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Year-End Tax Planning for High-Net-Worth Individuals

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Today's Topics

- Tax Cuts and Jobs Act (TCJA) & Tax Legislation
- Estate & Gift Tax Planning
- Retirement Tax Planning
- Investment Tax Planning
- Other Impactful Planning Provisions

TCJA: Expire, Extend, Replace?

- Absent Congressional action, many TCJA tax provisions sunset on 12/31/2025
  - Individual income tax rates revert to higher pre-TCJA levels
  - SALT cap and higher standard deduction go away
  - Many itemized deductions and personal exemptions return
- Tax legislative environment has changed significantly following the election
  - Extender bill could be passed through budget reconciliation
  - Republicans could eliminate the filibuster and pass “permanent” tax legislation

Income Tax Planning Uncertainty

- When/Will Taxpayers Receive Clarity?
- Tips:
  - Tried and true techniques
  - Remain flexible
  - Status quo may prevail
  - Talk with your tax adviser frequently

Polling Question #1

What do you think will happen with the TCJA?

1) Most of the major tax provisions in the TCJA will be extended.
2) TCJA will be replaced by new tax legislation.
3) Congress is too dysfunctional to pass anything, so the TCJA will expire.

Estate & Gift Tax Planning

2024	2025
▪ $18,000/donor/donee ▪ $36,000/married couple/donee* * For joint gifts and/or if gift splitting is elected	▪ $19,000/donor/donee ▪ $38,000/married couple/per donee*

Estate & Gift Tax Planning

2025 Lifetime Exemption	2026 Lifetime Exemption (Estimate)
$13,990,000	**$6,810,000** **Approximately $2.8 million in additional estate tax**

Why Continue Estate Tax Planning?

- No Guarantee for Extension of Enhanced Lifetime Exemption
- Limited Availability of Professional Estate Planning Help at End of 2025 (if exemption not extended)
- Currently Taxable Estates Must Plan Anyway
- State Estate Taxes
- Future Appreciation of Assets
- Non-Tax Reasons

Advanced Estate Planning Tips

- Old Irrevocable Trusts: Allocation of Generation-Skipping-Tax Exemption?
- Wealth Transfer: Qualified Personal Residence Trust or Charitable Remainder Trust
- Assets in Your Estate at Death Receive New Income Tax Basis
- No Remaining Lifetime Exemption? Consider Sales to Existing Grantor Trusts or Zeroed Out GRATs

Polling Question #2

What will you do regarding estate tax planning over the next 12 months?

1) I will take advantage of the enhanced lifetime exemption and complete a major estate planning project.
2) I will wait and see what happens with tax legislation.
3) Planning for the estate tax is not relevant to me, but I wish it were!

Retirement Plan Limits (2024)

	Under age 50	Including catch up for age 50 and older
401(k)/403(b)/457 Deferral Limit	$23,000	$30,500
Regular/ROTH IRA limits**	$7,000	$8,000
SIMPLE 401(k)/SIMPLE IRA	$16,000	$19,500
Defined Contribution Plan Limits (including employer and employee contributions)	$69,000	$76,500

Retirement Plans (continued)

- NEW in 2025! Individuals ages 60 to 63:
  - Eligible for enhanced catch-up contributions of $11,250
  - Total amount can defer = $34,750
- ROTH or traditional contributions?
- Self-employed taxpayers and business owners: Consider defined benefit plan (e.g., cash balance plan)

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ROTH Conversions

- Advantages of a ROTH IRA
- When a ROTH conversion might make sense:
  - Expect higher tax rates in the future and/or in retirement
  - Special tax attributes to offset conversion income
  - Have non-retirement funds to pay the tax on conversion
  - Market valuations are low
  - High-net-worth taxpayers passing retirement accounts to heirs
- CAUTION: Conversions can no longer be recharacterized (undone)

Polling Question #3

Have you considered converting your ROTH IRA?

1) Yes
2) No
3) I don't have a ROTH IRA

Qualified Charitable Distributions (QCD)

- Taxpayers 70 ½ and older
- Direct distribution from an IRA to charity
- **QCDs are now indexed for inflation!!!**
  - **$105,000 in 2024**
  - **$108,000 in 2025**

Qualified Charitable Distributions (QCD)

- Advantages
  - QCD income not included in AGI
  - Counts toward your required minimum distribution (RMD)
  - Tax-efficient charitable giving
- Advanced Planning Tip
  - One-time QCD of up $53,000 in 2024 ($106,000 if married) to fund a charitable gift annuity

Gift of Appreciated Stock

- Hypothetical married couple with:
  - $400,000 of nonportfolio income
  - $10,000 state tax deduction
  - Desire to contribute $50,000 annually to charity
- Strategy: Gift low-basis stock held for at least one year rather than selling the stock and contributing cash

Gift Appreciated Assets (Illustrated)

	Donate Appreciated Stock	Sell then Donate Appreciated Stock
Nonportfolio income	$ 400,000	$ 400,000
Long-term cap gain	$ -	$ 35,000
Pretax income	$ 400,000	$ 435,000
State & local tax	$ 10,000	$ 10,000
Charitable deduction	$ 50,000	$ 50,000
Itemized deductions	$ 60,000	$ 60,000
Taxable income	$ 340,000	$ 375,000
Regular tax liability	$ 67,685	$ 72,935
Net investment tax	$ -	$ 1,299
Tax liability	**$ 67,685**	**$ 74,234**

Gift of Appreciated Assets

I am in the process of selling my business.

Can I gift a portion of my business to charity, take a charitable deduction and avoid paying tax on the sale?

Charitable Contribution Bunching

- Hypothetical married couple with:
  - $400,000 of nonportfolio income
  - $10,000 state tax deduction
  - Desire to contribute $15,000 annually to charity
- Higher standard deduction under the TCJA; many not receiving full benefit for their charitable contributions
- Strategy: Establish a donor advised fund (DAF)
  - Make a large deductible charitable contribution upfront
  - Distribute planned annual contributions from the DAF

Charitable Bunching Illustrated

	Charitable Bunching			Without Bunching
	2023 Tax Year	2024 Tax Year	2025 Tax Year	2023-2025
Nonportfolio income	$ 400,000	$ 400,000	$ 400,000	$ 400,000
State & local tax	$ 10,000	$ 10,000	$ 10,000	$ 10,000
Charitable contributions	$ 45,000	$ -	$ -	$ 15,000
Itemized deductions	$ 55,000	$ 10,000	$ 10,000	$ 25,000
Standard deduction	$ 27,700	$ 29,200	$ 29,200	$ 29,200
Greater of item. or Std.	$ 55,000	$ 29,200	$ 29,200	$ 29,200
Taxable income	$ 345,000	$ 370,800	$ 370,800	$ 370,800
Tax liabiity	$ 69,600	$ 75,077	$ 75,077	$ 75,077
3-Year Total Tax Liability:			**$ 219,754**	**$ 226,954**

Polling Question #4

What charitable tax strategies have you used?

1) QCDs
2) Gifts of appreciated stock
3) Charitable bunching
4) Some combination of the above
5) None of the above

Capital Gain/Loss Harvesting

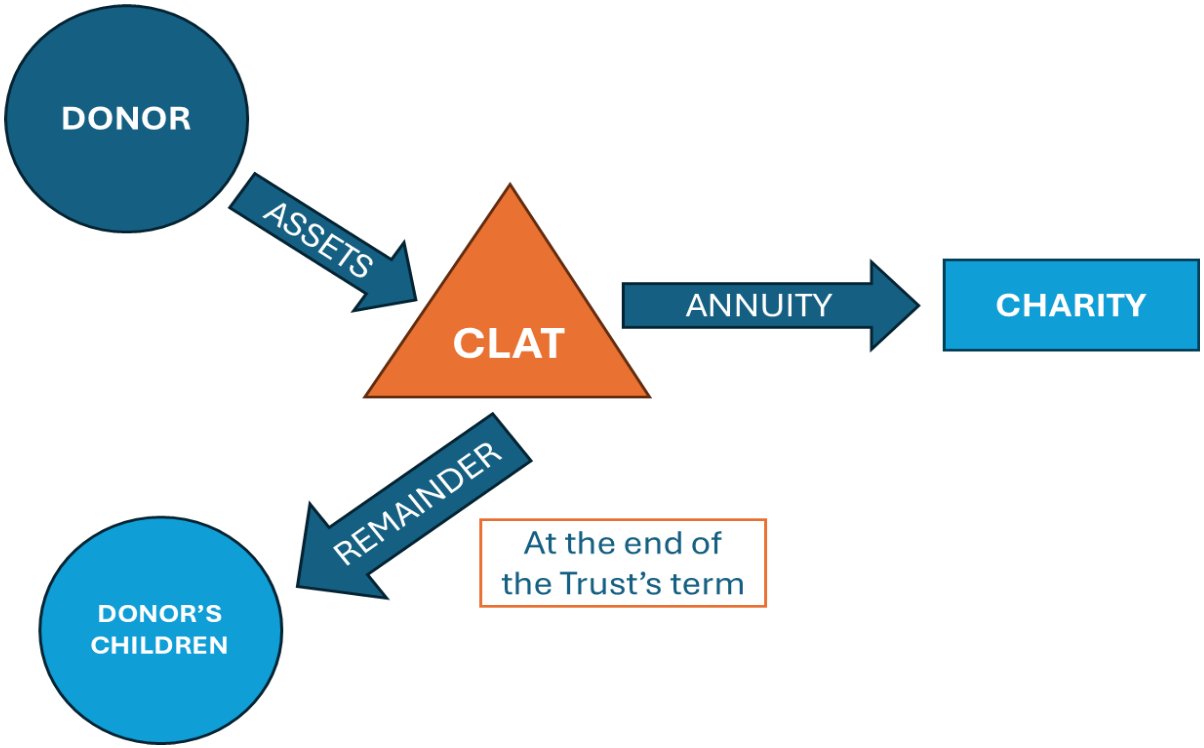
- Capital loss harvesting
  - $3,000 capital loss limitation
  - Wash sale limitation
- Capital gain harvesting
  - Tax basis reset
  - Use up tax attributes and/or low brackets

NIIT Planning

- Additional 3.8% tax on net investment income applies to taxpayers with AGI exceeding $250,000 (MFJ) or $200,000 (Single)
- Possible Strategies
  - Maximizing retirement plan contributions
  - Postponing net capital gains or harvest losses to offset gain
  - Contributing to health savings account
  - Selling property with losses
  - Spreading large gains by using an installment sale
  - Using a Section 1031 exchange to defer gain
  - Donating appreciated securities to a qualified charity
  - Altering the tax characteristics of your investment
  - Grouping passive activities with activities in which you materially participate

NIIT Planning (Advanced Tip)

- Establish a non-grantor charitable lead annuity trust (CLAT).



Other Tax Planning Items

- Disaster Relief Provisions
- State Residency Planning
- Qualified Business Income Deduction (199A)
- Opportunity Zones

Thank You!