Advanced Planning: The power of omission - OBBBA three things

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Presenter: Hello, this is David Szeremet. It with the Advanced Planning team here at AuguStar Financial. And today I want to discuss three items that were not changed under the One Big Beautiful Bill Act.

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Presenter: A little bit of a different spin, I'll admit. But, you know, we've heard we've heard all the things about the income tax, you know, the brackets being made permanent and the rates being made permanent. We've heard about the senior bonus deduction, no tax on Social Security. We've heard about no tax on tips, no tax on overtime, lots of new changes or exciting things going on. We've also heard about the estate tax exclusion being increased to $15 million dollars in 2026, and that also being made permanent. So, there's no sunset provision on it. But you know, let me give you some talking points where you can separate yourself from other advisors, because I think there are three significant items that are not being talked about right now because quite frankly, they were not addressed in the One Big Beautiful Bill act.

But they remain, what I would call, you know, top three planning issues. The first one is stepped-up basis. Now stepped-up basis is a tax planning principle which says, when someone passes away, assets that pass through their estate generally receive a stepped-up basis for tax purposes to the fair market value at the time of death. Now, not all assets qualify for stepped-up basis.

Certain assets like IRAs, 401(k)s, income in respect of a decedent, non-qualified annuities. There are a few assets that do not receive stepped-up basis, but virtually everything else does and that can really benefit future generations when those assets are sold. So, by way of example, if, let's say mom owned the old family farm in the family farm, which was originally purchased for $10,000, is now worth $10 million.

And mom passes away when that farm passes through mom's estate, its basis is stepped-up to $10 million. It's fair market value. So, if that farm is then sold, we're talking about no capital gains or income taxes because of stepped-up basis. So stepped-up basis is one of those issues you should be talking to all of your clients about, because virtually everybody can benefit from stepped-up basis.

You know, the estate tax exclusion amount of $15 million is sexy. It's fun to talk about, but let's be honest, not many people have estates of $15 million. It's only 0.13% of deaths in the United States, the 0.13 percenters. So that issue, while important to some clients, will not be important to most of your clients. Stepped-up basis, everybody can benefit from. So, keep talking about that issue. It did not change under the One Big Beautiful Bill act.

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Presenter: The second item I want to talk about is portability, the ability of a deceased spouse's unused gift or estate tax exclusion amount to be transferred to a surviving spouse.

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Presenter: So, if you have a married couple at the first death, as long as a timely federal estate tax return is filed and properly filled out, the executor of the estate can elect portability, which will then transfer over that unused, let's say, $15 million exclusion to the surviving spouse.

So, in essence, with portability, you can double an exclusion amount. You know, taking it from $15 million to $30 million in 2026. So, portability was not touched under the One Big Beautiful Bill Act. But you don't hear about it in the press because it's not a new change. But it's still crucial for your clients out there who are engaged in estate planning.

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Presenter: Then finally, the third item is what I would call life insurance as a tax advantage, Swiss Army knife. Okay.

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Presenter: Usually when we see tax cuts or tax law changes, there is the risk that the government will tax insurance companies or insurance consumers as a way to pay for the other tax cuts. But if you look at the One Big Beautiful Bill Act and all 870 pages of it, there were no new taxes on either life insurance consumers, so no consumer level taxes.

There were no new taxes levied against carriers, which sometimes unfortunately happened. And those taxes ultimately get passed down to consumers. And there is no new tax on inside buildup of cash value in life insurance. So again, I call that the trifecta. No consumer level taxes, no carrier level taxes, and no product specific taxes. So, there you have it. Three advanced markets concepts I want you to talk about with your clients today because quite frankly, you're just not hearing about it in the press. We're not hearing about stepped-up basis being maintained, which we can all benefit from. You're not hearing about portability being maintained, which is a very, very powerful tax planning feature for wealth transfers and estate planning markets.

And of course, the power of life insurance continues, as it always has, without any new tax attacks. So, let's get out there, talk about those issues, separate yourself from other advisors and help your clients; go get them!

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