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Welcome to Florida: Timely Tax Strategies for the Wealthy

WRITTEN BY MICHAEL J. UNGER, CFP® AND
JOHN HARRIS, TEP OF CORAL GABLES TRUST

THERE ARE SO MANY REASONS why the wealthy are moving to South Florida. Of course there is our weather, world class sports and beaches, yachting, fishing and golf, not to mention exceptional cuisine, arts and culture but on a less entertaining note we are a state that is increasingly advantaged on a comparative tax basis. South Florida is benefiting from an influx of the ultra-wealthy, from off-shore tax jurisdictions to less tax-friendly states such as New York and California. High-net worth families are incredibly tax sensitive and conscious. As such, relocating allows them to utilize strategies and legal structures that reduce taxes and facilitate growth of their wealth. We will highlight a few more common strategies here.

GIFTING:

Annual gift tax exclusion - Consider giving cash or property to loved ones or others in 2024 to take advantage of the annual gift tax exclusion, which can save you money and spare you from filing gift tax returns. The annual exclusion from gift tax for 2024 is $18,000. For example, if you are married and have two married children and four grandchildren, you and your spouse can give up to $36,000 to each of your children, their spouses, and the grandchildren in 2024 without having to file a gift tax return or pay any tax. Under this scenario, you can give a total of $288,000 in tax-free gifts. Keep in mind that the annual limit is time-sensitive, and the gifts must be made before December 31st, 2024.

Lifetime gift tax exclusion - The lifetime estate and gift tax exemption is scheduled to be reduced by half in 2026. Gifts given before 2026 ($13.61 million or lower per individual) are completely free of the gift tax. Gifts more than the new projected amount ($7 million), given after 2026, will be subject to a 40% gift tax.

Many families have created significant generational wealth by funding various trust structures with minority interest (lack of control) low value discounted interests in businesses that have significant upside. Over time these assets can grow significantly in a trust to benefit future generations while having stayed under the life-time gifting thresholds. The window to make large gifts to your heirs may close soon. Now is the time to review your estate plans and ensure that your wealth stays in the hands of your family and not Uncle Sam's.

FOUNDATIONS:

Foundations are excellent vehicles for families to immediately deduct charitable contributions without having to decide right away which organizations or causes to support. Most foundations start off with several hundred thousand dollars to millions of dollars. Real Estate mogul Jorge Perez and his wife recently donated their One Ocean Avenue condominium to the Miami Foundation. This condo was purchased for $1.90 million and recently sold for $10 million. This strategy sheltered the Perez's from a massive capital gain and allowed the Miami Foundation to reap the full value of the gift. A foundation allows you to deduct the full fair-market value of your contribution. There are many local foundations that can be leveraged to receive an immediate tax benefit without the arduous process of creating your own private foundation such as the Coral Gables Community Foundation or the United Way. For larger situations, charitable trusts and Private Family Foundations also offer significant tax advantages while giving back.

With many provisions from the Tax Cuts and Jobs Act of 2017 set to expire in 2025, it's important to review your estate plan and ensure an effective strategy is in place, given the shape of the tax code moving forward depends not only on the outcome of the presidential election but also on congressional results. It's crucial to review your portfolio to ensure it is properly positioned for potential election volatility.

For additional information, please contact John Harris, Managing Director, at 305-443-2544, or Michael Unger, Vice President/Investment Officer, at 786-292-0310.

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