Plaza End of the Year 2023 Proactive Planning Letter

As we draw closer to the conclusion of 2023, we are committed to remaining acutely attuned to the vital aspects of year-end planning, encompassing the intricacies of the current tax, estate, and retirement objectives tailored to the unique needs of each one of our clients. Recent years have been marked by notable shifts in regulations and tax laws. With the upcoming 2024 election and the impending “sunset” of certain tax provisions in 2026, our commitment is to navigate the current financial landscape adeptly and harness the full potential of existing legal provisions.

Given the current tax and estate parameters, both in the present and with the foresight into the future, we believe that the current financial landscape offers ample opportunity to capitalize on the existing environment. These opportunities extend to the careful planning of wealth transfer and tax management for the times ahead.

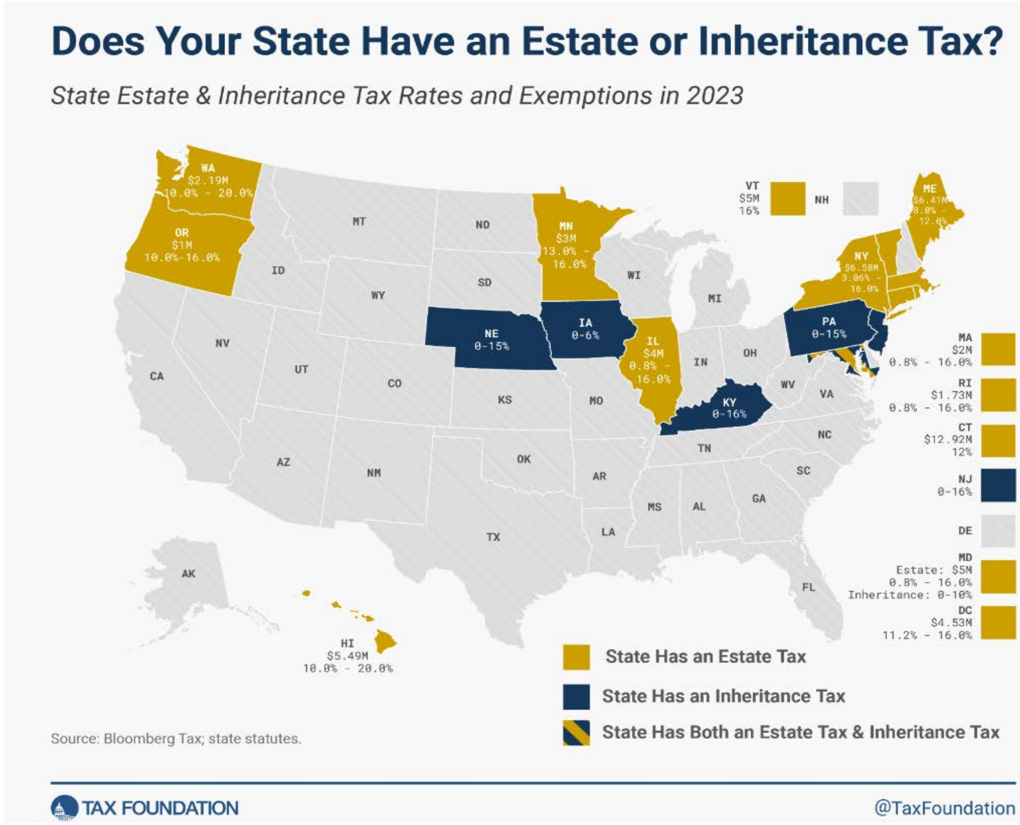
In light of this, we wanted to ensure sufficient time for you to consider any of the adjustments provided in this letter that can enhance the efficacy of your financial plan as we approach the year’s end.

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 2023 Estate tax exemption: $12.92M per person or $25.84M 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 $6-7M 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.
        iv. Current federal estate tax is 40%, not including additional estate tax or inheritance tax in the states found in the graphic below.
    b. Take advantage of Grantor Trusts, 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 Trusts provide an estate freezing technique by allowing assets to be removed from your estate, but still accessible for essential needs ([2])



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. $17,000 per person, $34K per married couple to help avoid future estate tax ([3])
   b. Keep in mind, this $34K per married couple could be doubled if you are gifting to your child and their spouse ($68K)

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 (10/12/2023)**
   a. IRS Applicable Federal Rates (AFR) - https://www.irs.gov/applicable-federal-rates

6. **Utilize 529 plans before December 31,2023 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 ($85K in 2023)

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.

8. **Have you filled out Plaza's "Becoming an Executor and Trustee" document?**
    a. Our clients have found this document to be extremely important and helpful for clients that are going through a loss of a family member or as an educational piece for the next generation.
    b. If you would like us to resend you this document, please let us know.

9. **Consider funding a Roth IRA for your child.**
    a. They must have W-2 income for the year, but you can fund up to either the amount of money they earned, or max of $6,500.

Retirement Planning

1. **Maximize Retirement Plan Contributions and Company Match**
    a. Current elective deferral amount for 2023 = $22,500 (plus $7,500 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 be higher in the future.
    c. Sep IRA Contributions = 25% of compensation or $66K in 2023 ([4])
    d. Health Savings Account – individuals can contribute $3,850 and families can contribute $7,750 ($1,000 catch up if 55 and over, $2,000 for two spouses over 55) ([4])
        i. *Make sure your HSA is being invested to get the most out of the tax savings.
        ii. The early non-eligible withdrawal penalty (20%) currently terminates at age 65 – this makes this investment account act like a Traditional IRA

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. Clients 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 - Raymond James RMD Calculator
    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. You may want to do a Roth Conversion in a volatile market to pay lower tax on the same amount of depleted shares.
    g. If you make charitable distributions, it may also help to "bunch" charitable donations the same year of a Roth Conversion to help offset the income tax due.

3. **Complete Required Minimum Distributions (RMDs)**
    a. Take RMDs before December 31, 2023
    b. Given the recent volatility, look at changing RMD distributions to monthly distributions to limit sequence of returns risk in the future.
    c. Beginning in 2023, SECURE 2.0 raised the age to 73 for those reaching age 72 after December 31, 2022, and, in 2033, to 75 for those who reach age 73 after December 31, 2032.
    d. For 2023, anyone born in 1950 or earlier will have an RMD. Anyone born in 1951 or later will not have an RMD this year.

4. **Did you inherit a Traditional IRA this year?**
    a. We highly recommend collaborating with your financial advisor to revise your financial strategy, specifically to strategically determine the optimal "withdrawal years" throughout the upcoming 10-year withdrawal period. This strategic approach aims to align your withdrawals with the years of lowest income.
        i. Keep in mind, if nothing changes in congress, most people will be pushed into higher tax brackets in 2026, when current brackets "sunset."
    b. If IRA income is not needed and you already have a projected estate tax issue, you can potentially disclaim all or a portion of the IRA inheritance to pass on to your kids to be withdrawn at lower tax brackets.
    c. A more complex strategy for higher net worth individuals would be to name a Charitable Remainder Trust as the beneficiary of a Traditional IRA. This would stretch the distributions from 10 years to 20 years with potential additional tax advantages. This beneficiary selection would need to be in place before the passing of the IRA owner. ([6])

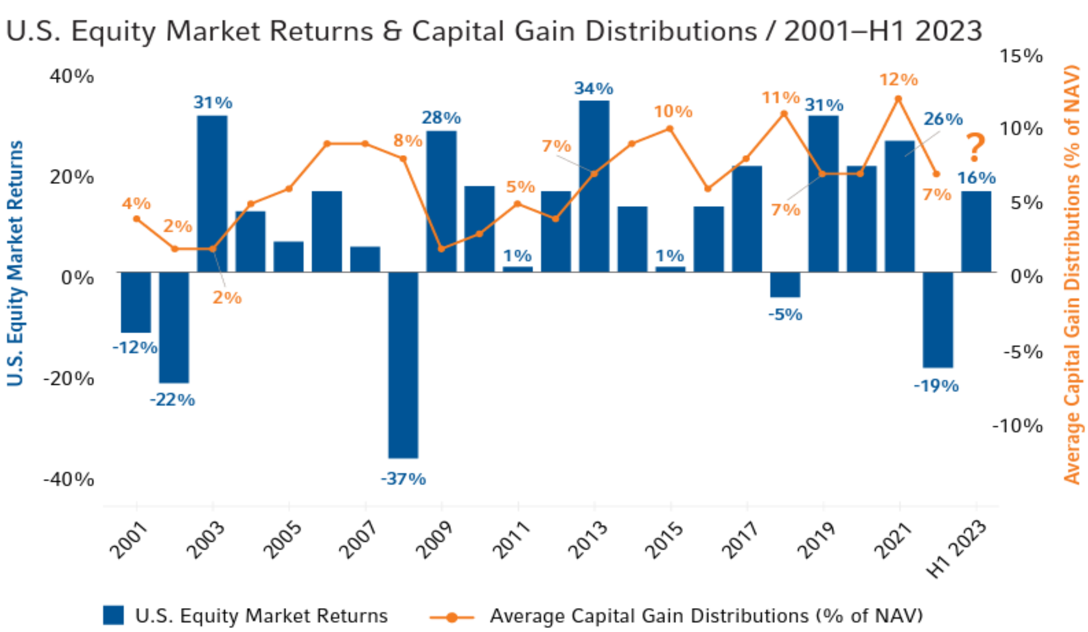
5. **Charitable Giving**
    a. How are you currently making gifts?
        i. You should weigh the options between cash, appreciated securities, bunching gifts into one year to be above the standard deduction ($13,850 Single; $27,700 Joint), or making a lump sum of appreciated securities to a Donor Advised Fund
        ii. For larger gifts and estate planning purposed, we can also discuss Charitable Trusts and U.S. Legacy Income Trusts
    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 and to potentially lower future RMDs.
        ii. Once you turn 73, 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.
c. COLA adjustment for 2024 is 3.2%

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. Unfortunately, in 2022, several mutual funds had a loss for the year 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.
    c. 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.
    d. 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.



Source: Morningstar Direct. U.S. stock market represented by Russell 3000® Index. Indexes are unmanaged and cannot be invested in directly. Returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment.
[1] U.S. equity funds: Morningstar broad category 'US Equity', which includes mutual funds and ETFs. See pages 8 & 9 for methodology details and Morningstar categories.

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 was one of the most volatile bond market years in history. This volatility continued to roll into 2023. Because of this volatility it may make sense to

harvest tax 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. **Do you have an old Life Insurance policy?**
    a. We have a seen a significant improvement in cost, mortality, and investment options with new products offered by insurance companies.
    b. Please let your Plaza advisor know if you would like an analysis ran for you.

6. **Old traditional retirement plan accounts**
    a. It may benefit you to consider converting these old employer plans (401(k), 403(b), 457(b), etc.) to a Roth IRA to improve your taxes long term.

7. **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.**

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

9. **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.

10. **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.
    b. We highly recommend utilizing the current high interest rate environment to remove large upcoming cash needs from market volatility and invest into a money market fund.

11. **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: 2023 Tax and Financial Planning Information
[5]: https://www.ft.com/content/6a95ede1-5268-41c3-8ed5-5fc839bbf45f
[6]: https://www.kiplinger.com/retirement/estate-planning/602216/worried-about-passing-down-a-big-ira-consider-a-crt

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