Not how it works, and the IRS was clarifying that position. So it is something that we're going to keep monitoring as we go through. I know when when that came out on a number of trusts, we were thinking about. Talking to the lawyers to release the grant or power that would, that would retain the grantor status, because if it gets included, I mean it would only get included if it was still a grant or trust. So there are planning ways around that, but we would need like actual guidance. Or or we would want to make sure that actually goes into law. Before. Making any type of decision like that because I mean.

Well, no. And that's a good point. I mean, you plan for now with the flexibility to hate using this word, but pivot later. And to go and grant or trust aside, but going back to the exemption, people who may be teetering above or just below, if it drops, they'll be. Ah. Of that's been the the conversation we've had with our our valued advisor community more than the estate planning side is, yeah, do we start gifting now? Is this really going to drop? Am I OK with separating with this amount of assets now? Is that has that come up in, in your planning?

It has and it's weird, but I had a client that said I'm I'm I'm OK with that. The IRS can take. 45% plus Pennsylvania can come in and take their 4 1/2% and and he's fine. The kids are gonna get plenty and others where unfortunately as a spouse dies. And I'm so I have a conversation with them. Like your estate is around 6,000,000. Like if if you pass.

40 yeah.

After 2026, you could have a A taxable state. So we we filed the the deceased spouse and use exemption. To to preserve the unused lifetime exemption, being around 12 million for for the surviving spouse and and that's been it. It it's less about kind of like planning or state planning. I know it it is that but it's more for Peace of Mind for the surviving spouse. I mean there's a lot going on it's like. Just don't worry about a state tax like, yeah, you're not your state's not gonna be over 18,000,000, but at least it's not something you have to kind of go in depth about like you're covered. And it's a really easy process for that. And I've seen a lot of people just want.

To go down that route, as we as we come to our conclusion. You've stated this earlier in your your your Labor field CPA is just coming into the marketplace is it's down. Do you see this affecting tax planning? Has it already affected tax planning and if so, where do you? See it going in the future.

I'll say two big things are are impacting the tax world and and in as much tax planning, change of technology and and the personnel there are less people to do the same work. But also technology has improved in a lot of ways that we really would.

Hmm.

And we wouldn't have expected it to and for tax planning, I mean, being able to do it virtually, I mean the, the and the software that we have can run multiple scenarios of of similar tax strategies and you can see them side by side and get a a nice visual representation of what's going on. Also, because of how on demand information is nowadays, we have like a CPA putting out constant bulletins of of changes in law, so. Unfortunately, with with reduced capacity, I mean tax planning is going into certain directions of, hey, we want to make sure that if someone can capitalize on a Roth conversion that they do. So now things like we used to call for planning, do you pay your state taxes in December or January? I mean, because of the $10,000 cap. On on the salt deduction, it's not as necessary anymore. So we we try and the ugly word that you're pointing out, we try and pivot to make sure that our our clients are still getting the same level of tax planning that they need while also being able to use a lot of the new technology being able to work from home. So that if something happens on a Saturday, I can be able to like kind of log in and get it done and just get that constant. Flow of information from AICPA or even the IRS has been very helpful as well.

Is there anything else you want to add for our our listeners and viewers? This has been very informative and I appreciate taking the time to to go over everything with us.

Today I got to say thank you so much for inviting me on here. I mean, I know you've done a a number of other people, I mean. Tax is some of the tax a lot of times is one of the things where you just kind of think about when you go to file your returns and it's never a fun conversation because it usually ends up with you having to pay something. But when I see people do tax planning and go through the motions, I mean, it really does help them out. It's just. Is it takes a weight off of their shoulders in terms of things that they just have to worry about and what we've been able to do with our clients both on the trust and the state side and and the expertise that we bring to that field, it's really been a a positive move for a lot of the clients in this area, so. Thank you so much for for inviting me in here and being able to just kind.

Of share this Dan, thank you for hosting us. This is great. We appreciate it. And Newton one is we're very appreciative and gracious to have a partner in fence demarker and you and your team and to really take a holistic approach when it comes to planning it's it's. Great for everyone who's involved in that engagement, particularly the client. So thank you. Dan.

Bye bye.