# Plaza End of the Year Proactive Planning Letter

November 1st, 2022

As we near the end of 2022, an old quote comes to mind, "Out of great calamity comes great opportunity". In the current market environment, it is simple to focus only on market performance, but taking a step back, our goal is long term planning and investment results. Given this market volatility, it often provides great planning opportunities for wealth transfer, tax planning, and portfolio diversification by offsetting gains from the past Bull market.

We wanted to deliver this article out a bit early this year to provide our clients ample opportunity to take advantage of the below planning topics.

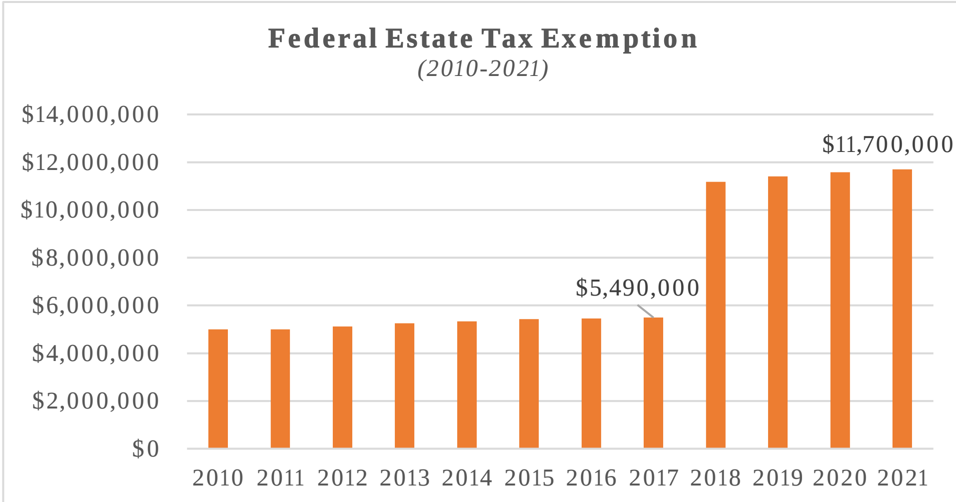
Regarding potential tax changes, we will receive much more clarity on any future expected changes when the Mid-terms (and thankfully the commercials) come to an end. Many of the below tax & estate laws could look different 6-12 months from now, so we want to make sure we are taking advantage of the current "known" laws while we can.

As always, we appreciate our client's constant resilience and support. If you have any questions or comments on the topics, please do not hesitate to reach out.

- Corey Briggs

## Estate Planning

1. **Utilize the Lifetime Gift Tax Exemption**
    a. Current Exemption for Tax Cuts and Jobs Act: $12.06M per person or $24.12M per married couple ([1])
        i. This current proposal ends on January 1, 2026, where the amount will revert to $5M per person, adjusted for inflation after 2011, which would be $6M per person. ([1])
        ii. High Net Worth individuals should consider taking advantage of utilizing this market environment to remove additional assets out of one's estate.
        iii. During a Bear Market it allows you to gift assets at a lower value, providing future appreciation to avoid estate tax.
    b. Take advantage Grantor Trust, while you can.
        i. Irrevocable Life Insurance Trust (ILITs), Grantor Retained Annuity Trusts (GRATs), Spousal Lifetime Access Trust (SLATs), and several other types of transfer techniques were targeted during the Build Back Better Act to be no longer excludable from the taxable estate ([2])
        ii. Grantor Trust provide an estate freezing technique by allowing assets to be removed from your estate, but still accessible for essential needs ([2])




*Source: The Tax Foundation*

2. **Review and Update Account Beneficiaries**
    a. Make sure all bank accounts, retirement plans, life insurance policies, and assets are appropriately established with joint/ trusts/ Transfer of Death / Payable on Death
    b. If you are not sure how to title specific accounts, please do not hesitate to reach out to your advisory team.

3. **Take advantage of annual gift exclusions to potentially lower overall estate value**
    a. $16,000 per done, $32K per married couple to help avoid future estate tax ([3])

4. **Unlimited gift tax exemption for <u>direct</u> payment of tuition and medical expenses** ([3])

5. **Intra family loans may make sense for the younger generation to borrow at lower rates than the bank is currently offering** (10/19/2022)

6. **Utilize 529 plan before December 31,2022 for education savings for child or grandchild**
    a. Many states offer a small tax deduction for residents contributing
    b. Keep in mind, you have the option to make a large lump sum contribution by combining 5 years of annual exclusion amount into one year gift tax free ($80K in 2022) ([3])

7. **Update Estate Documents every 5 years**
    a. Will, Living Trust, Durable Powers of Attorney for Financial and Medical Affairs, Living Will, etc.
    b. In Missouri, take advantage of Qualified Spousal Trust for creditor protection if it makes sense. Please speak with your estate attorney regarding this.

## Income Planning

1. **Maximize Retirement Plan Contributions and Company Match**
    a. Current elective deferral amount for 2022 = $20,500 (plus $6,500 for catch up if older than 50 by end of year) ([4])
    b. Check to see if your company plan allows for Traditional and Roth 401k - It may make sense to utilize the Roth 401k in the current tax bracket environment or if you think your income will go up in the future.
    c. Sep IRA Contributions = 25% of compensation or $61K in 2022 ([4])
    d. Health Savings Account - $3,650 for self-only and $7,300 per family ($1,000 catch up if 55 and over) ([4])

2. **Does a Roth Conversion Make Sense?**
    a. Keep in mind that Roth Conversion will be more beneficial when the tax can be paid from cash outside the IRA
    b. Client's can take advantage of a Roth Conversion at any age.
    c. If you have an old rollover IRA from a previous job it could make sense to weigh the benefits of converting that when you make the rollover
    d. Ask Plaza for a future RMD estimate. If your future RMDs are projected to be higher than the amount you are spending, it may benefit your taxes long term to make the conversion
    e. If you want to leave additional tax-deferred assets for your beneficiaries due to the SECURE Act, it could make sense to pay the tax for your beneficiaries today and allow all future growth to be tax deferred.
    f. May want to do a Roth Conversion in a volatile market to pay lower tax on the same amount of depleted shares.

3. **Complete Required Minimum Distributions (RMDs)**
    a. Take RMD before December 31, 2022
    b. Given this year's volatility, look at changing RMD distributions to monthly distributions to limit sequence of returns risk in the future.

4. **Charitable Giving**
    a. How are you currently making gifts?
        i. You should weigh the options between cash, appreciated securities, bunching gifts into one year for a deduction, or making a lump sum of appreciated securities to a Donor Advised Fund
    b. Do you plan on making Charitable gifts this year and don't need your full RMD?
        i. Once you turn 70.5 years old, you can start making Qualified Charitable Distributions (QCD) out of your Traditional IRA accounts to avoid having to pay tax on that money in the future.
        ii. Once you turn 72, instead of taking RMDs you may not need, you can avoid the income tax by making QCDs before taking out your RMD

## General Planning

1. **Social Security Collection**
    a. A study by "United Income" found that only 4% of retirees start their Social Security benefits at the most optimal time.

   b. Currently, the longer you delay social security your future balance grows at a rate of 8%/yr. – Please reach out to your Plaza team to analyze when your optimal time may be.

2. **Be Aware – Mutual Fund Year End Capital Gain Distributions**
   a. 2021 was one of the worst years for Capital Gain Distributions due to the last 10+ bull market run ([5])
   b. If you are holding mutual funds in a taxable account, you may want to analyze your largest holdings projected capital gains for the year and do the math on how much tax that is going to generate for you.
   c. You may want to weigh the benefits of selling the fund before distribution to avoid the tax, but you must be cognizant of the capital gain you visibly have within your portfolio.
   d. We expect several mutual funds to have a loss for 2022 AND still distribute capital gains to client portfolio (paying taxes on losses) due to the increase in selling YTD - You can avoid this by utilizing individual securities.

3. **Tax Loss Harvest Stocks & Bonds**
   a. According to the CFA Institute, tax loss harvesting delivered an average annual alpha of 108 bps over and above a passive buy and hold equity portfolios
   b. 2022 has been one of the most volatile bond market years in history. Because of this volatility it may make sense to harvest losses within an individual bond portfolio and buy newly issued bonds with higher yields

4. **Please let us know about any major life changes such as births or deaths, marriages, or divorces, change of residence, employment change, change of goals, and plans for upcoming large expenses**

5. **Utilize Flexible Spending Accounts up to the amount you may need that year (contacts, glasses, specific medical and dental expenses) – FSA currently expires at the end of each year**

6. **Make sure you are investing a portion of your Health Savings Account (HSA) to take advantage of tax-free market growth.**

7. **Review your Medical Insurance if it makes sense to do High or Low Deductible**
   a. In addition, check to see what changes or updates were made to your company benefits that you are not taking advantage of.

8. **Analyze cash flow for the past year and expectations of what you may need in 2023**
   a. Additionally, this provides an opportunity to see what extra cash flow you may have left over to invest within your accounts

9. **Thinking about changing State Residency? - Make sure to start the following:**
   a. Days spent in the new state for the year (typically 6 months and a day)
   b. Driver's license registration
   c. Credit/ Debit card proof of being in state
   d. Track all flight information out of state
   e. Voter Registration
   f. Medical and Dental care providers

g. Country club or social club memberships
h. Official mailing address where your bills and primary mail is sent

Sources:

[1]: Raymond James: Tax Planning: Charitable giving and estate planning
[2]: https://www.greenbaumlaw.com/insights-alerts-Build-Back-Better-Act.html
[3]: https://turbotax.intuit.com/tax-tips/estates/the-gift-tax/L1sFpFeXV
[4]: Raymond James: 2022 Tax and Financial Planning Information
[5]: https://www.ft.com/content/6a95ede1-5268-41c3-8ed5-5fc839bbf45f

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