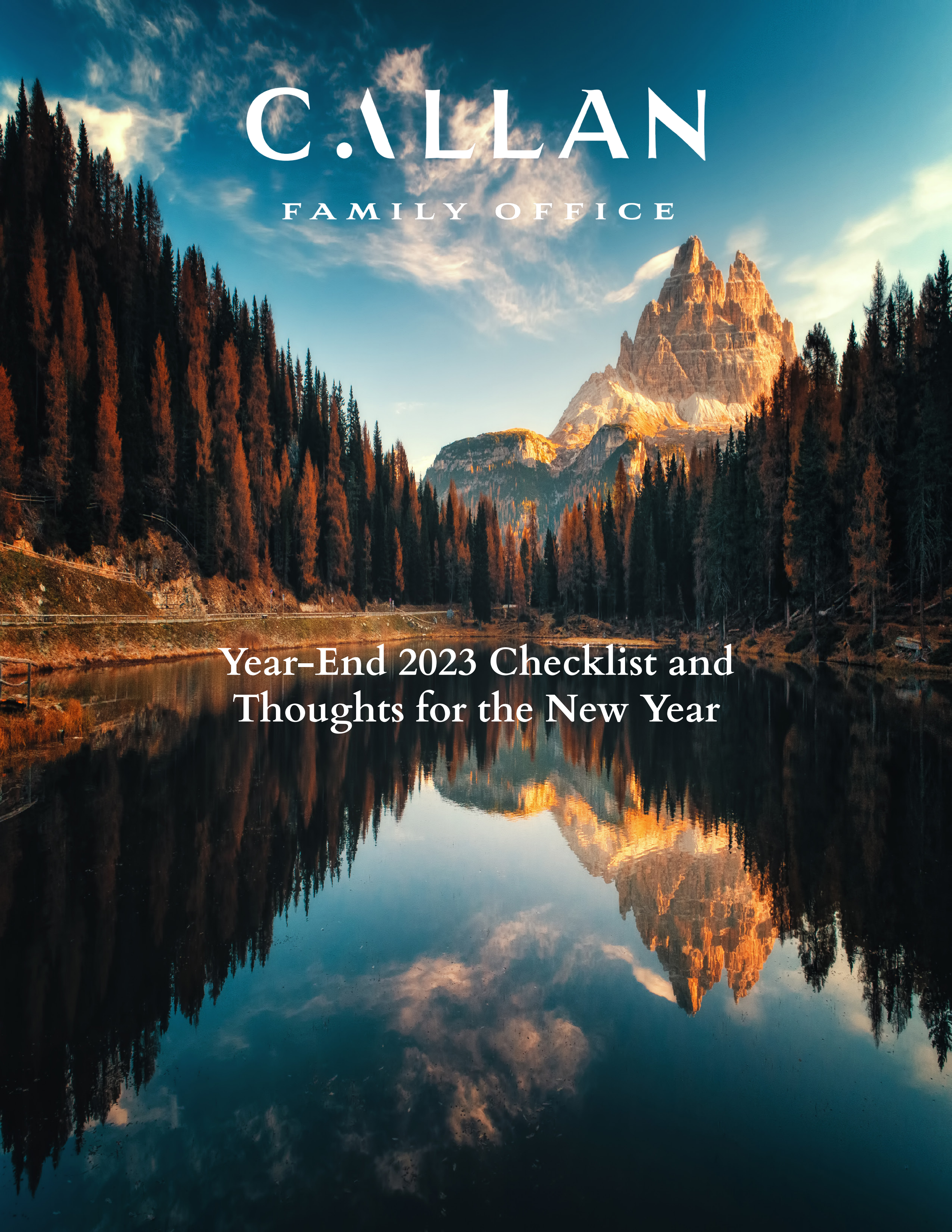

CALLAN

FAMILY OFFICE

Year-End 2023 Checklist and Thoughts for the New Year

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Looking back, 2023 has flown by which means it's a great time to take stock of what has occurred to change your outlook and influence your life. Definitely important factors like inflation and global instability have impacted all of us. Yet now is the time to look ahead.

With a 2024 presidential election on the horizon, you may be experiencing apprehension as we brace to learn about each presidential candidate's economic plan. Many important tax laws are set to expire at the end of 2025 that have significant impact on taxpayers if no new tax proposals are signed into law beforehand. Given the political uncertainty, taking some steps now to help mitigate tax implications and better position yourself and your wealth for the future is important.

We have laid out some meaningful considerations for year-end and future planning. Please reach out to your Callan Family Office Relationship Manager to discuss these and other changes for your own portfolio.

Year-End Checklist Items

✓ Make annual exclusion, tax-free gifts up to $17,000 ($34,000 for married couples) per gift recipient. In 2024, the annual exclusion increases to $18,000.

✓ Front-load 529 Plans by gifting up to 5x your annual exclusion amount (up to $85,000, or $170,000 for married couples). Also, assets grow tax free and if used for expenses, any future appreciation is not subject to taxation.

✓ Make unlimited payments directly to medical and educational institutions without incurring a gift tax or using any portion of your gift exemption.

✓ Max out your retirement accounts. In 2023, you can contribute up to $22,500 to your 401(k) (+ $7,500 more if age 50+) and $6,500 to IRAs (+ $1,000 more if age 50+). The contribution limits increase in 2024 to $23,000 for your 401(k) (+ $7,500 more if age 50+) and $7,000 to IRAs (+ $1,000 more if age 50+). The deadline for contributing to your 401(k) is December 31st but later for IRAs (by the tax filing deadline).

✓ Take required minimum distributions (RMDs) from your retirement plan(s) on time to avoid a 10%-25% penalty. When to take your first RMD depends on your age (see "RMD Age Schedule" below).

If you are still employed, you may be able to delay your first RMD until the year after you retire. Additionally, different rules may apply to inherited retirement accounts. Confer with your CPA and plan administrator in these cases. Notably, RMDs are NOT required for Roth IRAs. Beginning in 2024, the RMD exemption will be extended to Roth accounts in 401(k), 403(b), and 457(b) plans.

RMD Age Schedule:

- Your first RMD must be taken no later than April 1st of the year following the year you turn age 72 (or age 73 if you turn age 72 in 2023 or later).
- After your first RMD, subsequent RMDs generally must be taken no later than December 31st each year.

If you are 70½ years old or older, consider donating up to $100,000 from your taxable IRA directly to a qualified charity to avoid taxable income.

✓ Update beneficiary designations to ensure assets land in the right hands, make sure you protect invaluable possessions by conducting a home inventory, with a focus on your collectibles, and communicate any changes in your wealth plan to your family and advisors. The time is now. You have worked to build your financial life and carefully curate your home. Make sure you're protected on all fronts.

Strategies for Shielding Income from Taxes

Lowering the amount of taxes owed typically stays top of mind for most individual and business taxpayers. Below are a few strategies for safeguarding your income, especially relating to high-income taxpayers.

- Review your investment portfolio to harvest capital losses aimed at offsetting capital gains.
- Make trust distributions to beneficiaries who are in lower income tax brackets rather than trapping income inside the trust. A trust will be taxed at 37% on income over $14,451 (expect adjustments for inflation in 2024).
- Review the vehicle structure within your portfolio. Transition out of tax-inefficient mutual funds into more tax-efficient exchange traded funds and separately managed accounts where practical. Try to do this before capital gain distribution activity begins in earnest at year-end.
- Use Private Placement Life Insurance (PPLI) or Private Placement Variable Annuities (PPVA) to neutralize the impact of current income by placing assets in a product that offers tax-deferred growth, which compounds over time, while still giving you access to tax-free withdrawals. In the case of PPLI, you also have access to tax-free loans and tax-free death benefits, which makes PPLI a great estate planning tool. These products are especially attractive for individuals who enjoy investing in alternative investments, such as hedge funds and private credit investments, but want to put a wrapper around these investments to manage their tax inefficiency. PPLI and PPVA offer a broad range of alternative investments not afforded in traditional life insurance or annuity products. Initial funding must meet certain thresholds, and the rules are complicated, which requires expertise to implement.
- "Bunch" charitable gifts typically gifted over years and potentially take advantage of a larger charitable deduction, especially with the current limitations or

suspensions of several other itemized deductions. Donor-Advised Funds (DAF) are one way to bunch gifts efficiently.

– Depending on the type of asset and organization you choose to donate to, your charitable deduction could vary between 20% to 60% of your Adjusted Gross Income (AGI), subject to certain limitations.

– Donating certain long-term appreciated assets to select charities may have multiple benefits -- an income tax deduction based on the FMV of the donated asset and the ability to avoid paying capital gains tax on the asset's unrealized appreciation.

– Living in a state with low or no income taxes may mean less likelihood of being subject to Alternate Minimum Tax (AMT). In this case, charitable gifts may be even more attractive because the charitable deduction is worth 37% under the regular tax system vs. 28% under the AMT system.

- From home office space to debt interest to inventory, business owners should speak with their CPAs to understand the many generous write-offs available.

The Charitable LLC

Charitable LLCs are an increasingly popular method of giving to fulfill one's charitable intent. This strategy gained significant notoriety when Priscilla Chan and Mark Zuckerberg, the CEO of Facebook, pledged 99% of their Facebook shares to the Chan Zuckerberg Initiative, LLC. These shares were valued at approximately $45B. Creating a Charitable LLC structure has distinct advantages and disadvantages. From a tax perspective, a Charitable LLC may not be the most efficient structure. If taxes are the top priority, other charitable entities such as a DAF, private foundation, or Charitable Remainder Trust (CRT) are potential avenues. However, the enhanced flexibility of a Charitable LLC, coupled with privacy and control, makes a Charitable LLC a great option. When deciding between a Charitable LLC and a private foundation, there are several points to consider:

- Members of the Charitable LLC will receive a charitable deduction when the LLC distributes to a charity where a private foundation will receive a tax deduction upon initial funding and is tax exempt.
- Charitable LLCs do not have reporting requirements and do not have to publicly disclose information.
- Unlike with a private foundation, a Charitable LLC is not subject to an excise tax (non-operating, grant-making private foundation must pay a 1.39% excise tax on net investment income).
- With proper planning, a Charitable LLC can be excluded from the LLC member's taxable estate, by gifting the LLC interest to charity upon the member's passing.
- In contrast with a private foundation, a Charitable LLC can engage in political campaigning and lobbying. The ability to align your giving with your passions and interests can be deeply fulfilling.
- With a Charitable LLC, there are no minimum distributions that must be made to a charity in any given year, allowing for more flexibility.
- The Charitable LLC investment options are much broader than a typical private foundation and allow for investments with higher risk, eliminating the "jeopardizing investment" rule.
- With a Charitable LLC, a business owner will not be subject to the excess business holdings rule of a private foundation, which limits the ability to control a business.

Further, emotional fulfillment and a sense of purpose are critical aspects of charitable giving, and Charitable LLCs can enhance these aspects in various ways. For example, Charitable LLCs offer a high degree of customization in terms of the causes and organizations you can support, which can be emotionally satisfying because it allows you to focus on issues that resonate with you personally. Some Charitable LLCs may facilitate connections with like-minded individuals who are part of the same organization or collaborative giving group. Being part of a philanthropic community can be personally fulfilling, as it creates a sense of shared purpose and a network of support.

Recognizing that individuals may have varying motivations and emotional connections to their philanthropic efforts is important, beyond the financial or tax considerations of their charitable vehicle. The decision to choose a Charitable LLC or any other charitable-giving structure should reflect an individual's unique values and the emotional rewards they seek from their giving. Whether it's the joy of helping others, the satisfaction of creating a positive impact, or the sense of belonging to a philanthropic community, Charitable LLCs offer a flexible framework to support these emotional motivations.

Family Get-Togethers Before, During, and After the Holidays

Family get-togethers before, during, or after the holidays provide a unique window for having important wealth conversations beyond investments and planning. Asking family members to set aside a few hours as part of a family gathering can lead to meaningful and valuable dialogue. If you are wondering what topics to cover, we suggest discussions that cover one or more of the topics below.

Navigating the challenges of managing wealth depends on open communication within the family. Talking to your children regularly sets them up to understand and successfully manage their responsibilities regarding family wealth. As you prepare to communicate about wealth, ask yourself these questions:

- What information is important to share with family members regarding your wealth plans?
- Are there questions family members may have that could be addressed in a year-end planning conversation?
- Do family members understand the fundamentals of trust and estate planning, financial responsibility, asset management, and family shareholder responsibilities? If not, what plans can you put in place to help them learn?

Communicating is step one, but families who are also intentional about fostering a family learning culture position next generations to thrive and succeed as responsible wealth stakeholders. Consider these questions when thinking about how to engage and prepare the next generation:

- Do family members have the information they need to acquire the more advanced knowledge and skills necessary to be good stewards of family wealth?
- What opportunities are there to develop family talent and leadership within your family business, family foundation, or wealth enterprise?

Common purpose and perspectives increase the chance of sustaining long-term wealth within families. Focusing on family strengths, history and values can help families understand the perspectives of family members and how they relate to your current family success and legacy. Inviting family members to comment on their experiences surrounding money can strengthen family connectivity and foster responsible wealth stewardship. For example, ask each family member to share a piece of wisdom about money that was passed on from prior generations and why that wisdom has meaning to that family member. Or ask each family member to name and describe one or two values or beliefs about money that are important to the family and explain why.

Families often benefit from developing a shared mission or vision statement regarding multigenerational wealth. Your mission statement is about what's important to you as a family now, whereas a vision statement speaks to what you aspire to in the future. You could ask family members to discuss where there are commonalities in defining a mission and vision surrounding shared family success. Conversations often include hopes for "doing good," "staying connected," "supporting one another," and "being responsible wealth stewards." These can be rich and engaging exchanges because they foster a sense of family alignment and shared purpose.

You will likely realize the myriad benefits of devoting this time together as a family. The act of inviting family dialogue conveys both the importance of family alignment and the value of active participation in learning as a family.

A Presidential Election Year is Upon Us

The United States presidential election will take place in November 2024. An election year brings competing campaign promises, new tax plan proposals, and uncertain times. The unknown can feel scary, and fear can lead to poor decision making. Let us stick with what we know for now.

The Tax Cuts and Job Act (TCJA), signed into law by President Trump in 2017, implemented many tax-code changes that are expected to expire at the end of 2025. Looking ahead, all 2024 Presidential candidates will need to speak to their plans for addressing these important tax issues. For years individuals have enjoyed many of the temporary tax law changes, and the scheduled expiration of some of these tax laws could impact your planning. If there is no new legislation enacted before 2026, some notable tax items set to expire at the end of 2025 and revert to those laws in effect pre-TCJA include:

- Prior to the TCJA, there were seven federal income tax brackets ranging from 10% up to 39.6%. These rates were lowered, with the top rate set to 37%, and the brackets widened, which has reduced federal income taxes significantly for many taxpayers and brought higher tax refunds. Old 2017 federal tax brackets will be reinstated after 2025.

- The exemption and phase out amount for the AMT was increased under TCJA, which means fewer individuals worry about AMT, or at least pay less AMT. The exemption and phase-out increase go away after 2025.
- Under the TCJA, business owners could accelerate depreciation on qualified property at 100% in the year acquired from 2018 to 2022. After 2022, the allowable percentage tax deduction started to phase out by 20% each year and will be fully phased out in 2027 (i.e., 80% allowable in 2023, 60% in 2024, and so on).
- Extremely beneficial is the Qualified Business Income (QBI) deduction afforded under the TCJA. Taxpayers can deduct up to 20% of business income from their flow-through entities (e.g., partnerships, S-Corps, Schedule C businesses) on their personal tax returns. The QBI deduction is no longer available after 2025.
- TCJA doubled the standard deduction and removed the personal and dependent exemptions, which made itemizing tax deductions less beneficial. Many itemized deductions are either suspended, limited, or increased under TCJA. To name a few, the itemized deduction limitation at certain thresholds for high-income taxpayers is suspended, a limitation of $10,000 applies to the state and local tax deduction (SALT), a cap of $750,000 is placed on the interest payment deduction for new debt from a principal resident and one other residence combined, and interest paid on credit card debt was suspended as an eligible interest payment deduction. Also, the amount taxpayers can deduct through itemized deductions for charitable donations increased from 50% to 60%, and the medical expense AGI floor was lowered from 10% to 7.5%. These various temporary changes under TCJA impact taxpayers in different ways, and the impact beginning in 2026 may depend on if taxpayers had enough items to itemize prior to TCJA. Nevertheless, after 2025, the standard deduction will be cut in half, personal and dependent exemptions returned, deduction limits lifted, increased exemptions reduced back, and suspended items resumed.

The TCJA did implement some tax provisions that are not set to expire after 2025 and remain impactful changes to the growth of our economy, such as the changing of the corporate tax rate from 35% to 21%. Again, the permanency or expiration of any of these tax laws depends on Congress. While nothing is off the table, as we move into a presidential election year, we suggest you hold tight and stay in conversations with your advisory team to discuss goals and next steps.

Make Hay While the Sun is Shining

A major benefit of TCJA is the increase of the lifetime gift/estate tax exemption. In 2023, everyone can gift, or bequeath at death, up to $12.92M (double if married) without incurring a gift/estate tax, which is currently at 40%. The exemption amount increases to $13.61M in 2024 and will again be adjusted for inflation in 2025. However, the exemption decreases to roughly $6.2M after 2025. This scheduled change is significant.

We often write about the benefits of gifting, such as the ability to reduce the size of your estate to minimize estate taxes at death and providing for family members. For wealthy individuals who (i.) want control over who gets their assets, (ii.) feel comfortable parting with some assets, perhaps while still gaining access to those assets, and/or (iii.) are sensitive to paying taxes, they should act. Taxpayers who choose to wait in hopes Congress decides to maintain the higher exemption beyond 2025 may find themselves rushing to implement strategies at the last minute when attorneys are bombarded. We suggest you make hay while the sun is shining.

Below are some ideas to take advantage of your exemption amount:

- **Forgive an outstanding note:** Loan forgiveness doesn't require you to give up anything else beyond the outstanding debt owed you.
- **Gift liquid or illiquid assets outright or to an existing trust for the benefit of trust beneficiaries.** Confirm the trust allows for additional contributions.
- **Establish and gift assets to a new irrevocable trust for the benefit of named beneficiary(ies).** Trusts can be set up to be perpetual in nature and continue for multiple generations. We invite you to imagine your legacy by doing so.
- **Establish and gift assets to an irrevocable Spousal Lifetime Access Trust that benefits your spouse during life and heirs to follow.** In this case, if you and your spouse remain together, you will continue to have indirect use of those assets during the life of your spouse.

- **Establish and gift assets to an irrevocable trust that pays you back an annuity for a period and remaining assets benefit heirs.**

Importantly, if you further allocate your generation-skipping tax (GST) exclusion to any of these gifts that benefit more remote descendants directly or ultimately, you can avoid paying the additional GST tax currently at 40%. The exclusion mirrors the gift/estate tax exemption amount noted above.

Depending on the assets used to make a gift, valuation discounts may be applicable, which would allow you to give more using less exemption amount. For example, if you gift LLC membership interests, a lack of marketability discount may be applied. Typically, these discounts can range from 20% to 40%.

While forgiving a loan or gifting assets outright (or to an existing trust) is easy to implement, establishing and funding a new trust takes time. Also, you will incur attorney fees. But the tax savings and asset protection afforded with a trust structure may be worth every penny!

Planning in a Higher-for-Longer Interest Rate Environment

In the section titled "Some Things Do Change: Planning in a High Interest Rate Environment" of our Planning for Year-end 2022 & Beyond report, we discuss certain estate planning strategies such as a Qualified Personal Residence Trust and CRT and why these particular strategies perform best in high interest rate environments. Again, and for the foreseeable future, we are living in a high interest rate environment. Thus, our thoughts about implementing one or more of these strategies haven't wavered since last year. For a refresher, we direct you back to the 2022 report or to speak with your Callan Family Office Relationship Manager to learn more.

No matter the interest rate environment, sometimes there are other factors that drive decisions to implement various strategies. We mentioned earlier one way to make use of your exemption is to forgive a promissory note due to you, but many planning possibilities exist. For example, suppose you use the promissory note to fund a Grantor Retained Annuity Trust (GRAT) and not use your exemption at all, or minimally, which opens the door for you to use your exemption in other ways while still removing value from your taxable estate. The idea is to fund the GRAT with the promissory note due to you. The GRAT is required to pay you, the grantor, an annuity for a period using interest earned on the underlying assets owned by the GRAT, or in this case interest payments made on the promissory note now owned by the GRAT. Any remaining assets above and beyond the §7520 rate go to remainder beneficiaries at the end of the GRAT term. The §7520 rate is the relevant benchmark for success of the GRAT because it's the rate used to calculate the annuity payments at the time of funding.

Typically, a GRAT may not be a suitable wealth-transfer strategy when interest rates are high because it's more difficult for the GRAT to outperform the §7520 rate used to calculate the annuity payments due the grantor. But assets that are eligible for a valuation discount, such as a promissory note, may still be reason enough to consider funding a GRAT in a higher-for-longer interest rate environment since the annuity is calculated on a much lower valued asset. Certainly, there's more to unpack on this strategy.

In conclusion, we should talk! As we continue to navigate the current environment, please reach out to your Relationship Manager to arrange a time to walk through the best year-end planning opportunities for your own portfolio.

For more information visit us at:
www.callanfo.com

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Info@CallanFO.com
CallanFamilyOffice.com