WealthTec® Suite Updates

Highlights of each 2018 **WealthTec Suite** update are listed below.

v2018.19 – 11/02/18

- In EstatePro, you can now terminate the cash flow illustrations earlier than on the basis of the client's and spouse's life expectancies. The calculations are unaffected, but the senior generation's reports can be limited to, say, 10-15 years rather than being projected automatically to the first and second deaths.
- In EstatePro, all or a portion of each asset-based investment income sequence, along with planned distributions/dispositions from assets/accounts can now be allocated to heirs in addition to (or in lieu of) the senior generation.

v2018.18 – 10/18/18

- You can now export recommended capital market assumptions (CMAs) from Pinnacle to the strategic planners (i.e., Cash Flow & Estate Planner [CFEP], EstatePro, Synergy) without completing any of the asset grid on the Pinnacle: Current Portfolios & Asset Allocation for Strategic Planning screen. Before the update you could have portfolios with zero values and the recommended CMAs would still be exported. However, you did have to enter portfolio descriptions to trigger the CMA export. Bottom line is that the updated approach is far more useful and user-friendly.
- In EstatePro, Asset 26 did not prorate current-year income and growth properly (i.e., when the proration toggle was set to "Yes"). This update fixes that error.

v2018.17 – 08/24/18

- In the CFEP if you've set up the computation of current-year estimated tax payments on the basis of prior-year tax liabilities, the program offsets the total estimated payment requirements by the amounts withheld from vesting employer stock (i.e., restricted stock, RSUs, PSUs, etc.), so that the net result is the amount of current-year cash outflows for estimated payments. The total then of cash and employer stock used to make current-year estimated payments equals the target percentage of prior-year tax liabilities.

v2018.16 – 08/03/18

- In the CFEP you can set up a second disposition of the principal residence (i.e., typically this will be a disposition of a second principal residence, which would be acquired following the disposition of the existing home).

v2018.15 – 07/27/18

- In some situations where the required distribution from a charitable remainder trust exceeded the aggregate of current-year taxable income/realized capital gains plus the undistributed taxable income/realized capital gains from prior years the Medicare surtax/net investment income tax owed by the noncharitable beneficiary was understated. This update fixes the error. The CFEP, EstatePro, CRAT Planner, CRUT Planner, FlipCRUT Planner and NIMCRUT Planner were affected.

v2018.14 – 07/22/18

- EstatePro now supports a multiyear transfer sequence to a NIMCRUT. This can be useful in illustrating a supplemental post-retirement income program where the transferor has already

reached the limits of employer-sponsored qualified plans (with or without supplemental nonqualified plans) and has charitable intent.
- In EstatePro if you're modeling a private foundation on the EstatePro: Other Charitable Transfers screen you can now apply the federal excise tax (i.e., 1-2%) to the entity's net investment income (please refer to IRC §4940 for details).

v2018.13 – 07/09/18

- In the CFEP, on the Cash Flow & Estate Planner: Other Large Lifetime Transfers screen you can model periodic and one-time distributions from a trust (e.g., IDGT or SLAT). Furthermore, these distributions can be included or excluded from the senior generation's cash flows at your discretion.
- The digital signatures and timestamps applied to **WealthTec** code, dll files, executables, VBA modules and xll files were all updated.

v2018.12 – 06/16/18

- In EstatePro ownership options now include "Community-C" and "Community-S," which are for the "Qualified plan" *Asset Type* (i.e., qualified retirement plans, traditional/rollover IRAs, SEPs and SIMPLE plans/accounts). Selecting either of these forms of ownership causes the program to compute RMDs according to the appropriate schedule while also treating the plan/account as community property for estate tax purposes.
- EstatePro has adopted a lifetime gifting ordering scheme for purposes of determining the availability of the applicable exclusion amount (AEA) available for utilization at the time of gifting, assuming the targeted gift is the AEA. In this manner, you could set up taxable gifts to, say, an irrevocable life insurance trust and an outright gift fund and the total taxable gifts for a particular year would not exceed the transferor's AEA (+/ gift splitting), assuming the targeted gift(s) were each equal to the transferor's AEA (+/- gift splitting). (This convention does not limit your ability to model gifts in excess of the AEA, if triggering a gift tax liability is intentional.)

v2018.11 – 06/15/18

- In EstatePro you can model life insurance policy loans (collateralized by policy cash values) where the objective is to supplement the senior generation's cash flows in a tax-efficient manner. This new feature supplements the existing policy cash value distributions feature, so now you can model a policy loan sequence followed by cash value distributions or vice versa quite easily.
- In the CFEP the deceased spouse unused election (DSUE) amount inherited from a prior spouse (i.e., that which predated the analysis) was not being accounted for properly with an unmarried client or on the first death of a married couple when a bypass trust was funded. This update corrects those errors.

v2018.10 – 05/18/18

- In the CFEP there is a new option to have restricted stock/restricted share units (RSUs) settled in cash upon vesting, similar to the section for other nonvested employer stock or units (e.g., performance shares).
- In the CFEP annual gifts can be limited to the lesser of an amount you enter or the total available gift tax annual exclusion amounts. Before this update annual gifts were automatically computed on the basis of the gift tax annual exclusion amounts available.

v2018.9 – 05/02/18

- In EstatePro the *Taxable Gains %* input percentages should be ignored by the program—they should be automatically assigned a value of 0%--when the *Asset Type* selection is "Qualified plan," "Inherited IRA," etc. (i.e., a tax-deferred/tax-free plan or account). In v2018.1 – v2018.8 the program used your input assumptions. However, since the defaults for *Taxable Gains %* are set to 0% the error corrected by this update should not arise under normal circumstances.
- Similarly, in EstatePro, the *State Taxable Income %* input assumption should be automatically 0% for assets/accounts described above. This update automatically makes these values 0% in lieu of whatever input assumptions are in place.

2018.8 – 04/18/18

- In the CFEP the net tax liability was not being offset by share withholdings associated with the vesting of restricted stock, RSUs and other equity-based compensation. This update fixes that error.

v2018.7 – 03/29/18

- **WealthTec Suite**'s Monte Carlo simulations (MCS) frequency distribution charts were being displayed with the y-axis values truncated or obscured in many situations. Incredibly, Excel® makes precise resizing of chart plot areas impossible without resorting to custom macros. **WealthTec** fortunately was able to overcome the obstacle, so that these charts are now properly displayed. The CFEP, EstatePro, Synergy and the Portfolio Simulation Planner were impacted by these MCS chart adjustments.
- EstatePro computes the federal standard deduction, so that below-the-line deductions each year are equal to the greater of the standard deduction or itemized deductions.
- On the EstatePro: Expenses screen you can select "Above the line" as a deductible expense category and these are reflected on the Income Tax Illustration summary report.

v2018.6 – 03/14/18

- **WealthTec Suite** adds the LifeGift Planner, a tactical estate planning tool.
- With the LifeGift Planner you can illustrate annual gifts (limited by the available gift tax annual exclusion amounts), as well as larger, one-time gifts (limited by the transferor's applicable exclusion amount). Gift-splitting, valuation discounts, income shifting and more are reflected in the reports. This planner can be useful in illustrating the potential benefits of making a lifetime gift equal to the additional basic exclusion amount (BEA) granted under TCJA (i.e., $5,590,000 in 2018).

v2018.5 – 03/05/18

- In Rev. Proc. 2018-18, the IRS announced that the BEA for 2018 for estate, gift and generation-skipping transfer tax purposes is $11.18 million.
- This update affects Pinnacle, CFEP, EstatePro, Synergy, CLAT Planner, CLUT Planner, GRAT Planner, GST Gift Planner, IDGT Planner, OptiMarital Planner and QPRT Planner.

v2018.4 – 02/12/18

- Until further guidance is published by Treasury, there is a question as to whether the DSUE amount inherited by a surviving spouse will be clawed back after 2025 (i.e., assuming the basic exclusion amount or BEA drops back to its pre-TCJA level, indexed for inflation). A new input item gives you control over the DSUE clawback question in the CFEP, EstatePro, OptiMarital Planner and Synergy.

- In EstatePro, when you activate a "current death scenario" and turn off asset transfers, purchases and additions, etc. the program automatically zeroes out purchases and additions. Before this update you had to manually zero them out.

v2018.3 – 02/08/18

- In EstatePro you can set up a qualified business income (QBI) deduction sequence on the EstatePro: Expenses screen (i.e., as a noncash expense). This is a simple way of accounting for a deductible QBI sequence and is in addition to (or in lieu of) the detailed and more accurate approach set up on the EstatePro: Asset Investment Returns/EstatePro: Qualified Business Income Deduction screens.

v2018.2 – 01/25/18

- In the v2018.1 update I introduced an error in EstatePro, whereby trusts and other funds in the lifetime gifting section were taxed as grantor trusts when they should have been taxed as nongrantor trusts and vice versa. Only v2018.1 was affected. This update corrects the error.

v2018.1 – 01/15/18

Tax Cuts & Jobs Act of 2017

In late December 2017 the Congress passed, and President Trump signed, The Tax Cuts and Jobs Act of 2017 (TCJA), the most significant legislative overhaul of the Internal Revenue Code (IRC) since the Reagan-era Tax Reform Act of 1986. Passing both houses of Congress without any Democratic Party Congressional support, this strictly GOP-penned tax legislation will have far-reaching consequences for the federal budget and the U.S. economy for years to come. However, there is no consensus on what those consequences will be. Suffice it to say that all U.S. households, domestic and multinational businesses will be directly (and indirectly) impacted.

As with all significant tax legislation there will be winners and losers. However, given the overwhelming complexity of most of TCJA, many taxpayers won't know the extent to which their taxes will rise or be reduced until they crunch the numbers. This is where you and **WealthTec** come in. As always, **WealthTec** has put considerable thought and effort into incorporating the major provisions of TCJA into **WealthTec Suite**.

DISCLAIMER: Please keep in mind that given the speed in which TCJA made its way through the House, Senate and Conference Committee—with essentially no debate, hearings, etc.—before landing on the president's desk, that technical corrections to this legislation are expected. Furthermore, we anticipate that future guidance from the U.S. Treasury Department will be necessary to clarify certain matters. Accordingly, **WealthTec** will publish additional **WealthTec Suite** updates during 2018 and beyond that specifically address some of the present uncertainties associated with TCJA as those errors are corrected and uncertainties clarified.

The centerpiece of TCJA—its raison d'être—is the permanent reduction of the federal corporate tax rate to a flat 21% of taxable income, along with the elimination of the corporate AMT, effective for years beginning in 2018. The magnitude of this massive tax cut required Congressional tax writers to get creative (putting it kindly), in order to offset much of the corporate tax cut's cost. Then, once the myriad other provisions affecting corporate and noncorporate taxpayers were factored in—some revenue raisers, some revenue losers—the GOP-controlled Congress resorted to downright budget gimmickry (e.g., sunsetting most of the provisions affecting noncorporate taxpayers after 2025), so that the projected net cost to the U.S. Treasury was kept within the $1.5 trillion deficit limit set during the House and Senate budget reconciliation process. This was designed so that the legislation could pass the Senate on a simple majority vote basis, thereby avoiding violation of the Byrd Rule.

Just as we did with the Bush-era Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA 2001) and the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA 2003), **WealthTec** has addressed the future uncertainty regarding the post-2025 projection period for noncorporate taxpayers by giving you the flexibility of following the law as it stands today (i.e., reverting to pre-2018 law in 2026 and beyond) or by permanently extending the provisions of TCJA that would otherwise expire after 2025. We've done this by including one, two or all of the following input selections in the planners affected by TCJA:

- *Tax laws to apply – income taxes*
- *Tax laws to apply – QBID*
- *Tax laws to apply – estate, gift & GST*

For each of the inputs above you can select "Sunset" or "No sunset." Selecting "Sunset" causes the pertinent provisions of TCJA to expire after 2025, while selecting "No sunset" converts what are presently temporary tax provisions into permanent law (i.e., for the duration of your **WealthTec Suite** illustrations). NOTE: Assuming TCJA has not been superseded by future tax legislation between now and 2025 additional *Tax laws to apply -* <> items may be added down the road for additional flexibility. The rationale for already separating new §199A (i.e., the qualified business income deduction or QBID) from other temporary income tax provisions affecting noncorporate taxpayers is that it's conceivable that given the permanency of the corporate tax rate cut that the pressure to maintain favorable tax treatment for certain pass-through entities will be considerable. We, therefore, leave the prognosticating up to you☺.

Which TCJA Provisions Affect Which Planners?

The written guidance associated with the new tax law is covered in detail in the **System Conventions** sections associated with the various planners, as well as in the **Data Input** sections. Here is a brief summary of what to look for as you work your way through **WealthTec Suite**.

Cash Flow & Estate Planner

- Reduction in individual income tax rates and modification of the tax brackets
- Increase in the standard deduction
- Increase in the AMT exemption and increase in the exemption phaseout threshold
- Suspension of personal exemptions
- Suspension of the Pease limitation of itemized deductions
- Limitation of the state and local tax deduction (SALT)
- Reduction of the maximum amount of acquisition indebtedness associated with first and second personal residences for which interest expense is deductible
- Suspension of the deduction for home equity indebtedness
- Suspension of miscellaneous itemized deductions subject to the 2%-of-AGI floor
- Reduction of the threshold for medical expenses in 2017 and 2018 from 10% of AGI to 7.5% of AGI
- Increase in the charitable contribution deduction base for cash contributions from 50% to 60%
- Implementation of new §199A (i.e., qualified business income deduction or QBID)
- Application of the new flat corporate tax rate of 21% to closely held C corporations
- Increase and modification of the child tax credit
- Doubling of the BEA for federal estate, gift and generation-skipping transfer tax purposes
- Ability to determine whether certain TCJA provisions expire after 2025 or are applied permanently

EstatePro

- Reduction in individual income tax rates and modification of the tax brackets
- Limitation of the state and local tax deduction (SALT)
- Suspension of miscellaneous itemized deductions subject to the 2%-of-AGI floor
- Reduction of the %-of-AGI threshold for medical expenses in 2017 and 2018
- Implementation of new §199A (i.e., qualified business income deduction or QBID)
- Application of the new flat corporate tax rate of 21% to closely held C corporations
- Doubling of the basic exclusion amount for federal estate, gift and generation-skipping transfer tax purposes
- Ability to determine whether certain TCJA provisions expire after 2025 or are applied permanently

Other Planners

- Reduction in individual income tax rates
- Doubling of the BEA for federal estate, gift and generation-skipping transfer tax purposes
- Ability to determine whether certain TCJA provisions expire after 2025 or are applied permanently

NOTE: The reason that the CFEP reflects a significantly larger number of TCJA provisions than EstatePro is simply because the CFEP deals with many more income tax nuances. This has always been the case, by design.