Maximizing the impact
of your capital

Year-End Wealth Planning and Philanthropy Strategies

Optimize year-end financial planning strategies, activate high-impact capital, and initiate purpose-driven charitable giving.

High-net-worth individuals and families, philanthropists, and business owners should evaluate their tax and estate plans so they are best positioned for the long-term outlook. You might consider reviewing the following strategies to help meet your financial, wealth-transfer, and philanthropic goals.

1. Plan Annual Gifting
2. Consider Using Historically High Lifetime Tax Exemption
3. Analyze Wealth Transfer Strategies in a High-Interest Rate Environment
4. Assess Roth Conversion
5. Review Current Estate Plan
6. Evaluate Asset Allocation and Location
7. Prepare for Charitable Giving
8. Review Important Retirement Ages

Overview

The chart below is a high level overview of 2023 tax changes.

	Current Taxes	2023 Tax Changes
12.4% Social Security Tax	On income up to $147,000	On income up to $160,200
37% Income Tax	Individuals making over $539,000 Couples making over $647,850	Individuals making over $578,125 Couples making over $693,750
Standard Deduction	$25,900 per couple ($12,950 for individuals)	$27,700 per couple ($13,850 for individuals)
IRA/Roth Contribution Limit	$6,000 per person plus an additional $1,000 contribution amount for those age 50 or older	$6,500 per person plus an additional $1,000 contribution amount for those age 50 or older
Gift and Estate Tax Exemption	$12.06M and a top marginal rate of 40%	$12.92M and a top marginal rate of 40%
Gift Exclusion Amount	$16,000 per person	$17,000 per person

Planning Strategies

Plan Annual Gifting

Annual gifting allows you to give loved ones tax-exempt gifts throughout your lifetime.

- The current annual exclusion amount is $16,000 gift-tax-free to an unlimited number of recipients in one year. It does not tap into the $12.06 million lifetime exemption.
- Consider establishing gift trusts for your children funded with annual exclusion gifts.
- Contribute to Roth IRAs for children who have earned income, matching earnings up to $6,000.
- Fund 529 education plans to help children and grandchildren through tax-exempt gifting. You can front-load five years' worth of exclusion gifts in one tax year for such plans; however, if you take advantage of this strategy, you are not allowed to make annual exclusion gifts to the beneficiary over the next four years.
- In addition to the annual exclusion gifts, you can also pay for tuition or medical bills for individuals directly to the institutions gift-tax-free. There is no cap to such payments and you can still make annual exclusion gifts of up to $16,000 gift-tax-free to the same beneficiary.

Consider Using Historically High Lifetime Tax Exemption

The lifetime gift and estate tax exemption is at a record high of $12.06 million per individual for 2022, scheduled to expire at the end of 2025—reverting to the previous level of $5 million, adjusted for inflation. For married couples, each spouse qualifies for the $12.06 million exemption, creating an opportunity to pass up to $24.12 million free of transfer taxes. The value of your estate above your available exemption is taxed at 40% at death. Keep in mind that the exemption applies to gifts and estate taxes combined—often referred to as a "unified" exemption. Any exemption used for lifetime gifting reduces the amount that can be used to offset the estate tax at death. Specific gifting vehicles include:

Gifting assets in trust. Allows you to specify provisions for beneficiaries, including: how much they can access; when distributions can occur; and what the funds can be used for.

A dynasty trust. Any trust that lasts one generation below that of the grantor can maximize the legacy passed onto heirs using the generation gift tax exemption. A significant drawback of a dynasty trust is that you are making a sizable irrevocable gift.

Spousal lifetime access trust. A SLAT—an irrevocable trust set up by one spouse for the other to be used during his or her lifetime—has become a popular estate planning strategy used by married couples to take advantage of the lifetime exemption.

Wealth Transfer Strategies in a High-Interest Rate Environment

Qualified Personal Residence Trust (QRPT) Gifting a home to a trust allows the grantor to retain an interest in the home for a set number of years. At the end of the term, the home is owned by the trust and is outside the estate for tax purposes. At the end of the retained term, the grantor may rent the home from the trust. The Section 7520 rate determines the retained value for the grantor's interest in the home. Keep in mind that a higher rate (and longer term) can greatly increase the value of the retained interest and make the gift considerably smaller. The basis in the home transfers to the QRPT. Establishing a QRPT will affect both capital gains and estate taxes.

Charitable Remainder Annuity Trust (CRAT)
The grantor receives an annuity from the Charitable Remainder Trust (CRT) for a set term of years. The charity receives what remains at the end of the term. As with a QRPT, the Section 7520 rate determines the remainder value for the grantor's tax deduction. A higher rate will increase the remainder value and also increases the amount of the deduction. There is a required minimum remainder of 10% of the initial value of the CRT to qualify; there is also a minimum annual payment amount required of 5% and not more than 50% of the trust assets.

Charitable Remainder Unitrust (CRUT) A CRT is an irrevocable trust that generates a potential income stream as the donor to the CRT, or other beneficiaries, for a set term or 20 years, with the remainder of the donated assets going to your favorite charity or charities.

Planning Strategies

Consider Converting a Traditional IRA (tax-deferred growth) to a Roth IRA (tax-free growth)

Any non-spouse beneficiary is now required to deplete an inherited account within 10 years of receipt, limiting the prior “stretch” IRA advantage over the beneficiary’s lifetime. Completing a Roth conversion now could minimize the impact of the new rule since tax-free withdrawals from an inherited Roth IRA will also extend to your children. In addition, some employer-sponsored 401(k) plans also allow for in-plan Roth conversions of both pretax and after-tax contributions.

Both types of conversions are ideal for individuals who expect higher taxes in the future and/or want to accelerate income in a year with lower tax rates. Keeping in mind that under current legislation income tax brackets revert to higher rates in 2026, you may want to consider a full or partial conversion now. You may also want to consider a Roth conversion if you have a long investment time frame for the tax-free earnings to grow and can pay the tax cost of the conversion with non-retirement funds.

Review Current Estate Plan

Make sure that that your estate documents are up to date.

- Review wills, trusts, and beneficiary designations to confirm they reflect your current wishes.
- Double-check to make sure your medical directives and powers of attorney for health and property are up to date in case of extended illness or incapacity.
- Review ownership titles on all property and assets so that property passes to the intended heirs.

Evaluate Asset Allocation and Location

It is a good practice to periodically re-evaluate your asset allocation and review how your assets are distributed across different vehicles—nonqualified accounts, retirement accounts, trusts, insurance, foundations, and other investments. Determining the purpose and future intention of your funds is critical in reassessing your finances.

Roth IRA Conversion Analysis

<table>
<tr><th></th><th>Yes</th><th>No</th></tr>
<tr><td>Can you afford to leave the IRA or 401(k) funds untouched throughout retirement, funding your expenses through other sources of income instead?</td><td rowspan="5">Your wealth-transfer plan will likely benefit from a Roth conversion</td><td rowspan="5">You may still benefit from a Roth IRA or 401(k) conversion, but it is advisable to run a personalized cost-benefit analysis</td></tr>
<tr><td>Will you be in the same or a higher tax bracket in the future?</td></tr>
<tr><td>Can you pay the tax on the conversion by using funds from outside the IRA or 401(k) plan?</td></tr>
<tr><td>Can you convert without negatively affecting your current income tax planning?</td></tr>
<tr><td>Can you continue to fulfill your other financial planning objectives (e.g., charitable giving)?</td></tr>
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Charitable Giving

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Give appreciated securities to charities. By gifting long-term appreciated securities directly to a qualified public charity, you can take advantage of a double income tax benefit. You will receive a charitable deduction on the fair market value of the gifted security and avoid paying capital gains tax on the security donated.

Donate cash from the sale of depreciated securities. Donors may identify certain securities that are currently valued at less than their original cost (cost basis) and sell those securities at a loss. Tax-loss harvesting allows capital losses to offset capital gains and up to $3,000 of ordinary income. Donors can then claim a charitable deduction if they donate cash from the sale proceeds.

Qualified charitable distribution (QCD) continues. While the Secure Act raised the RMD age limit to 72, it did not change the age at which an individual can make a qualified charitable distribution (QCD) from their IRA, which remains at age 70 ½. With the new RMD age limit, the Secure Act creates a new one-and-a-half-year window when IRA distributions may qualify as charitable contributions and are not recognized as taxable income if the distribution is made directly from the IRA to a qualified public charity. At age 72, QCDs can satisfy RMDs and lower your taxable income by the amount of your donation up to $100,000 per year.

Use donor-advised funds (DAFs). DAFs allow donors to pool donations into one fund, deduct the entire contribution in one year, and advise the fund manager over time on the charities to donate to. DAFs have been growing in popularity in recent years for their tax advantages, simplicity, and convenience. Donations can be done by the donor online, while the recordkeeping is handled by the fund manager.

Engage your accountant, lawyer, philanthropic and wealth advisors to build a high-impact philanthropic plan.

Review Important Retirement Ages

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The Secure Act, enacted late in 2019, changed retirement rules to strengthen your retirement security. Among the key changes was required minimum distributions (RMD) beginning at age 72 versus 70 ½.

Important Retirement Ages

50	Begin making catch-up contributions, an extra amount that those 50 and over can add to 401(k) and other retirement accounts.
55	Early withdrawal penalty exception for distributions from certain employer-provided plans such as 401(k) for those who are age 55 and over and separate from service (does not apply to IRAs).
59½	No more tax penalties on early withdrawals from employer-provided retirement savings plans such as 401(k) plans and other individual retirement accounts.
62	Earliest age to collect Social Security retirement benefits; however claiming early reduces monthly benefits.
65	Sign up for Medicare and Medicare Part D.
66-67	Receive Social Security full benefits, depending on your birth year.
66-70	Earn Social Security delayed retirement credits.
70½	Eligible to make qualified charitable contributions from individual retirement accounts.
72	Start taking required minimum distributions from most retirement accounts.

Contact Your William Blair Wealth Advisor

William Blair is dedicated to helping you meet your financial and philanthropic goals with a focus on your evolving needs. Our team of dedicated wealth planning professionals and our philanthropy strategies team are here to serve you. To discuss these wealth planning strategies, please contact your William Blair wealth advisor or email *PWM@williamblair.com*.

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