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Year-End Wealth Planning Webinar

November 17, 2021

Today’s Speakers

Chris Wheaton, CFP®
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Agenda

- Year-End Income Tax Planning Strategies
- General Tax Planning Tips
- Estate Planning Implications
- Charitable Gift Planning
- Long-Term Care Planning

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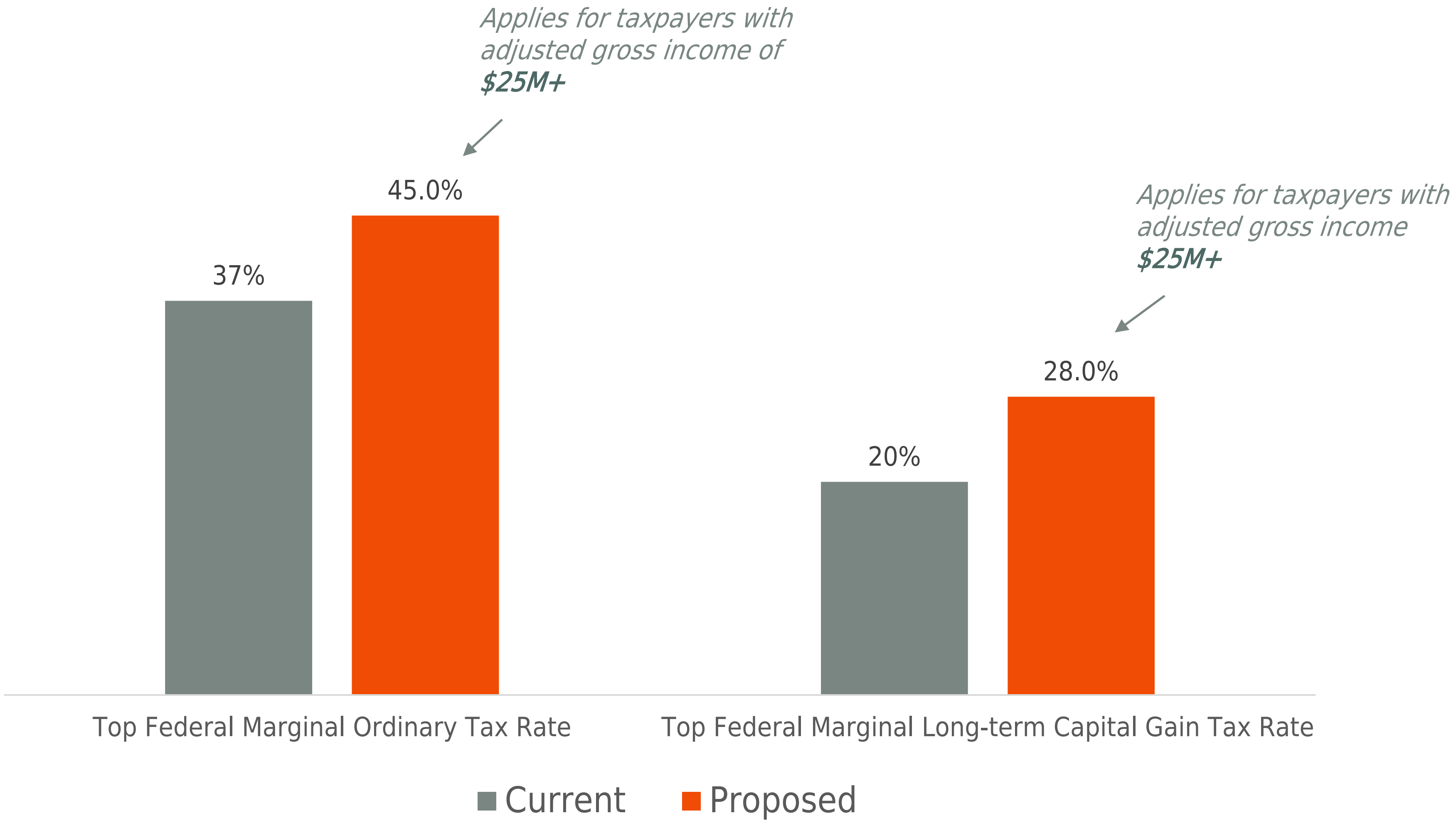
Income Tax Planning

with Senior Advisor, Chris Wheaton, CFP®

Summary of Build Back Better Tax Law Proposals Impacting Individuals/Families

	Current Tax Law	House Proposals
Individual Income Tax	37% maximum federal tax rate	5% surtax on modified AGI more than $10mil. / additional 3% surtax on modified AGI more than $25 mil. (starting 2022)
	State and local tax (SALT) deductions capped at $10,000.	SALT deduction capped at $80,000 through 2031 (starting 2021)
	SALT workaround for businesses. CA allows certain pass-through entities to pay 9.3% tax on business income at the entity level. Allows entity to lower its federal taxable income by the amount of payments and passes through the tax payment as a CA credit to the individual partners/members. Consult your tax advisor as CA Alternative Minimum Tax rules apply and deduction may be revoked if SALT cap is removed.	Limits the accumulation of certain IRAs and other retirement accounts. Threshold is $10mil. of assets. Limits future contributions and requires mandatory distributions. Eliminates Roth IRA conversions for high income taxpayers after 2031.
Investment Income	20% maximum long-term capital gains tax rate 3.8% net investment income tax	Same tax rates, but investment income also subject to surtaxes listed above

Current Tax Rates vs. Proposed Tax Rates



Potential Tax Law Changes—Will they pass?

How likely are the proposed tax changes to become law?

Key factors:

- With a 50/50 split in the Senate, any Democratic Senator can stop the bill from being passed or demand changes:
  - Joe Manchin has suggested that paid family leave provisions be considered in a separate bill and possibly funded through a new payroll tax.
  - Bernie Sanders has objected to the proposed increase in the SALT cap.
- If the Congressional Budget Office does not score the BBB bill as deficit neutral, will moderate Democrats in the House force changes to the bill (add taxes or reduce funding for some of the spending programs)?

Tax Planning During Uncertainty

While we won't know if the current BBB Plan will pass, here are tax planning items to hedge your bets:

SALT

- Since the SALT deduction cap may be lifted from $10,000 to $80,000, if your total SALT payments are less than $80,000 year-to-date, consult with your tax advisor to see if it makes sense to accelerate any state and local tax payments into 2021.
  - Examples: property tax payments due in 2022 and your 2021 4th quarter state income tax payments that are due by 1/15/2022. These payments could be accelerated into 2021 if that made sense for your tax situation. Also need to consider whether the Alternative Minimum Tax (AMT) might limit your state and tax deductions.

Charitable

- If your taxable income will be similar between 2021 and 2022, consider making your normal 2021 charitable contributions. This assumes that you are itemizing your deductions vs. utilizing the standard deduction.
- Where possible donate appreciated long-term property (vs. Cash) to fund your charitable gifts. Gifts can be made directly to your favorite charities or to a charitable donor-advised fund.

Year End Tax Planning Tips (for low taxable-income years)

- Certain circumstances may result in you being in a lower tax bracket in 2021 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 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 your portfolio
  - Take discretionary IRA distributions
  - Execute a Roth IRA conversion

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Estate & Charitable Gift Planning

with Senior Advisor, Monica Muñoz, CFP®

Estate & Gift Tax Law Update

- While it has been anticipated that we could see a reduction of the estate and gift tax exemption amounts in 2021, proposals have failed to pass leaving the amount for 2021 at $11,700,000 per person (adjusted for inflation).

- However, if no new proposals are passed this rule will "sunset" in 2026.

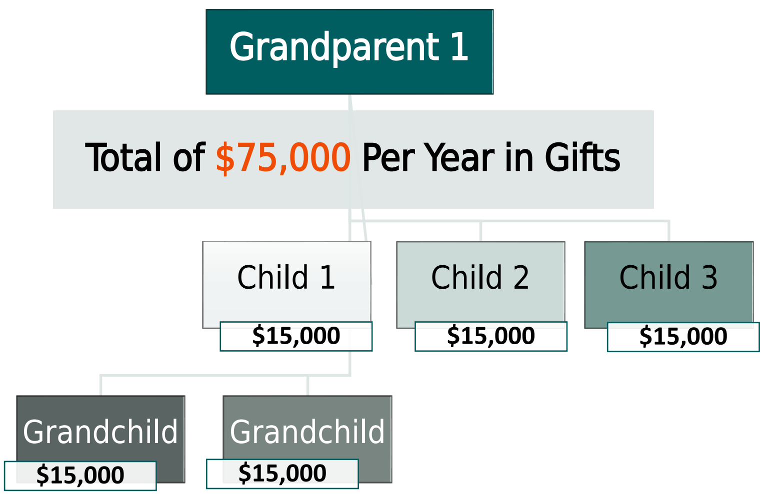
	Current Tax Law	Post-Tax Law Sunset
Estate & Gift Tax	Top rate of 40% with exemption of $11.7 million for 2021 (indexed for inflation) through 2025.	In 2026, exemption amount reverts to $6 million (indexed from $5.49 mil. in 2017), with no change to top tax rate (40%).

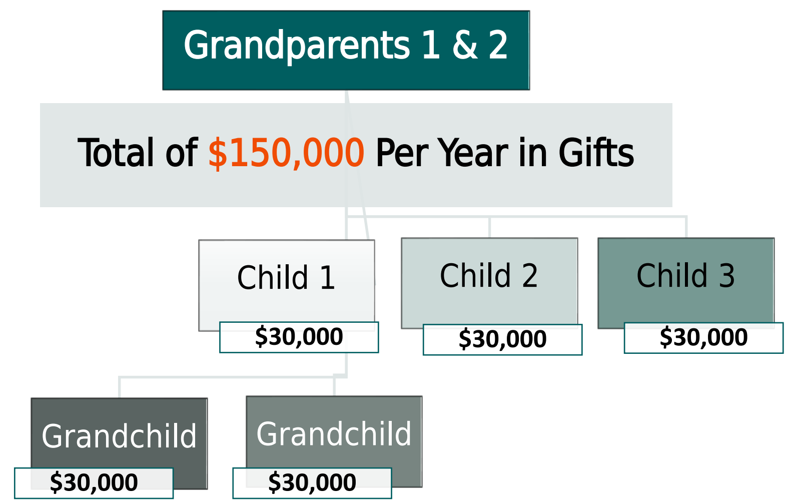
- For families already considering using the current lifetime gift exemptions, accelerating those gifts in advance of any new potential tax law proposals and/or the end of 2025 should protect those gifts as exempt of estate tax.

- "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 Planning Strategies to Consider: Annual Gifts

Changes are not expected to the annual gift tax exclusion, currently $15,000 per giver to recipient, and is set to increase to $16,000 in 2022. 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

Estate Planning Strategies to Consider: Intra-Family Loans

- Intra-family loans allow a way to provide financial resources to a family member often with greater flexibility than using a more traditional lender
- It can also be an attractive wealth transfer tool, particularly in low interest rate environment
- And, when structured properly, a loan will not constitute as a gift, and thus will not trigger gift tax or the use of lifetime exemption
- For an intra-family loan to be considered bona fide debt by the IRS, it must:
    - Have a written loan agreement / promissory note
    - Charge an adequate interest rate (based on favorable IRS Applicable Federal Rates, "AFR")
    - Have agreed upon terms and repayment schedule
- Important to consult in advance with your Litman Gregory Advisor, as well as your tax and legal advisors

Estate Planning Strategies to Consider: Use of the Roth IRA

SECURE Act of 2019

- For non-spousal beneficiaries (where exceptions do not apply), eliminated the ability to stretch IRA distributions over beneficiary's lifetime
- For any IRAs inherited by non-spousal beneficiary in 2020 or later it is required that the entire amount of their inherited IRA be withdrawn within 10 years
- This has made the use of Roth IRAs a viable estate planning tool, including the use of Roth IRA conversions

Traditional IRA

$100,000

- 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

$100,000*

- 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.)

Charitable Gift Planning Considerations

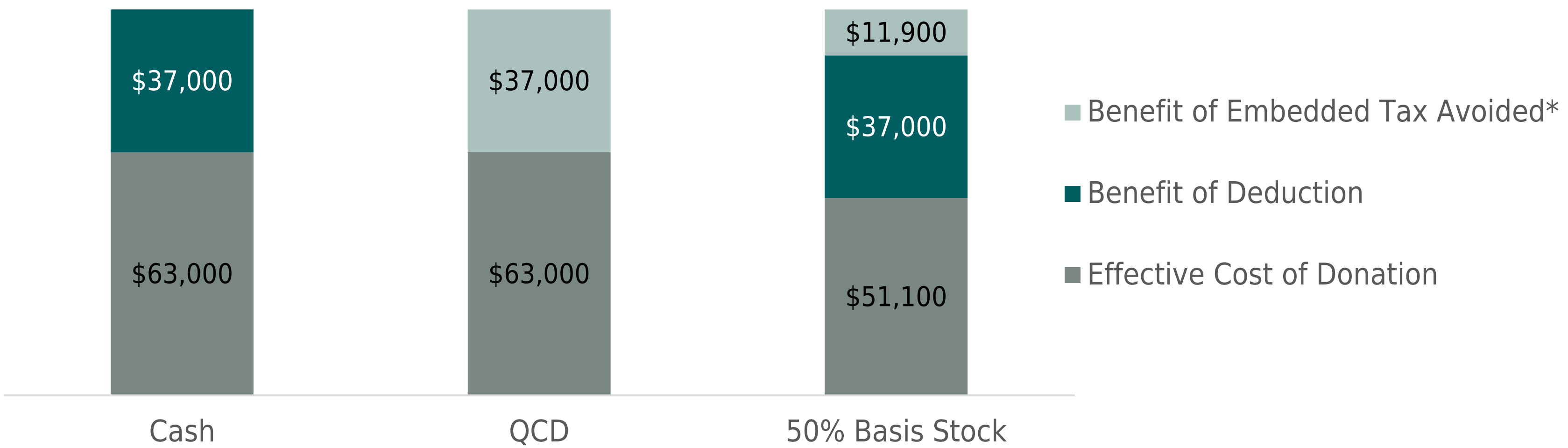
American Rescue Plan Act of 2021

- Cash gifts to public charities can be deducted up to **100% of AGI** (vs. usual limit of 60%)
- Up to $300 (individual) or $600 (married) in cash gifts to public charities are a straight reduction in income, without having to itemize

Which is Better: Gifts of Cash, Appreciated Securities, or Qualified Charitable Distributions?

(assumes itemized deductions would reach past standard deduction amount)

Example: $100,000 Gift by Donor in Top Income Tax Bracket



*Applicable rate for IRA distribution is assumed to be 37% (no after-tax IRA contributions, and Medicare surtax does not apply). Applicable rate for stock gain is assumed to be 23.8%.†Deduction limited to 50% of AGI in year of gift for cash or 30% of AGI in year of gift of appreciated publicly traded stock. Benefit of deduction assumes full use of deduction against income otherwise taxed at 39.6% tax rate. Gift is to a public charity.

Charitable Gift Planning for Those Over 70½

Qualified Charitable Distributions (QCDs): What is It?

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

Utilizing the QCD might make sense:	Giving appreciated securities might be a better option:
When the donor **cannot** itemize their deductions	When the donor **can** itemize their deductions
The majority of their assets are held in an IRA	Owns highly appreciated assets in taxable accounts
The RMD would push them into a higher tax bracket	The RMD will **not** push them into a higher tax bracket

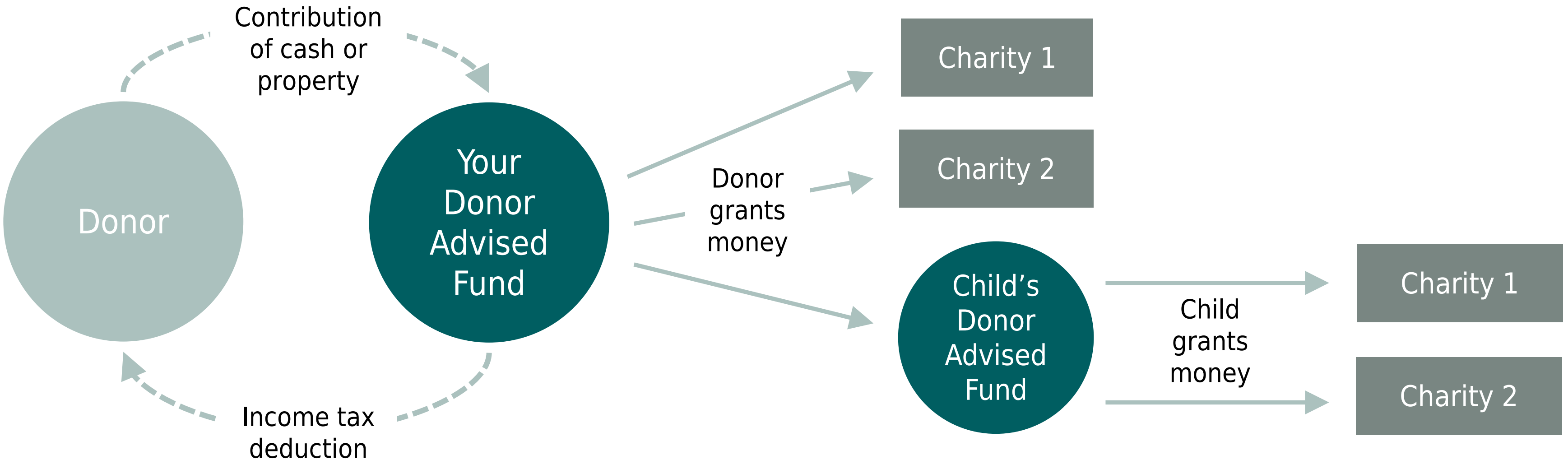
Source: Fidelity Charitable

Engaging the Next Generation in Charitable Giving

Ways to start the conversation around charitable giving

- Tell stories and share memories about giving traditions
- Find opportunities to volunteer together at school, church, or in local community
- Lead a conversation, and ask next generation to share:
  - Their core values and how they might look to identify charities that reflect those values
  - Any organizations that they currently support by giving time and/or financial resources

Leveraging your Donor Advised Fund



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Long-Term Care Planning

with Senior Advisor, John Baxman, CFP®

Long-term Care—Covering the Costs

Self-Insure

For those who have determined that they have the financial resources necessary to pay for the costs of long-term care out of pocket

- It's important to get a clear understanding of the cost for various levels of care in your area so that the potential financial impact can be accurately accessed
- Consider working with your advisor to establish a financial independence cash flow analysis that considers scenarios including the projected costs of long-term care

Long-term Care Insurance

Consider transferring all or part of the potential costs to an insurance company

- Individuals who are have determined that they are unable or are unwilling to self-insure should at least consider obtaining a basic long-term care insurance policy
- Individuals should consider starting coverage in there 50's and can usually obtain cost effective coverage until age 65 (depending on their health)

California's Proposed Mandatory Long-Term Care Payroll Tax

- California is considering implementing a mandatory payroll tax for long-term care expenses
    - Washington state already established program with .58% payroll tax on all W-2 wages
- Those in CA with a long-term care policy in place may be able to opt out of the payroll tax
    - WA offered a brief implementation period to allow residents to purchase a policy and opt out of the tax, but other states aren't likely to offer this window
- More details are expected early next year with a final recommendation by the end of next year

Benefits of a Long-term Care Insurance Policy

- Helps to protect your financial independence
  - Costs can range from $100,000 to $200,000 year
- Offers peace of mind: Even individuals who can afford to self-insure for the costs of long-term care choose to secure coverage for the peace of mind that some of the cost can be subsidized outside of personal assets
- Provides flexibility to have care provided in your home
- Provides resources for relatives who are in charge of your care
  - Insurance companies have policyholder assistance call centers that can provide important information about care options
  - Insurance companies often assign a care coordinator to assess care needs

Creating a Plan for Long-Term Care

1. Determine if you have the financial resources to self-insure
2. Explore Long-Term Care Insurance as an option:
    - Select an insurance professional
    - Determine the amount of coverage that you need
    - Finalize the terms of your coverage
3. Include family members in the discussion to so that they are aware of your plan and any help that might be needed from them

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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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