

Advanced Sales Professional Guidance on Tax Changes – 9/14/2021

Update on estate and tax changes

Potential changes to grantor trust rules

The Advanced Sales team has been anticipating estate and gift tax changes that could happen at any time this year. On September 13, 2021, the House Ways and Means Committee released legislative language relating to the revenue provisions of the budget reconciliation legislative recommendations. Some of the tax provisions in the House Reconciliation bill have an effective date linked to the date of enactment of the bill. It is difficult to know how soon the bill may be enacted, but it could be as soon as the next few weeks. Of particular concern are these proposed changes:

- **Provision Impacting Grantor Trusts.**

- (1) Assets held in a grantor trust would be included in the decedent's taxable estate when the decedent is the deemed owner of the trust (i.e. the grantor of the trust).

- (2) Sales between a grantor trust and its deemed owner (i.e. the grantor) would be treated as sales between the owner and a third party.

- These provisions would be applicable for trusts created after the date of enactment and to any portion of a pre-existing trust attributable to a contribution made after the date of enactment.

- To avoid this, new grantor trusts must be created and funded before the effective date.

- **Contributions to existing grantor trusts** after the effective date of the provision will cause that portion of the trust to be impacted by the new rule and possibly lose grandfathering under the current rules.

- The focus on contributions strongly suggests that an existing grantor trust could still purchase assets from the grantor (at fair market value).

- This further suggests that an existing grantor trust could also enter into a private split dollar arrangement with the grantor.

- **Valuation discounts** would no longer be available for non-business assets transferred after the effective date. Valuation discounts would continue to be available for the transfer of interests in business assets.



For more information on how to prepare your clients for these changes, contact the Life Advanced Sales team at 800-832-5372 or AdvancedSales@LFG.com.

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