

# Estate Planning for the Construction Contractor

**Carlo R. Ferri**  
Director, Tax Strategies  
and Construction Industry  
Group Leader  
Kreischer Miller

**Vance E. Antonacci, Esq.**  
Chair, Estate Planning Group  
McNees Wallace  
& Nurick LLC



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# Agenda

1. Current federal estate tax law
2. Possible changes to federal estate tax law
3. Planning ideas



# Polling Question



# Pennsylvania Inheritance Tax

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- No exemption amount
- Tax rate based on relationship
  - 0% for spouses and charities
  - 4.5% for children and grandchildren
  - 12% for siblings
  - 15% for all other persons



# Pennsylvania Inheritance Tax (continued)

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- Life insurance is an exempt asset class
- Real estate in other states is exempt
- Qualified Family Business Exemption



# Pennsylvania Inheritance Tax (continued)

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- Qualified Family Business Exemption
  - Less than 50 EEs
  - Less than \$5m of book value and “Active” business
  - Exists for 5 years or more
  - Transferred to a qualified transferee
    - Spouses, children, grandchildren, siblings, parents, grandparents, aunts, uncles
    - In-laws are not a QT
  - Must operate as family business for 7 years or claw back



# Polling Question



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# Current Federal Estate Tax Law

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- Estate, gift, and generation-skipping transfer tax exemption is \$11.7m per person
- Spouses can jointly use these exemptions (\$23.4m total)
- Tax rate is 40%
- No time limit on trusts (state specific)





# Budget Reconciliation

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- Avoids filibuster in Senate
- Reconciliation measures do not include:
  - Measures that do not affect expenditures or revenue
  - An increase in deficits outside the reconciliation window (max is ten years)
- Used to pass parts of Obama Care and many tax acts



# Potential Changes to Tax Laws

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- Income Tax
  - Top tax rate increase to 39.6%
  - Capital gains taxed as ordinary income (\$1m)



# Potential Changes to Tax Laws (continued)

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- Estate Tax – worst-case scenario
  - \$3.5m estate and GST tax exemption per person
  - \$1m gift tax exemption
  - 45%-77% tax rate
  - No basis step-up at death
  - Deemed sale of assets at death or upon gift
  - Elimination of valuation discounts
  - Trusts could last no more than 21 years
  - Assets in Irrevocable Grantor Trusts subject to estate tax  
(for transfers to the trust after law changed)



# Potential Changes to Tax Laws (continued)

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- Estate Tax – likely scenario
  - \$5m estate, gift, and GST tax exemption per person
  - Rate increase for “larger” estates
  - No basis step-up at death
  - Deemed sale of assets at death or upon gift
  - Elimination of valuation discounts
  - Trusts deemed to terminate every 30-50 years or 21 years after death of beneficiary
  - Assets in Irrevocable Grantor Trusts subject to estate tax (for transfers to the trust after law changed)



# Polling Question



# Planning Opportunities

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- Review your estate plan
  - Check your fiduciary appointments – executor, trustee, guardian, and agent
  - Powers of Attorney signed after January 1, 2015
  - Beneficiaries are current
  - Matching up non-probate beneficiary designations with estate plan heirs



# What to do?

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- Utilize gift tax exemption by year-end
  - “Use or lose it”
  - Ancillary considerations
    - Bonding
    - Lenders
- Spousal Trusts
  - Benefit spouse for life
  - Protect against retroactive tax law changes
  - Reciprocal Trust doctrine



# Polling Question





# Life Insurance

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- Three uses of life insurance:
  - Income replacement
  - Payment of death taxes
  - Funding buy-sell agreements



# Life Insurance (continued)

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- Review policies –
  - to confirm policies are still needed
  - to confirm whether you have enough coverage
  - to assess whether term life insurance should be converted
- Get “in-force illustration” for whole life or universal life policies to confirm viability of policy
- Funding life insurance trusts (if law changes)
- Buy term life insurance?



# Questions?



# Contact the Presenter

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**Carlo R. Ferri**  
**Director, Tax Strategies**  
[cferri@kmco.com](mailto:cferri@kmco.com)

Carlo has extensive experience providing tax and business advisory services for privately-held companies in various industries including manufacturing, distribution, and construction. He helps these companies, including their owners and key executives through the various cycles (i.e., growth, maturity, exit) of their business related to corporate and individual tax matters, as well as representing them in front of the IRS.



# Contact the Presenter

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**Vance E. Antonacci, Esq.**  
**McNees Wallace & Nurick LLC**  
**[vantonacci@mcneeslaw.com](mailto:vantonacci@mcneeslaw.com)**

As Chair of the McNees Estate Planning Practice Group, Vance concentrates on the areas of estate planning, business succession planning, and estate and trust administration. He represents business owners, executives, professionals, and other individuals in all phases of estate planning, including the preparation of wills, various types of trust agreements, charitable planning, and family limited partnerships. In addition, he provides advice on buy-sell agreements and the structuring of business transactions such as asset sales, stock sales, and mergers.



# About Kreischer Miller

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Kreischer Miller is an accounting, tax, and business advisory firm that has been serving clients since 1975. We've built our firm to respond to the unique needs of growth-oriented private companies, helping you smoothly transition through growth phases, business cycles, and ownership changes. The companies we work with need to be able to quickly adapt and respond to changing market opportunities and challenges. That's why our focus is on being responsive, decisive, and forward-thinking. We're up to the challenge—always looking at the road ahead, not in the rear-view mirror.

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