



Client Tax Letter

Tax Saving and Planning Strategies *from your Trusted Business Advisor*sm

July/August/September 2014

Citation and Resource Guide

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Juggling Appreciated Assets and Bequests

- The IRS explains the calculation of basis for inherited property in Publication 551, Basis Of Assets, p. 9, at www.irs.gov/pub/irs-pdf/p551.pdf.

How Inherited Assets Differ From Gifts

- The IRS explains the calculation of basis for gifts and inheritances in Publication 551, "Basis of Assets," pp. 8-9, at www.irs.gov/pub/irs-pdf/p551.pdf.

Mixing Annuities and IRAs

- The IRS covers distribution of an annuity contract from an IRA in Publication 590, Individual Retirement Arrangements (IRAs), p. 50, at www.irs.gov/pub/irs-pdf/p590.pdf.

Making Expense Accounts Accountable

- The IRS explains the rules on accountable plans in Publication 463, Travel, Entertainment, Gift, and Car Expenses, p.30, at www.irs.gov/pub/irs-pdf/p463.pdf.

Don't Waste 529 Tax Benefits

- The IRS explains the taxation of Qualified Tuition Programs in Publication 970, Tax Benefits for Education, on p. 52, at www.irs.gov/pub/irs-pdf/p970.pdf.

Business Owners Get More Bang From Flex Plan Bucks

- IRS Notice 2013-54, which explains how the Affordable Care Act affects FSAs and other health plans, is at www.irs.gov/pub/irs-drop/n-13-54.pdf.

Practice Development Tip

Caution About a Crummey Crunch

For nearly 50 years, "Crummey" notices have been used to reduce the gift tax impact of moving money into trusts. The name comes from a landmark court case decided in 1968. According to President Obama's federal budget proposal for 2015, the Crummey procedure has been abused, so loophole tightening is necessary.

In essence, the Crummey procedure is designed to allow gifts to trusts to qualify for the annual gift tax exclusion, now set at \$14,000 per recipient. Ordinarily, gifts to trusts don't qualify because trust beneficiaries have a *future* interest in these gifts. However, by giving the trust beneficiaries a chance to withdraw the funds, they have a *present* interest, courts have ruled, so the annual exclusion applies.

In a simplified example, John Smith establishes a life insurance trust for his three children, who are the trust beneficiaries. John transfers \$42,000 to the trust. Then the trustee notifies each child that he or she can withdraw up to \$14,000 in the next 30 days.

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If 30 days pass without any withdrawals, the trustee can use the \$42,000 to buy insurance on John's life, payable to the trust. There will be no gift tax consequences because the transfer to the trust is covered by three \$14,000 exclusions. (As mentioned, this is a brief explanation; for the Crummey procedure to succeed, the trust must be drafted by a knowledgeable attorney.)

So where does practice development come in? The Obama Administration has asserted that Crummey notices have gone to extremes, with some trusts structured to have many beneficiaries and thus qualify for annual gift tax exclusion in the six figures. The president has proposed eliminating the Crummey procedure and instead would create a new category of transfers, which would include transfers to trusts. Donors would be able to transfer up to \$50,000 (per donor) in this new category, and transfers to trusts would qualify for the annual gift tax exclusion without granting the beneficiaries Crummey withdrawal rights. Transfers over \$50,000 would be subject to gift tax, even if the total gifts to each recipient did not exceed \$14,000.

Therefore, the current uncertainty about Crummey notices provides you with an excellent opportunity to schedule meetings with wealthy clients who are engaged in estate planning. Let them know that they might want to establish a trust to use the Crummey procedure now, if that has been under consideration, while the opportunity exists.

Moreover, you can inquire about their plans to use trusts in their estate plan, and how they'll fund those trusts. Make sure your clients know about the services you can provide, such as tax planning when trusts are established and tax accounting once the trusts have assets that generate income.

Practice Development and Management Resources

from the AICPA

For more information or to order, log on to www.cpa2biz.com or call 1.888.777.7077.

CPA Firm Mergers & Acquisitions: How to Buy a Firm, How to Sell a Firm, and How to Make the Best Deal

- Arm yourself with the information you need to execute a win-win deal. This comprehensive resource from transition experts Joel Sinkin and Terrence Putney identifies the key elements involved in the successful purchase, sale, or merger of CPA firms. Written with both buyers and sellers in mind, the advice in this book aims to ensure that both parties to a transaction achieve their goals.

[Item nos. PPM1304P—AICPA Member \$59.00, Nonmember \$73.75 and PPM1304E—AICPA Member \$53.00, Nonmember \$66.00]

Leading an Accounting Firm: The Pyramid of Success

- Build a stronger firm with this new guide to CPA firm leadership. Leading an Accounting Firm teaches you how to improve your personal leadership and build great leaders around you by guiding you through the essential ideas and practices that are at the core of great leadership and great firms.

[Item no. PPM1201P—AICPA Member \$57.00, Nonmember \$71.25]

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