



THINK FORWARD

BRIDGES INVESTMENT MANAGEMENT | QUARTERLY NEWSLETTER **APRIL 2017**

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Welcome to the Bridges Investment Management Quarterly Newsletter – Think Forward. Our goal is that this newsletter will be a useful tool to keep in touch with you.

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Thanks and happy reading!

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EDSON L. BRIDGES II INDUCTED INTO OMAHA BUSINESS HALL OF FAME



On April 19, 2017, the Greater Omaha Chamber of Commerce inducted seven Omaha-area business leaders into the Omaha Business Hall of Fame. This year's honorees included Edson L. Bridges II, founder of Bridges Investment Counsel, Inc., Bridges Investment Fund, Inc. and Provident Trust Company.

Edson's life has been defined by several pivotal moments: his coming to faith as a child, his years at Deerfield Academy in Massachusetts, and summers spent working on a Vermont dairy farm. "That gave me an insight into the fact that you can work hard and still enjoy life. ...It's a foundation stone that came into play later in life," he said.

After earning his B.S. in Business Administration from the University of Nebraska and M.B.A. from the Harvard University Graduate School of Business Administration, Edson returned to Omaha to begin his career in the wealth management field in 1959 when he joined

his father's investment advisory business. "We had maybe 10 or so families that dad had as clients, so maybe there's 20 portfolios, but the total fee income in 1959 was \$8,000. The next couple of years were \$13,000, \$19,000, \$24,000 and then \$33,000," he said.

In 1963, Edson successfully organized and launched Bridges Investment Fund, the first Nebraska-based mutual fund to be registered under the Investment Company Act. "That's an important piece of work," Edson remembers, "because we had to do it on a shoestring."

In 1990 Edson saw the need for an independent trust company to provide trust services in and around the Omaha area. On March 11, 1992, through Edson's hard work and vision, Provident Trust Company was chartered by the Nebraska Department of Banking and Finance to conduct business as an independent trust company.

"IT'S JUST INGRAINED IN ME TO DO WHATEVER IT TAKES TO GET THE JOB DONE." *Edson L. Bridges II*

Faith, honesty and integrity have been the cornerstones on which Edson built his business. "To be able to earn people's trust, you always have to be sure you tell them the truth," he said. "And you also have to be in a position where you can go the extra mile." The result of that dedication has been incredible growth. Today, Bridges Investment Counsel and its affiliated entities provide investment management services for nearly \$1.7 billion in assets for clients in 26 states. Edson credits his son, Ted, President and

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CEO of Bridges Investment Management, who joined the firm in 1982, with much of the success the Bridges companies have enjoyed. "He's really the boss now and wants to be the boss," Edson said. "You have to feel good about that."

Although Edson remains active in the business, he describes himself as 5/8 retired now. An active philanthropist, he finds time to serve as a director or member of various boards and organizations, including Nebraska Methodist Hospital, the University of Nebraska Foundation and First Covenant Church of Omaha. "Volunteerism is a big thing," he said. "I feel so privileged to be on the boards I've served on."

As for his greatest personal reward? That, he says, is being married to his "honey," Sally, for 61 years. "So that's the most important thing," he said. "I think the other reward is all of the

people I've been privileged to meet and all of the opportunities people have given me."

Omaha Business Hall of Fame inductees are community and business leaders, past and present, whose work stands as a testament to their innovative thinking, business leadership, and never-say-never commitment to their industry and community. Edson joins a prestigious list of past inductees, including, Berkshire Hathaway Chairman Warren Buffett, Nebraska Furniture Mart Founder Rose Blumkin, Boys Town founder Fr. Edward Flanagan, and former Peter Kiewit Sons' Chairman and President Walter Scott, Jr.

For more information about the Omaha Business Hall of Fame please visit the Omaha Chamber of Commerce website at www.omahachamber.org.

THE FUTURE OF THE FEDERAL ESTATE TAX

BY BRIAN R. MILES

Just a few short months into the presidency of Donald J. Trump we find ourselves right where many thought (or at least hoped) we would be with respect to the federal tax regime for the transfer of wealth. Where's that you ask? Well, at the precipice of what appears to be the possibility of significant changes to, or maybe even the outright repeal of, the federal estate and generation-skipping ("GST") tax.

Given that the Republican majority in the House and Senate all support some restructuring of the tax system, it seems probable now with Republican control of the White House that adjustments to the transfer tax system could come as part of a broader tax reform effort. In fact, the new administration in Washington, supported by Republican majorities in Congress, has pledged substantial changes to federal tax laws and regulations. President Trump's plan calls for the outright elimination of the "death tax," which refers generally to the federal estate and GST tax, and may include the gift tax as well. While good news for those considering strategies to transfer wealth, the recent conflict in Washington D.C. over healthcare reform has left the estate planning of many mired in uncertainty.

Until the fate of tax reform is resolved, individuals and families who are affected by transfer taxes are left with the dilemma of just how to plan. As of this writing it remains unclear whether the current system will be replaced by some other revenue-raising measure, which would require alternative income tax planning, or if there is a flat-out repeal, whether it will "sunset" as it did back in 2010, or remain permanent. Unfortunately the answer is unknown.



What is known, however, is that the climate is probably right for some sort of change to the transfer tax system. Whatever form it might ultimately take it is far from assured and there remains plenty of uncertainty as to timing and design. A discussion of the possibilities is beyond the scope of this article. Instead, let's focus on a few strategies that you might want to consider in the meantime.

But before we do, I'd be remiss if I failed to point out that relatively few Americans are affected by the current estate tax because it applies only to individuals transferring more than \$5.49 million, and to married couples transferring twice that amount, or \$10.98 million. But just because the exemption amount has increased to \$5.49 million doesn't mean that you should forget about gift and estate tax management. With a handful of states imposing their own estate or inheritance tax, and the possibility of repeal of the federal estate tax

on the horizon, having a plan for strategically transferring assets can help make sure that you maximize the amount of money that you pass to your heirs while minimizing the amount of taxes that you and they have to pay.

So what strategies should you think about utilizing to transfer assets to the next generation? Here are just a few of the available techniques that might be considered:

The Basics: Take Advantage of the Annual Gift Tax Exclusion

The annual gift tax exclusion allows clients to gift up to \$14,000 per year (in 2017) to as many beneficiaries as they choose, without affecting their lifetime gift and estate tax exclusion amount. For example, if you have three children, you could make a \$14,000 tax-free gift to each of them, for a total of \$42,000. And if you're married, your spouse can make the same gifts to double the amount gifted (now \$84,000), all free of tax.

A Traditional Strategy: The ILIT

The \$14,000 annual gift tax exclusion can be used outright or as part of more complex strategies designed to minimize the value of your gift and maximize your tax exemption. With an irrevocable life insurance trust (ILIT) you can use the annual gift tax exclusion to purchase a life insurance policy (or pay annual premiums) and the value of the policy will be excluded from your taxable estate. This strategy remains a solid technique for using annual exclusion gifts to provide a significant wealth replacement for your family after your death.

A More Complex Strategy: Split-Interest Gifting

Although more complicated, high net worth families and individuals who want to gift more than just the annual exclusion amount may want to consider split-interest gifting. In a low interest rate environment, this technique is especially useful. Here are two simplified examples of the split-interest gifting strategy:

The first is through a vehicle called a Grantor Retained Annuity Trust (GRAT). The GRAT is a popular planning technique because it can offer a significant reduction in the gift tax value

of transferred assets. For example, if you want to gift to your children more than your annual exclusion amount and minimize tax on the transfer, a GRAT could be a useful tool. As the grantor, you will receive an annual income payment from the GRAT for a term of years based on the IRS withdrawal rate. At the term's end, the remaining assets in the GRAT will go to the trust beneficiaries (e.g., children).

For tax purposes, the taxable amount of the gift is the fair market value of the property transferred to the GRAT minus the value of the retained annuity interest. If the GRAT assets produce a return greater than the IRS withdrawal rate, the appreciated value can be transferred to the beneficiaries (and out of your estate) without further gift tax consequences.

For the philanthropically inclined, the Charitable Lead Trust (CLT) provides the ability to give to charity while shifting assets to beneficiaries and minimizing taxes. With a CLT, the charitable beneficiary receives the income from the trust during the trust's term and the non-charitable beneficiaries receive the remaining trust assets after the term has expired.

The present value of the payments to charity at the time the CLT is created provides a charitable income tax deduction. If the rate of return on the trust assets is higher than the IRS withdrawal rate, the principal of the trust can remain intact for the non-charitable beneficiaries while still qualifying for a charitable deduction and removing assets from the estate.

Conclusion

No matter what happens in Washington D.C., it's important to have a plan in place. Although change may come, the nature and timing are uncertain so be sure to visit with your legal, tax and financial advisors periodically to make sure that your plan takes into account the current state of the law and accurately reflects your desires. If you have any questions, please don't hesitate to contact our office at 402-397-4700.

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