Finseca

The Washington Report

Special Edition

This Washington Report is prepared exclusively for Finseca Influencer members by Michael Amoia JD, LLM (TAX), CLU®, ChFC®, Vice President Advanced Markets at Valmark Financial Group. This report was adapted from a presentation at the Forum 400 Annual Meeting in January 2025.[1]

Estate and Income Tax Planning for 2025 and Beyond

SUMMARY: We approach a pivotal moment in estate planning, with the lifetime gift, estate and generation skipping transfer exemptions set to sunset at the end of 2025 unless Congress decides to extend them. In this article, pulled from a recent presentation at the Forum 400 Annual Meeting, I share the lessons I've learned from decades in the field and recent real-world cases. This is not a normal article but a series of thoughts I talked about with my fellow Forum 400 members. My goal is to help you and your clients navigate the complexities of modern estate and income tax planning by highlighting powerful yet often overlooked strategies such as the use of "swap" powers to rearrange "things", split-dollar arrangements to provide ultimate flexibility, the concept of insuring Generation 3 to create multi-generational plans, and income tax planning that is often overlooked. The purpose of some of these ideas are to think beyond just the normal estate tax conversation.

This isn't theory. These are ideas rooted in cases I've worked on, families I've sat across from, and advisors like you I've collaborated with over the years. What follows is my best thinking for how to preserve multigenerational wealth—not by being always the most technical, but by staying practical, intentional, and forward-looking.

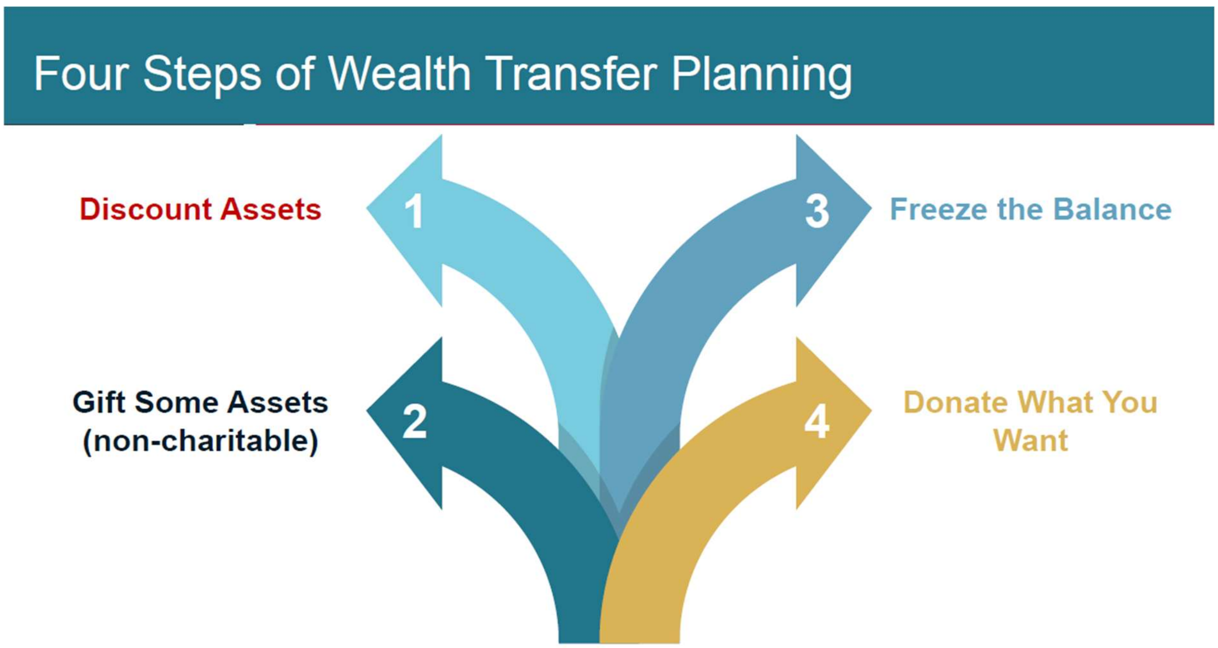
[1]The material included may not be used without the express written consent of the Forum 400 or Michael Amoia.

It’s Not What You Could Do – It’s What You’ve Already Done

Too often, I'm brought into situations after the planning has already been "done." The documents are signed, the trusts are mostly funded, and the question becomes “what now”? My role isn’t to undo everything—it’s to ask: have you really optimized this plan? What has been missed?

Over the years, I have heard of and been involved in numerous planning ideas with an endless list of meaningless acronyms. However, if you boil down every idea and strip the confusing acronyms, every effective wealth transfer plan breaks down into four key steps:

1. **Discount** an asset when available.
2. **Gift** the discounted assets with your gift capacity.
3. **Freeze** the balance of your assets so the estate taxes does not continue to grow out of control.
4. **Donate** what you want to the charity you want, instead of paying it to the IRS.



It sounds simple, but I can’t tell you how many times I’ve seen clients skip right to step two. For example, a common plan involves just gifting marketable securities directly out of the estate —no discounts, no structure, no future flexibility. This was the situation for one client who gifted $23 million of marketable securities to their dynasty trust a couple of years ago. Unfortunately, they missed the first step that could have been structured to reflect nearly $40 million in today’s dollars if properly packaged in an LLC. (And yes, there may be an opportunity to get a discount of an LLC interest owning only marketable securities and cash.) Luckily, because this was a grantor trust, there was a “redo” option because the trust did include provisions to substitute property of equal value (also known as “swap powers”). As such, we were able to take a step back and look at what the options would be available if we went back to the steps and swapped discounted assets for the undiscounted marketable securities. The result was millions of dollars more in trust without any further gifting. That’s what planning is about - seeing beyond the obvious.

When you skip steps, you’re not just leaving money on the table - you’re creating downstream problems. No one likes to hear that the strategy they executed two years ago wasn’t the best. But they like it even less when their heirs find out they paid $15 million in avoidable taxes.

Split-Dollar and Swap Powers: Practical, Elegant, and Misunderstood

Let’s talk about the tools that work quietly but powerfully behind the scenes. Swap powers sound technical, but their function is remarkably simple: allow the grantor to exchange assets in the trust with assets of equal value from outside the trust. Why is this useful? Because, as we mentioned, you can swap discounted assets for un-discounted assets. Or, use them for income tax planning by swapping low-basis assets out of the trust and avoid massive capital gains down the road. It is about flexibility…

However, planning is not about just using one idea at a time. By using the four steps, it is like building a cake with multiple layers. And as such, we can layer on other impactful ideas like private split-dollar arrangements. Why would one do this, especially since assets are already in the trust that could pay any insurance premiums? It is simple – leverage. Imagine your trust has $10 million in appreciating assets. Instead of gifting more money to pay life insurance premiums or using up the income inside the trust, you can use a specially designed split dollar arrangement. This allows the trust to grow, the policy to grow independently of the other assets, and, perhaps most importantly, the trust income to be reinvested in the trust to amplify the opportunity to transfer wealth outside the taxable estate.

Switching Assets with and without Insurance

1. Discount
2. Gift

Just Swapping Assets

	Proposed Strategy				Comparison to No Planning
Year	Estate Assets	Estate Tax	Trust Assets	Net to Heirs	Difference
1	$ 140,540,000	$ 56,128,000	$ 39,791,250	$ 124,203,250	$ 3,028,450
5	$ 162,676,073	$ 65,070,429	$ 50,388,184	$ 147,993,827	$ 7,680,629
10	$ 195,392,640	$ 78,157,056	$ 67,530,895	$ 184,766,479	$ 13,003,655
15	$ 234,794,754	$ 93,917,901	$ 90,298,747	$ 231,175,599	$ 20,581,287
20	$ 282,266,733	$ 112,906,693	$ 120,497,080	$ 289,857,120	$ 30,890,504
25	$ 339,482,604	$ 135,526,510	$ 160,502,442	$ 364,458,536	$ 44,473,106
30	$ 408,467,231	$ 161,357,750	$ 213,441,618	$ 460,551,100	$ 64,966,885
35	$ 491,670,450	$ 192,595,688	$ 283,426,412	$ 582,501,175	$ 93,088,045

Hypothetical $100m of Life Insurance, subject to Split Dollar

	Proposed Strategy				
Year	Estate Assets	Estate Tax	Trust Assets	Net to Heirs	Difference
1	$ 140,542,760	$ 56,129,104	$ 139,788,338	$ 224,201,994	$ 103,027,194
5	$ 162,434,762	$ 64,973,905	$ 150,341,169	$ 247,802,025	$ 107,488,827
10	$ 194,212,188	$ 77,684,875	$ 167,341,178	$ 283,868,491	$ 112,105,667
15	$ 232,786,186	$ 93,114,474	$ 189,074,602	$ 328,746,314	$ 118,152,002
20	$ 289,498,564	$ 115,799,426	$ 187,698,049	$ 361,397,187	$ 102,430,572
25	$ 351,928,529	$ 140,504,880	$ 211,327,764	$ 422,751,412	$ 102,765,983
30	$ 427,837,819	$ 169,105,985	$ 242,671,661	$ 501,403,495	$ 105,819,280
35	$ 520,139,393	$ 203,983,265	$ 284,197,522	$ 600,353,650	$ 110,940,521

+$58,292,877

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This isn’t just tax-smart- it’s client-smart. Wealthy individuals hate parting with capital unnecessarily. But they understand leverage. They understand cash flow. And when you show them how to pay premiums using what they already have - rather than what they have to give up - they listen.

Here's how I explain it: you're paying premiums with your future appreciation. That's it. The assets your trust holds today are worth $10 million. In 10 years? Maybe $20 million if you follow the rule of 72 and assume a 7% annual return. How about 20 years from now assuming that same 7% annual return? If you use that appreciation to repay $10 million of insurance premiums funded through split-dollar, you've just created leverage out of your future appreciation. And, since these trusts are almost always grantor trusts, the repayment of the split dollar in-kind is not a taxable event and could put other low-basis assets back into the estate for income tax planning. Now we have double leverage – gift and income tax planning.

The Grandchild Special Tax (aka GST)

Let me share a trick I use all the time. As mentioned prior, we have a lot of acronyms in estate planning. Some of these are to shorten long names for certain techniques such as Grantor Retained Annuity Trusts ("GRATs"). Others are for certain types of taxes that might be triggered when trying to transfer wealth. A great example of this would be the Generation-Skipping Transfer Tax (GSTT). However, when I explain GSTT to clients, I don't say "generation-skipping transfer tax." Their eyes glaze over. Instead, I call it the Grandchild Special Transfer Tax—and suddenly, they get it. It is not what you say, but how you say it…

We know grandparents would rather give money to their grandkids over their kids. And, of course, Congress knows this too. So, we have a GSTT system that triggers a tax, then a tax on the tax and then an excise tax. (Yes, three layers of tax on one transfer.) This is still confusing, so I put together a piece years ago to walk clients (and advisors) through the different costs for transferring wealth. (See below)

I walk them through it like this: if you want to give $1 to your child, that's $1.40. To your grandchild who you like more than your child? That's $1.96. But if you use a trust and don't structure it properly by allocating your GST exemption in the required manner (which happens all the time), then that same dollar costs $2.77 (assuming there is ultimately a taxable termination or distribution to a skipped person).

This is real math. Not theoretical. If you leave $10 million unallocated in a trust, the IRS might collect $17 million in taxes by the time it hits Generation 3 hands. That's why advisors need to explain it clearly, not just to clients—but to their attorneys and CPAs too. The professionals in the room must be aligned, or the client loses.

It's not enough to say "we covered the basics." We must help clients visualize the long-term tax drag of incomplete planning. Show them the numbers. Make the inefficiency impossible to ignore.

Grantor Dies, Taxes Rise

Now let's talk about the ticking tax bomb almost no one sees coming. It is an income tax conversation – NOT about wealth transfer taxes. When a grantor dies, his/her grantor trust becomes a non-grantor trust. That's a problem.

Here's Why:

- Non-grantor trusts hit top income tax brackets at $15,000 in income.
- There's no step-up in basis.
- Future capital gains are taxed inside the trust— creating a significant cost to converting assets into cash.

I had a case where a Delaware Trust has grown to $100 million. The grantor was in his 90's and in poor health. By projecting out income and growth, we estimated nearly the trust would pay $500 million in cumulative taxes by year 57 (life expectancy for Generation 3),and have over $935 million of embedded cap gains. And that's assuming consistent return, minor asset turnover and no major tax law changes. Wow…there has to be a better way to think about this.

Dynasty Trust with $100 million of Assets

The Grantor is 93 and the trust will become a non-grantor trust. How much will the Trust pay in taxes going forward?

Year	Cumul. Tax Pd- Trust	Heirs Cap. Gains @ Dth
1	$0	$14,399,000
40	$141,470,387	$275,732,585
50	$298,856,939	$566,279,854
57	$498,971,799	$935,706,753

* Assumes total return of 8%. Current basis in stock of $45 million. Income tax rates based on current federal rates and no income taxes because of trust situs.

Tax Free Mortality Bonds and Insuring G3

Wealthy clients don't want life insurance. They want control. They NEED cash. So, I reframe the conversation. I call it a **tax-free mortality bond.**[2]

It's not a gimmick. It's just better way of describing a type of asset that can be held in their family dynasty trust. If I say "life insurance," clients think of death benefits. But if I say "this is like a tax-free bond that pays when you need it most," now I've got their attention.

This is great when discussing insurance on Generation 3. The reasons are simple:

- They're young
- They're insurable
- The cost is low
- The leverage is high

What did we do? As an example, we carved off $200,000 annually for five years and showed the purchase of an increasing death benefit life insurance policy on the grantor's 34-year-old grandchild. That policy alone was projected to yield over $50 million tax-free death benefit by life expectancy. Do that 10 times across 10 grandchildren? That's half a billion dollars of tax-free liquidity in the dynasty trust. When comparing that to their taxable portfolio, there is no comparison – including the option for liquidity prior to death through accessing the account value inside the life insurance product.

No step-up needed. No capital gains to worry about. Just tax-free liquidity when the trust would otherwise be starved for cash.

	Asset Amount : Cost Basis	Interest or Short-Term Cap. Gains	Dividend Distribution Return	Long-Term Capital Gains Distributions	Rate of Capital Appreciation Return Distrib.
Asset Amt	$200,000	0.50%	1.00%	1.00%	5.50%
Basis	$200,000	*Total Return 8.00%*			

Non-Grantor
Trust

	Age of	Surv.	Invest in IDGT				Life Insurance in IDGT			
Year	Client	Prob.	Net to Heirs	IRR	Cumul. Tax Pd- Trust	Heirs Cap. Gains @ Dth	Net to Heirs	IRR	Cumul. Tax Pd- Grantor	Heirs Cap. Gains @ Dth
1	34		$212,964	6.48%	$0	$3,036	$3,595,850	1697.93%	$0	$0
40	73	75%	$12,411,587	6.01%	$1,365,980	$2,537,745	$18,296,133	7.93%	$0	$0
50	83	50%	$24,986,877	6.08%	$2,880,685	$5,332,483	$33,339,004	7.57%	$0	$0
57	90	25%	$40,874,663	6.13%	$4,794,383	$8,863,393	$51,274,726	7.41%	$0	$0

Actual results may vary.
This is for illustrative purposes only.

Life insurance requires underwriting. Not all products are available in all states.

Assumes 5 - pay $200,000 Pref. Non-Smoker Rates for Vendor with Protection SVUL., option B. Assumes a gross rate of 8% (subject to expense).

Year	Cash Value
1	$ 194,200.00
10	$ 1,551,251.00
20	$ 3,180,021.00
30	$ 6,640,556.00
40	$ 13,861,750.00
50	$ 28,622,603.00

[2]This is not an actual security and is only used as a way to describe the idea of life insurance for wealth families.

You build bond ladders? Great. Now build one with a death trigger across multiple years, based on the ages of the grandchildren. By reinvesting 2% of taxable dividends into a policy on Gen 3, you've just redirected taxable distributions into tax-free future liquidity.

That's wealth architecture. That's how you preserve family capital for 125 years, not 25.

And remember: these trusts often run out of cash by Generation 3 or 4. That's the failure point of many dynasty plans. No one plans for what happens when the cash dries up.

So, we build trust provisions that encourage life insurance to be considered on the lives of the beneficiaries by the age of 35. If they're insurable, the trust buys the policy. If not, no harm done. Either way, we've planned for sustainability, not just tax efficiency.

State Income Tax – The Silent Killer

Don't ignore the impact of state taxes on dynasty trusts. Why? Because they can be very costly if ignored.

There was a situation where a revocable trust, created by an Illinois resident, became a non-grantor irrevocable trust at the grantor's death. The trust was administered in Iowa by the oldest child and owned a property in New York city. In addition, the other kids located in California and Arizona were named as co-trustees. So, now the question becomes a real question that no one has asked until this moment - which state has the authority to assess tax on the trust? You, as well as many others, may be surprised to find out ALL of them have the opportunity to assess state income taxes on the trust.

The Impact of State Income Taxes

Non-Grantor Trust DE

	Age of	Surv.	Invest in IDGT				Life Insurance in IDGT			
Year	Client	Prob.	Net to Heirs	IRR	Cumul. Tax Pd- Trust	Heirs Cap. Gains @ Dth	Net to Heirs	IRR	Cumul. Tax Pd- Grantor	Heirs Cap. Gains @ Dth
1	34		$212,964	6.48%	$0	$3,036	$3,595,850	1697.93%	$0	$0
40	73	75%	$12,411,587	6.01%	$1,365,980	$2,537,745	$18,296,133	7.93%	$0	$0
50	83	50%	$24,986,877	6.08%	$2,880,685	$5,332,483	$33,339,004	7.57%	$0	$0
57	90	25%	$40,874,663	6.13%	$4,794,383	$8,863,393	$51,274,726	7.41%	$0	$0

Actual results may vary.
This is for illustrative purposes only.

Life insurance requires underwriting. Not all products are available in all states.

Assumes 5- pay $200,000 Pref. Non-Smoker Rates for Vendor with Protection SVUL., option B.

Non-Grantor Trust CA*

	Age of	Surv.	Invest in IDGT				Life Insurance in IDGT			
Year	Client	Prob.	Net to Heirs	IRR	Cumul. Tax Pd- Trust	Heirs Cap. Gains @ Dth	Net to Heirs	IRR	Cumul. Tax Pd- Grantor	Heirs Cap. Gains @ Dth
1	34		$212,282	6.14%	$0	$3,718	$3,595,850	1697.93%	$0	$0
40	73	75%	$11,285,748	5.53%	$1,619,175	$2,907,050	$18,296,133	7.93%	$0	$0
50	83	50%	$22,344,191	5.62%	$3,371,649	$6,029,655	$33,339,004	7.57%	$0	$0
57	90	25%	$36,151,599	5.67%	$5,559,762	$9,928,493	$51,274,726	7.41%	$0	$0

*Calculation assume no distribution and, therefore, no deductions for Distributable Net Income (NDI).

State income tax rules are often more complex than federal ones. They vary by trustee residence, place of administration, location of assets, and even beneficiary domicile. If you're not coordinating all of that, you're leaking wealth out the back door. As seen by the difference in value to heir for a California Trust vs. Delaware Trust. (This is not taking into account the throwback tax CA access for accrued income later distributed to a CA beneficiary.)

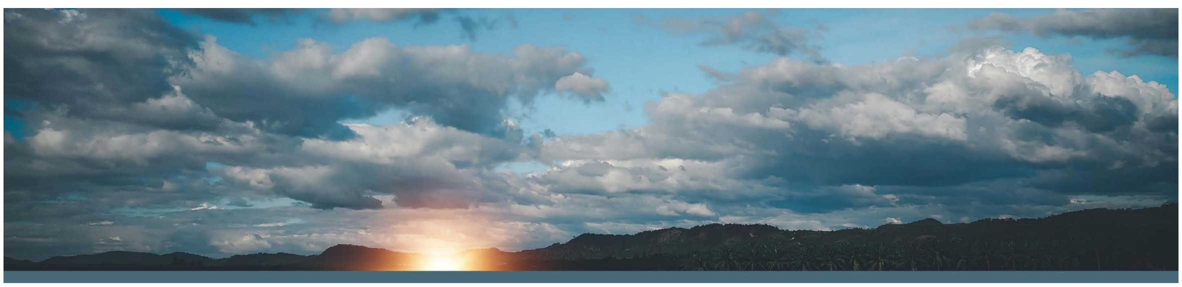
Use the ACTEC state income tax matrix. It's one of the most valuable (and underutilized) tools in the estate planning world.

Final Thought: The Time to Act Is Now

Here's the truth: wealth transfer planning is never done. It's not static. It's not a binder to shelve.

If you're not actively reviewing existing plans, you're missing the most valuable opportunities. The exemption is high—for now. Split-dollar is flexible—when designed well. Income tax drag is real—and growing.

The advisors who thrive in this environment won't be the ones who sell the newest strategy. They'll be the ones who explain clearly, collaborate effectively, and help clients take action before the rules change (because they will change again).



PREVIOUS PLANNING	PLANNING NOW	NO PLANNING
• Review current structure for proper compliance • Add leverage where possible • Consider the income tax impact on prior transfers	• Use structures that are not large gifts • Look to add leverage • Realize assets don't get a step up in basis	• Don't talk about large gifts • Sale to IDGTs • Multiple notes (forgive along the way) • Impact to them, not others

You don't need to change everything. But you do need to reassess everything.

Start with what's already been done. That's where real planning begins.

*As Vice President of Advanced Markets, **Michael Amoia** works to implement advanced wealth transfer and business planning techniques that leverage the use of life insurance. With over 30 years of experience and a deep understanding of complex estate planning techniques, Mr. Amoia works closely with both our back-office life insurance case design and financial planning teams to create client deliverables that help illustrate how these techniques and strategies can maximize the ability for clients to efficiently transfer intergenerational wealth. Mr. Amoia is a frequent national speaker on various estate planning topics and an author of numerous industry articles. He is also a Chartered Life Underwriter® (CLU®), Chartered Financial Consultant® (ChFC®), Juris Doctor (JD) which he earned from University of Baltimore's School of Law, and holds a LL.M in Taxation and Certificate in Estate Planning from Georgetown University Law Center. Michael does not practice law in his current role and cannot give tax or legal advice.*

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