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ASSET MANAGEMENT

2020 Year End Planning Webinar

November 19, 2020

Today’s Speakers

Gretchen Hollstein, CFP®
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Senior Advisor, Principal

Agenda

- Welcome and Introductions
- Election Implications for Tax Planning
- Year End Income Tax Planning Strategies
- General Tax Planning Tips
- Estate Planning Implications
- Charitable Gifting Strategies and Planning
- Next Steps
- After-Tax Return Optimization Strategies in LG Portfolio Management

Election Implications & Income Tax Planning Strategies

with Senior Advisor, Chris Wheaton, CPA, CFP®

Election Related Comments

Split Congress? All comes down to Georgia

- Senate control undetermined. All riding on two Georgia Senate run-off election races scheduled for January 5, 2021. Senate currently split with 50 Republicans and 48 Democrats/Independents.
- If either open Georgia seat is won by a Republican candidate, Senate would be controlled by Republicans. If both seats are won by the Democrat candidates, Senate would be tied 50/50 with Kamala Harris as VP breaking the tie.

Fiscal Stimulus — Senate dependent

- Smaller stimulus package likely if Republicans control Senate. If patterned like current proposed Senate stimulus, focused more on individual aid vs. city/state aid.
- Next round could include another IRA Required Minimum Distribution (RMD) waiver. If possible, consider delaying your 2021 RMDs until later in the year.

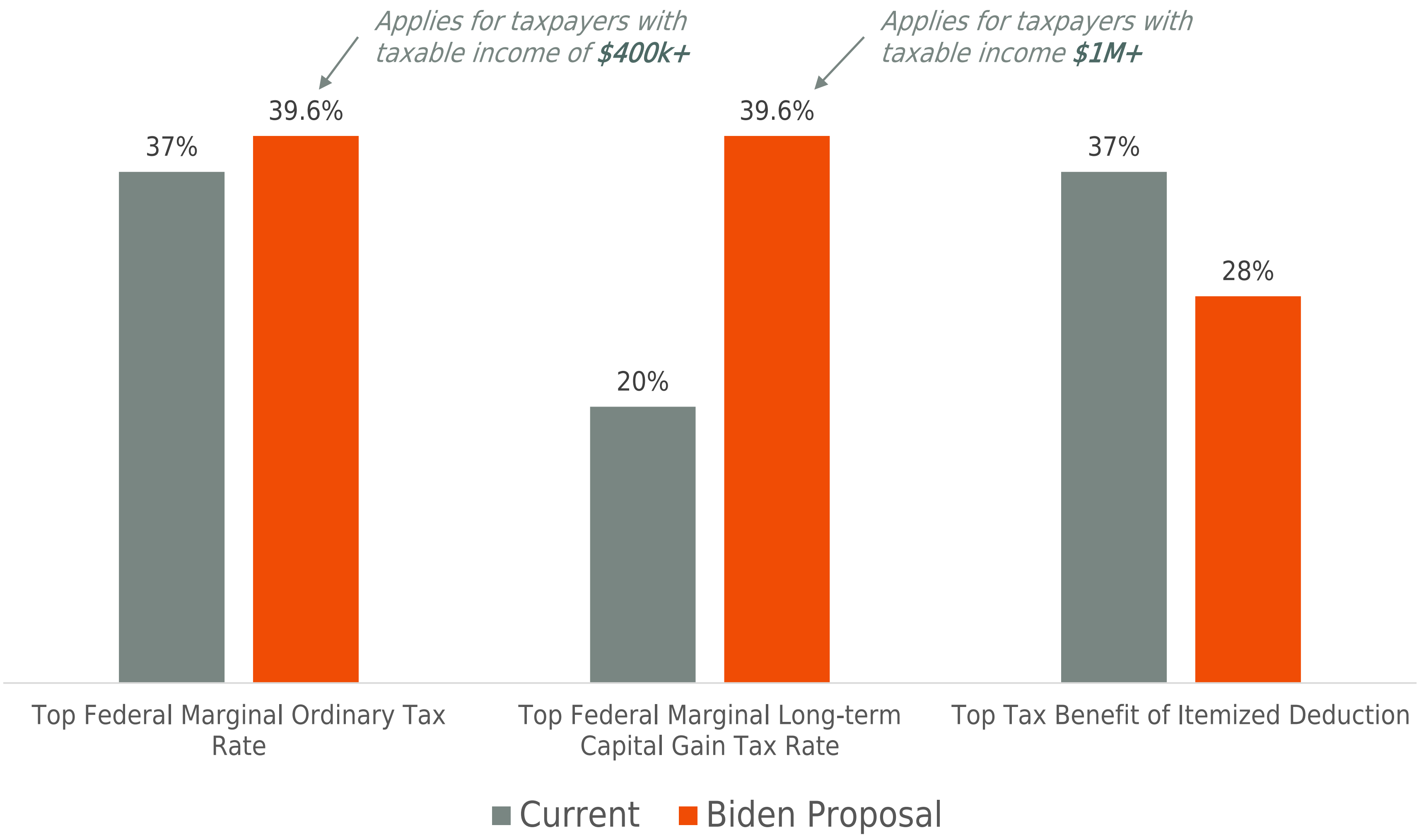
Income Tax Law — Senate dependent (Biden proposals)

- Higher marginal tax rates ($400k and over); higher long-term capital gain and qualified dividend tax rates ($1M +)
- Reinstate itemized deduction phase outs; possible removal of $10k SALT deduction cap

Summary of Biden Income Tax Law Proposals

	Current Tax Law	Biden Proposals
Individual Income Tax	• 37% maximum federal tax rate • Social Security taxes on earned income up to $137,700. 6.2% employee/6.2% employer (12.4% self-employed) • No itemized deduction phase outs. State and local tax (SALT) deductions capped at $10,000 • Tax deferred rollover of certain real estate capital gains	• Rollback Trump tax cuts for taxpayers over a $400,000 income threshold (39.6% maximum federal tax rate) • Same Social Security taxes up to $137,700, and new taxes at same rates for earned income above $400,000 • Reinstate phase out of itemized for high income taxpayers. Limit value of itemized deductions (including charitable) to 28% of deduction. Possibly remove $10k cap on SALT deductions • No tax deferred rollover of real estate gains
Investment Income	• 20% maximum long-term capital gains tax rate • 3.8% net investment income tax	• Tax long-term capital gains and qualified dividends at ordinary tax rates (39.6%) for taxpayers with more than a $1 million of income. Keep 3.8% net investment income tax.

Current Tax Rates vs. Proposed Biden Tax Rates



Potential Changes Under Biden — Depends on Control of Senate

How likely are the proposed tax changes to become law?

Key factors:

- The outcome of the two run-off elections in **Georgia** on January 5, 2021.
- Even if the Democrats control the Senate, the proposed new Social Security taxes on earned income over $400,000 are not likely going to come into play. Social Security changes subject to a higher vote threshold and would require a **60-vote filibuster-proof majority**. Democrats could vote to end the filibuster, but there are several moderate Democrats who do not support this move making this unlikely.
- The total proposed tax increases amount to $4 Trillion, a number that would negatively impact the economy (though unlikely that all increases would pass).
- Moderate democrats may move to soften some of the tax proposals

Tax Planning During Uncertainty

With Georgia Senate Election results unknown until January 5, 2021, year-end tax planning becomes difficult when 2021 tax rates are uncertain... Here are planning items to hedge your bets:

1

Accelerate 2021 wage income or business revenue into 2020 and defer 2020 business expenses to 2021.

2

If your income might be more than $1M in 2021, consider accelerating long-term capital gains that were planned for 2021 into 2020.

Examples: large gain home sales above the home sale exclusion amounts ($250k single/$500k married), business sales, and company stock sales that are taxed at long-term capital gain rates.

3

Make your normal 2020 charitable contributions and consider accelerating some of your 2021 contributions. This assumes that you are itemizing your deductions vs. Utilizing the standard deduction.

Use a charitable donor advised fund if you want to accelerate a few years of donations into one year.

Two of Biden's proposals involve limiting the deduction value of your charitable contributions in 2021.

4

Defer your 4th quarter state income tax payment until 2021.

Don't accelerate property tax payments due in 2021 into the 2020 tax year.

The deduction for state and local taxes is currently capped at $10,000. That cap could be lifted in 2021 if the Democrats control the Senate.

Note: these items assume that your income will not drop significantly in 2021, pushing you into a lower tax bracket in 2021. As always, we recommend that you consult your tax advisor to assess your unique tax situation.

Reminder: SECURE Act and CARES Act Provisions

SECURE Act of 2019

- Requires non-spousal beneficiaries of IRAs (typically children or grandchildren) to distribute the account within 10 years of the death of the IRA owner. The old law allowed IRA owners to stretch the distributions over the beneficiary's lifetime. IRA beneficiaries can still do some tax planning around when the beneficiary takes the IRA distributions within the 10 years.

- Required Minimum Distributions (aka RMDs) now must start at age 72 (old rule: age 70 1/2). Sidebar: Bipartisan legislation proposed in the House this year would extend the starting RMD age to 75. Law has not passed, but something to keep an eye out for in early 2021.

CARES Act of 2020

- Required Minimum Distributions (RMDs) from retirement accounts waived for the 2020 tax year.

- Taxpayers may want to delay taking their 2021 RMDs until later in the year in case another COVID-19 relief bill allows them to waive their distributions again in 2021.

Year End Tax Planning Tips (Low taxable income years)

- Certain circumstances may result in you being in a lower tax bracket in 2020 caused by:
    - A tax loss from a business or a portfolio investment
    - Retirement before social security benefits or IRA Required Minimum Distributions have started
    - Low or no income from employment between job opportunities

- The following are planning techniques to consider in low-taxable-income years to take advantage of your low-income tax bracket:
    - Recognize capital gains in portfolio
    - Take discretionary IRA distributions
    - Execute a Roth IRA conversion

Roth IRA Conversion Mechanics

Taxable IRA		Roth IRA
$100,000	→	$100,000*

Taxable IRA

- Grows **tax deferred** during lifetime
- Continues to grow **tax deferred** in an inherited spousal IRA
- Non-spouse beneficiary must distribute full amount within 10 years, and distributions are fully taxable to the beneficiaries

Roth IRA

- Grows **tax free** during lifetime
- Continues to grow **tax free** in an inherited spousal IRA
- Non-spouse beneficiary would typically maximize tax-exempt income by taking a tax-free Roth-IRA distribution at the end of the required 10-year distribution period.

* Taxes due in year of conversion at taxpayer's marginal tax rate.
(e.g., 30% tax bracket = $30,000 tax.)

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Estate Tax & Charitable Gift Planning Strategies

with Senior Advisor, Gretchen Hollstein, CFP®

Election & Tax Law Implications for Estate Tax Planning

- In December 2017, tax laws effectively doubled the estate and gift tax exemption amounts so that they are now (adjusted for inflation) $11,580,000 per person. However, this rule will either “sunset” in 2026 or under Biden’s tax proposals could revert to $5 million per person (or less).

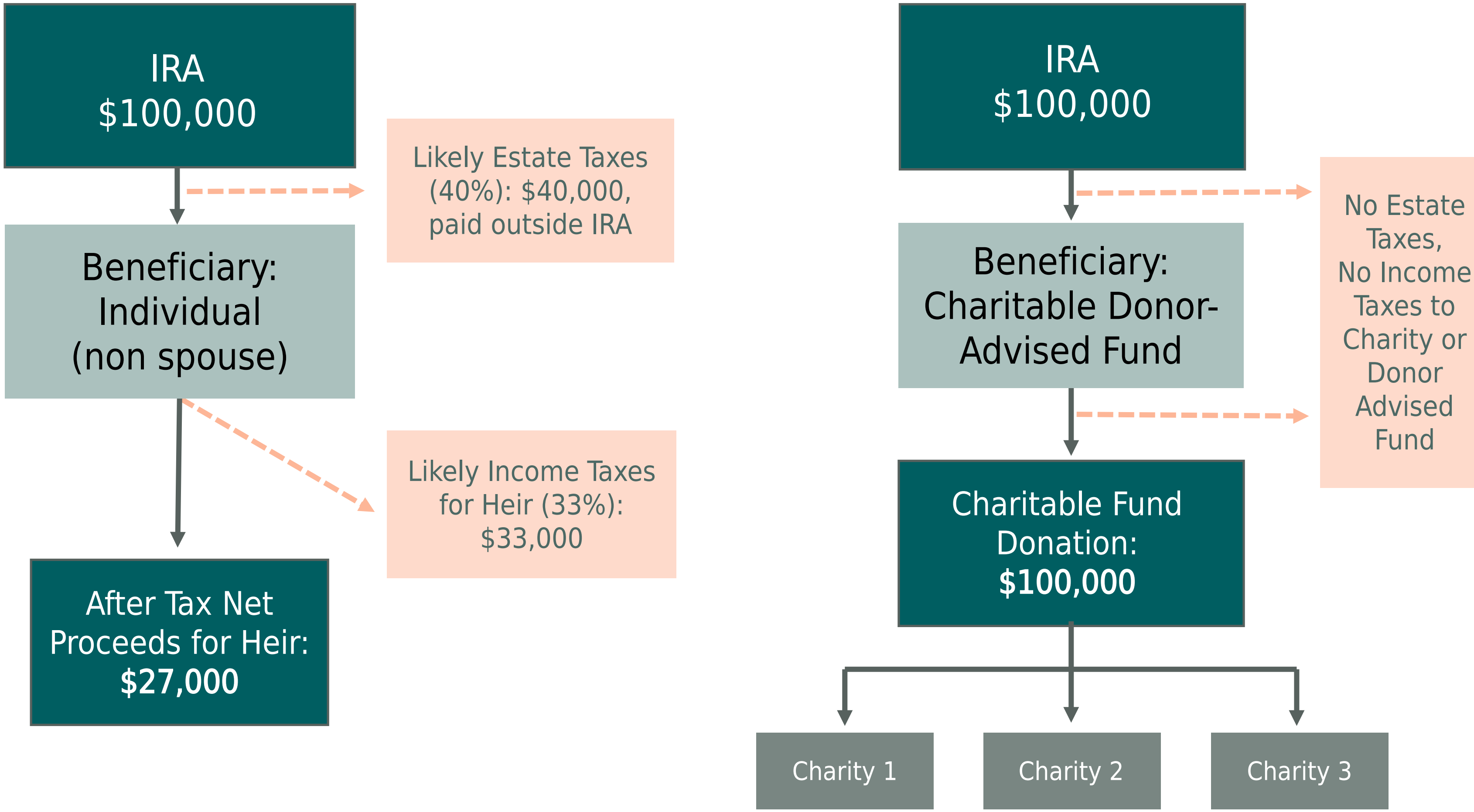
	Current Tax Law	Biden Proposals
Estate and Gift Tax	Top rate of 40% with exemption of $11.58 million for 2020 (indexed for inflation) through 2025, reverts to $5 million (indexed from 2011)	• Restoring the $3.5 million exemption (2009 levels, indexed to today’s dollars ~ $5 mil.) • Restoring 45% estate tax rate • Eliminate the step-up in basis for inherited assets

- For families already considering using the current lifetime gift exemptions, accelerating those gifts into 2020, or maybe even early 2021, should protect those gifts as exempt of estate tax.

- “Lifetime gifts” can be either made outright or through irrevocable trusts, which effectively move assets out of estate intended for the next generation but can provide income to grantors during their lifetime.

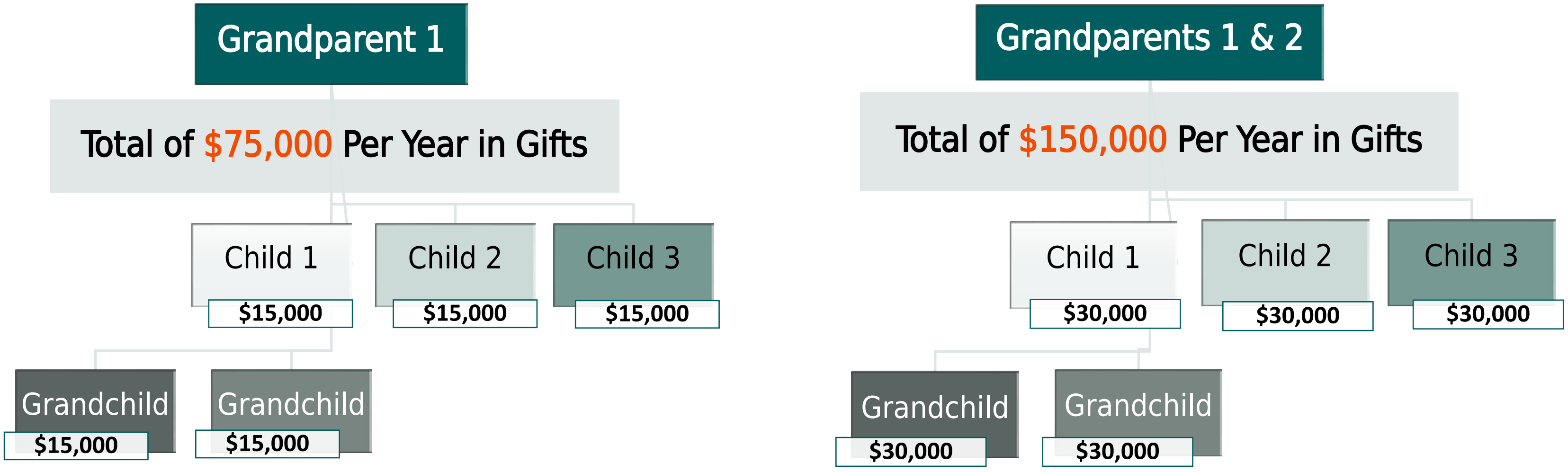
Estate Tax Planning Strategies to Consider: IRA Beneficiaries

For taxable estates with philanthropic intentions, consider leaving IRA assets to charitable entities or charitable remainder type trusts instead of individuals.



Estate Gift Planning Strategies to Consider: Annual Gifts

Changes are not expected to the annual gift tax exclusion, currently $15,000 per giver to recipient, indexing each year. If gifting large amounts from an estate isn't feasible or prudent, consider taking advantage of this gift tax exclusion amount to move assets from a would-be taxable estate to other family members.



Gifts can be in many forms:

- Cash, Checks
- Investment Assets
- 529 Plan Education Savings Contributions
- Custodial Account Contributions
- Partial Forgiveness of Loans
- Partial Transfer of Real Estate Ownership

Gift Planning Strategies to Consider

Gift **low-cost basis securities** or investments to family members who are in low tax brackets and/or states without income tax

Gift to Adult Niece:
Cash or Appreciated Securities?

Aunt & Uncle in CA sell $30,000 investment (cost basis $12,000) then gift cash to niece in NV

Aunt & Uncle in high tax bracket pay 20% federal capital gains tax and 13% state income tax in CA => $9,900 in taxes

Net value of gift =>
$20,100

Aunt & Uncle in CA use $30,000 investment (cost basis $12,000) as a direct gift to niece in NV

Niece in low tax bracket pays only 5% federal capital gains tax, and no state income tax in NV => $1,500 in taxes

Net value of gift =>
$28,500

Charitable Gift Implications and Planning Ideas

CARES Act of 2020

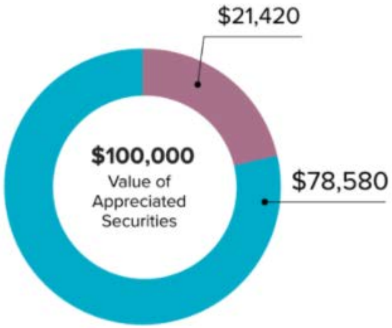
- Cash gifts have a one-time limit in deductibility for 2020 of **100% of AGI** (vs. usual AGI limit of 60%), as long as gifts made to public charities (not donor advised funds)
- For 2020, $300 charitable cash gifts are a straight reduction in income, without having to itemize

Appreciated investment assets are still worth considering for gifts (especially ongoing):

- Gift stocks or fund shares BEFORE selling
- Avoid capital gain tax on unrealized gains
- Receive charitable deduction of full market value against income
- Use available cash to instead replenish investment

DONOR SELLS SECURITIES AND DONATES AFTER-TAX PROCEEDS TO CHARITY

Pays Capital Gains Tax:	$21,420
Net Available to Charity:	$78,580



DONOR CONTRIBUTES APPRECIATED SECURITIES DIRECTLY TO CHARITY

Capital Gains Tax:	$0
Net Available to Charity:	$100,000

In the hypothetical example above, a donor has $100,000 in long-term appreciated stock with original cost-basis at purchase of $10,000. For the purposes of illustration, this example assumes a 35% income tax rate, with all realized gains subject to the federal long-term capital gains rate of 20% and the Medicare surtax of 3.8%. No additional state taxes are taken into account but could be applicable. Source: National Philanthropic Trust

Charitable Giving Options for Those Over 70½

Qualified Charitable Distributions (QCDs)

- IRA owners must be over age 70½ to be eligible
- Gift requests must made directly to charities from IRA
- Up to $100,000 maximum per year
- Gift distributions can be reported as "non-taxable" (essentially a full income deduction)
- QCDs count towards Required Minimum Distributions (aka RMDs)

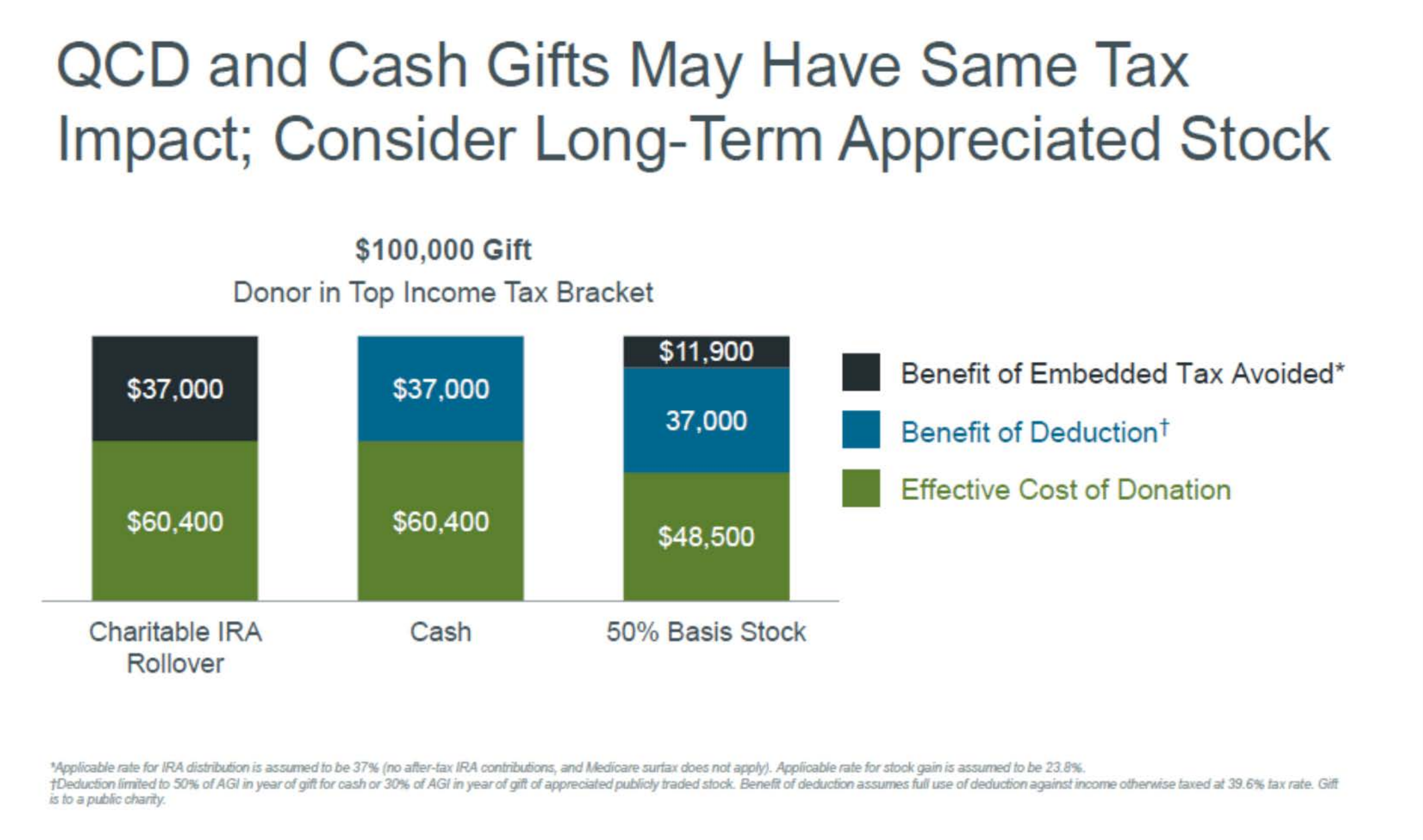
Planning Benefits of Gifting via QCDs

- Distributions from the IRA help lower the year-end balance, on which the RMD calculation will be made the next year (for those 72 or older)
- Consider delaying year end charitable gifts into 2021, and using QCDs to make them, to cover 2021 RMD requirements (since 2020 RMDs were waived)
- QCDs receive full charitable deduction regardless if itemized deductions reach past standard deduction (which is more difficult with the SALT limitation of $10,000)
- If itemized deductions DO reach past the standard deduction, consider gift of appreciated securities before QCDs

Charitable IRA Distributions vs. Charitable Gifts of Stock

Which is Better: Gifts of Cash, Appreciated Securities, or QCDs?

(assumes itemized deductions would reach past standard deduction amount)



Source: Fidelity Charitable, 2020

General Estate Planning Document Updates

- Good time to revisit IRA beneficiary designations, and insurance policies, etc.
- Update trust and estate documents to be sure they allow for flexibility as gift and estate exclusion amounts change
- Check and update Powers of Attorney so the right responsible parties are named, and reviewed so the custodians will abide by them
- Review Health Care Directives; those that say use “no artificial means” may not have anticipated the use of ventilators for COVID-19
- Update “Trusted Contact” with your custodian as well as Litman Gregory
    - This is a person who may be reached in the event you are unreachable, or there is concern about your health, well-being, or welfare.
    - They will not have access or the ability to transact in your accounts.
    - A trusted contact may only be asked to share or validate information about you.
    - They can be added using a name, phone number, physical address, and relationship to you.
    - Resources:
        - www.fidelity.com/customer-service/how-to-add-trusted-contact
        - www.schwab.com/resource-center/insights/content/establishing-trusted-contacts

Next Steps

- Review Tax Planning Ideas with your Tax Advisor
- Review Estate Planning Ideas with your Estate Planning Attorney
- Look for Litman Gregory Outlook Webinar, February 2021
- LG Portfolio Management Tax Optimization – Year End and Ongoing

After-Tax Optimization Strategies in Our Portfolio Management

- Hold investments in taxable accounts for 1+ year before selling so that preferential long-term capital gains rates (vs. higher income tax rates) apply to the gain.
- Place investments that generate interest income in tax-deferred accounts to avoid ordinary federal income tax rates as high as 37%.
- Defer sales of investments with large built-in gains, unless the expected return from a new investment is significantly greater than the existing investment.
- When sales are necessary to raise cash, select the individual investment tax lots that will result in the lowest tax liability.
- During market dips and at year end, look for opportunities to "harvest" capital losses. Harvested losses can then be used to offset realized gains. Proceeds can be placed into a similar investment so your target portfolio allocation remains intact.
- For portfolios that contain mostly taxable assets, consider holding some tax-exempt bonds in lieu of taxable bonds for the fixed income portion of the portfolio.

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Thank you for joining us today!

For further questions, please contact your advisor directly, or the Litman Gregory Client Services team at:

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