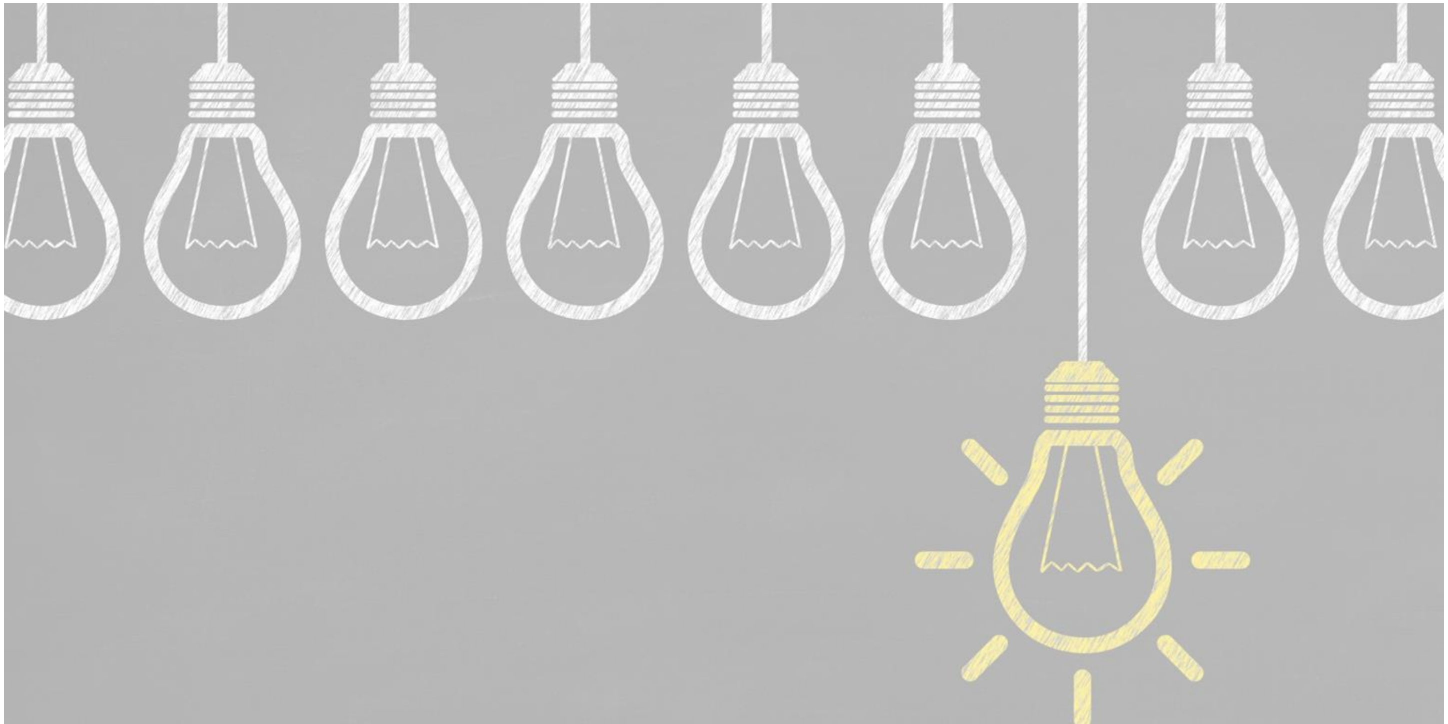

Introducing Tom Dickson's Financial Experts Education Program for Financial Advisors

Tom Dickson
Cell: 412.580.5954
Email: tom@financialexpertsnetwork.com

Interested in Highly Rated Content to grow your Financial Planning Knowledge?

Background: Tom Dickson has hosted over 300 webinars, starting in 2008, that have drawn over 130,000 financial advisors. Tom's live ***Financial Experts*** webinars have featured nationally-recognized experts like Wade Pfau, Harold Evensky, Larry Kotlikoff. And "Undiscovered" experts like Aaron Zolbrod (Medicare) and Tom Riekse (LTCi) whose excellent ratings were 96% and 90%, respectively. In 2019, our webinars have **an 86% excellent rating.**

What's unique about Tom's Financial Experts program?

- A: Our mission is to educate financial advisors so they may better serve their clients. Our formula is to use **true experts** to deliver the education you need to advise clients on topical (e.g. new tax law) and common challenges (e.g. Social Security to college financial aid). 90% of 1,865 webinar attendees when surveyed responded: "I learned something on Tom's webinars that will help me better serve my clients."

Who attends your webinars? Do you provide CE credits?

- A: 43% of our attendees are fee-only financial planners, 46% are dually registered advisors. Yes, we automatically submit CE credits for CFPs, and certificates are provided for those with the American College designations (CLU, RICP or ChFC). We expect to offer a minimum of 24 CE-eligible programs in 2020, to include Ethics CE.

What's it cost?

- A: We are introducing a Members-Only program for $9 a month and quit any time. There is a $25 termination fee, if you quit after the Ethics CE. **I encourage you to read the following slides to learn more.**

Webinar Series Comparison

Financial Experts

1. LIVE Webinars with Lots of Q&A
2. Range of Topics: Planning-Centric
3. Team of National-Level Experts
4. Edited Transcripts + Tip Sheets
5. Study Groups
6. Client Invites
7. > 24 CE-Eligible Programs

Other Platforms

1. May be Replays Only
2. Narrow Focus: News or Product
3. Limited or 1-2 Experts
4. Few provide transcripts
5. No Study Groups
6. No Client Invites
7. CE: Not all provide for American College designations.

Financial Advisor Feedback

- 85% Excellent Rating for 2020 Webinars

- 90% of Advisors* surveyed "I learned something on Tom's webinars that will help me better serve my clients."

- *1,865 advisors surveyed.

Financial Planner Feedback

Dear Tom:

Today's webinar plus all the prior ones you have run that I have attended have been excellent. I've been a fee-only NAPFA member for more than 20 years, and **yours have been the most useful ones I have ever attended.** Thank you for all that you are doing for your members!

Dorothy Cole
Merrimack NH

Member Benefits

$9 per Month
$99 Annual

www.financialexpertsnetwork.com/subscriptions

25 CE Credits

March 18
Sept. 9

		Members
Webinars		
Access to **all live** webinars.		Yes
Access to **study group sessions.**		Yes
Ethics CE for CFP and American College designations.		2 Classes
Automated CE Reporting to CFP Board		Yes
Certificates for self-reporting		Yes
Replays of **all webinars**		Yes
Edited Webinar Transcripts with must-know facts		Yes
Financial Expert Tip sheets; ***12 Fafsa Tips.***		Yes
Submit questions, **in advance**, for experts to answer.		Yes
Community Forum		Yes
Submit Case Studies to be considered as part of webinars.		Yes
1-click webinar registration		Yes
Opt-in control		Yes

2020 Live Webinar Calendar

	Topic	Speaker
Jan. 7	Medicare	Aaron Zolbrod
Jan. 14	5 High-Value IRA & Tax Planning Strategies	Ed Slott
Jan. 21	FEN Must-See Fintech	Multiple
Jan. 28	Today's Mortgages	Multiple
Feb. 5	ETF Ideas for 2020; Sector Rotation	Todd Rosenbluth
Feb. 12	Portfolio Construction for 2020	Case-Study Format
Feb. 19	ETFs and Politics	Ben Stevens
Feb. 26	Student Loan Options	Jantz Hoffman
4-Mar	Modeling Annuities in MGP	TBA
12-Mar	529 Plans	SFC
19-Mar	Ethics CE	Jeff Rattiner
April	Direct Indexing, Non-transparent ETFS	
April	HSAs	
May	Life Insurance Planning	
May	Special Needs	
June	Divorce Planning	
June	Cost of LTC Care	

Note: Minimum of 12 CE-Eligible programs to be added from July-Dec. 2020.

We find The EXPERT in Specialized Area

National Figures and **Undiscovered EXPERTS**

The **"Dean"** of Financial Planning

Bob Keebler
TOP CPA

Kurt C.
Mr. Social Security

Aaron Zolbrod
Medicare Specialist

Sample Edited Medicare Transcript

provided to Members

93%
Excellent Rating

Understanding Medicare Plan Choices
With Aaron Zolbrod, CEO of The Health Insurance Store

What's covered by Medicare Parts A and B:

Part A covers hospitalization. If you're hospitalized for any period of time, up to 60 consecutive days, your bill will be $1,364. To be clear, you will be responsible for $1,364 regardless of whether you were hospitalized for one day, 21 days or 60 days; your bill is $1,364. So that's kind of a strange dynamic of Medicare. But it is what it is. That doesn't change until the 61st consecutive day in the hospital. And at that time, it would go up to $335 per day, from day 61 through 90 and $682 per day from days 91 through 150. I did have two clients in 2017 that were we're in the hospital over 100 consecutive days. I'm going to talk about one in case as we move on with the presentation.

Part B covers your medical. This is your common outpatient procedures and services. So, your doctor visits and your specialist visits. And testing… blood tests, x-rays, CAT scans, MRIs, outpatient surgical procedures, cataract, carpal tunnel, and colonoscopy.

Members receive Financial Aid Expert Mark Kantrowitz's ANSWERS to 58 Fafsa and Financial Aid questions

Mark Kantrowitz with Suze Orman

Question & Answer Session: Answered during Webinar

Divorce Question from Eric: When parents are divorced, if the divorce agreement allows that the child can put down the address of the parent with the lower income, are there any other records that parents would need to provide to prove that that residents school records driver's license to FAFSA or college asked for custody agreement to close?"

> **Mark's Answer:** Some colleges are going to want to see a copy of the child custody arrangement. So, if you do change from what's in the original divorce decree, go back to court and get it modified so that when you can show them that it actually reflects the arrangement that was agreed to in court. Also, colleges will be very suspicious However, if your child is theoretically living with a parent in a different

What's next?

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Upcoming Webinars

Tom Dickson's 2020 Webinar Calendar + Members-Only Program
Presented by Tom Dickson
Friday, December 20, 2019
Register »

Tom Dickson's 2020 Webinar Calendar + Members-Only Program
Presented by Tom Dickson
Friday, December 13, 2019
Register »

LIVE educational webinars for Financial Advisors!

Financial Experts' live webinars have drawn over 130,000 financial advisors with financial experts like Wade Pfau, Michael Finke, Larry Kotlikoff delivering "actionable" advice to help you better serve your clients. ***90% of webinar attendees surveyed "learned** something that will help them better serve their clients."** *Not surprising, **83%** of our webinars have been rated **excellent!**

We are excited to announce our Members-Only program that features **LIVE webinars with 24 CE-eligible programs, includings Ethics CE**. Members receive special access to **experts with deep expertise** in fields like college planning, Medicare, Social Security, Taxes and much more. Plus, you get access to all webinar replays, transcripts, Experts Guides and Case Study Groups.

To learn more, click here to register for an info session. To subscribe, use the button below.

Sign me up for $9 trial

Option 1: Register for info session this Friday.

Option 2: Sign up for the program.

Proactive Year-End Planning

Presented by:

Robert Keebler, CPA/PFS, MST, AEP®

Year-end Planning

Essential Ideas

- Bracket Management
  - Tax reform re-think
  - Bequest funding considerations
- Deduction Timing
  - Tax reform re-think
- Gain & Loss Harvesting
- Funding Tax-Preferenced Accounts
- Opportunity Zones
- Trusts & Estates
- 199A

Year-end Planning

Checklist

- ❑ Bracket Management
  - ❑ Bonuses
  - ❑ Recognition events
  - ❑ Business expenses
  - ❑ AMT awareness
- ❑ Itemized Deduction Timing
  - ❑ Medical expenses
  - ❑ Property tax
  - ❑ Charitable contributions
  - ❑ Casualty & theft losses
- ❑ Gain Harvesting
  - ❑ Current < Future rate ?
  - ❑ Consider forced recognition events (e.g. warrants)
- ❑ Loss Harvesting
  - ❑ Offset gains
  - ❑ $3,000 ordinary income offset

Year-end Planning

Checklist

- ❑ Retirement Planning
  - ❑ Fund IRAs
  - ❑ Fund 401ks
  - ❑ Fund pension plans
  - ❑ Optimize Traditional/Roth mix
  - ❑ Consider Roth conversions
  - ❑ Review RMDs
  - ❑ Review NUA
- ❑ Education Planning
  - ❑ Time tuition payments
  - ❑ Fund 529 plans
  - ❑ Fund Coverdell accounts
- ❑ Executive Planning
  - ❑ Review NQCD
  - ❑ Review NQSOs / ISOs
  - ❑ Review concentrated positions
- ❑ Charitable Planning
  - ❑ Consider QCD
  - ❑ Consider appreciated assets
  - ❑ Consider DAF
- ❑ Estate Tax Planning
  - ❑ Make annual exclusion gifts
  - ❑ Make medical gifts
  - ❑ Make tuition gifts

Year-end Planning

Checklist

- ❑ Estimated Taxes
  - ❑ Review payments & estimated taxable income
  - ❑ Extra payment to reduce penalty
  - ❑ Additional W-2 withholding to eliminate penalty
  - ❑ AMT review
- ❑ Medical Expense Planning
  - ❑ Review Medicare premiums
  - ❑ Review HSA contributions
  - ❑ Review FSA balance
- ❑ Significant Financial Events Next Year
  - ❑ Recognition events
  - ❑ New investments
  - ❑ Re-allocation plans
  - ❑ Vesting
- ❑ Major Life Events Next Year
  - ❑ Family changes
  - ❑ Job changes
  - ❑ Moving

Tax Reform

Review of Core Changes

- Individual Taxation
  - Lower marginal rates
  - Increased standard deduction
  - Reduced itemized deductions
  - Exemptions eliminated in favor of child tax credits
- Business Taxation
  - Reduced rates
  - Accelerated cost recovery
  - Deductions for interest paid & losses limited
- Estate & Gift Taxation
  - Increased exemption

Tax Reform

*Income Tax Rates **2017***

TOP OF EACH BRACKET

	S	MFJ/QW	MFS	HOH	T&E
10.0%	$ 9,325	$ 18,650	$ 9,325	$ 13,350	
15.0%	$ 37,950	$ 75,900	$ 37,950	$ 50,800	$ 2,550
25.0%	$ 91,900	$ 153,100	$ 76,550	$ 131,200	$ 6,000
28.0%	$ 191,650	$ 233,350	$ 116,675	$ 212,500	$ 9,150
33.0%	$ 416,700	$ 416,700	$ 208,350	$ 416,700	$ 12,500
35.0%	$ 418,400	$ 470,700	$ 235,350	$ 444,500	
39.6%					

CAPITAL GAINS	0%	15%	20%

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Tax Reform

*Income Tax Rates **2019***

TOP OF EACH BRACKET

	S	MFJ/QW	MFS	HOH	T&E
10%	$ 9,700	$ 19,400	$ 9,700	$ 13,850	$ 2,600
12%	$ 39,475	$ 78,950	$ 39,475	$ 52,850	-
22%	$ 84,200	$ 168,400	$ 84,200	$ 84,200	-
24%	$ 160,725	$ 321,400	$ 160,725	$ 160,700	$ 9,300
32%	$ 204,100	$ 408,200	$ 204,100	$ 204,100	-
35%	$ 510,300	$ 612,350	$ 306,175	$ 510,300	$ 12,750
37%					

TOP OF EACH CAPITAL GAINS BRACKET

	S	MFJ/QW	MFS	HOH	T&E
0%	$ 39,375	$ 78,750	$ 39,375	$ 52,750	$ 2,650
15%	$ 434,550	$ 488,850	$ 244,425	$ 461,700	$ 12,950
20%					

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Tax Reform

Standard Deductions

2017

CURRENT STANDARD DEDUCTION

S	MFJ/QW	MFS	HOH
$ 6,350	$ 12,700	$ 6,350	$ 9,350

2019

CURRENT STANDARD DEDUCTION

S	MFJ/QW	MFS	HOH
$ 12,200	$ 24,400	$ 12,200	$ 18,350

Tax Reform

Itemized Deductions

THE <u>OLD RULE</u> WAS TO

<u>ACCELERATE</u> DEDUCTIONS

THE <u>NEW RULE</u> IS TO

<u>TIME</u> DEDUCTIONS

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Bracket Management

Itemized Deductions

- Art and Alice are married taxpayers filing a joint return.
- They typically give about $15,000 to charity annually at the end of the year
- The SALT deduction, capped at $10,000, is the only other itemized deduction they can claim

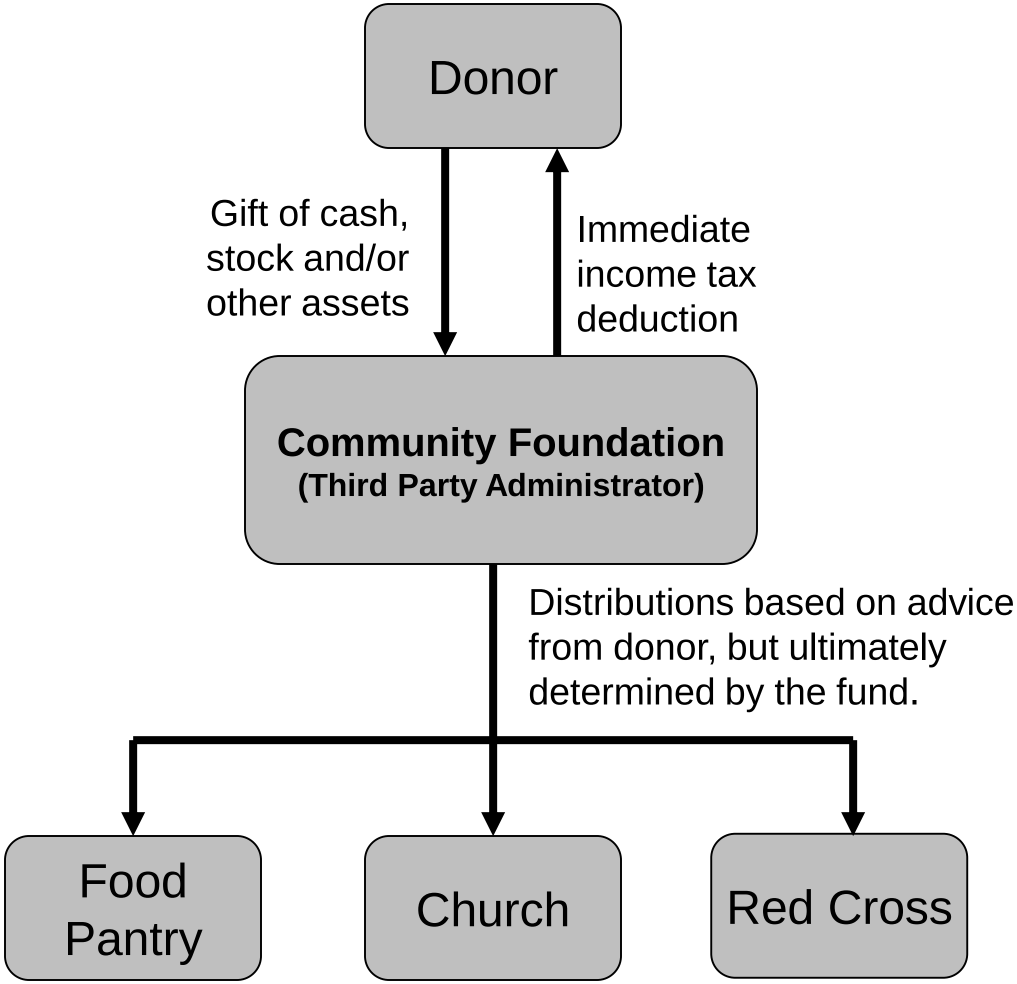
Bracket Management

Itemized Deductions

- If they make their annual donation as usual, they will have $25,000 of itemized deductions, which only decreases their taxable income by $600 in 2019 since they are already entitled to a $24,400 standard deduction
- However, if they lump together their 2019 and 2020 contributions in 2019, their taxable income will be reduced by an additional $15,000 in 2019 and their total deductions will be relatively unchanged in 2020

Donor Advised Fund

Overview



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Donor Advised Fund

Who does it appeal to?

- Donors with a high income year, but distributed charitable intent
- Donors who plan relatively small annual charitable gifts who otherwise would not benefit from itemizing
- Donors who plan to fund many small charitable gifts with proceeds from securities
- Donors whose planned contributions are insufficient to justify the costs of a private foundation
- Donors who wish to avoid or be relieved of the administration of a private foundation

Gain & Loss Harvesting

Bracket Management

Harvest Capital Gains

- Strategy:
  - Taxpayer expects to be in a higher tax bracket in the future
  - Sells assets in the current year, pays tax a lower tax rate and steps up basis
  - Repurchases the same or similar assets
- Effect: Shifts recognition of capital gain from a higher future rate to a current lower rate

Bracket Management

Capital Gain Harvesting – Tradeoffs

- On the surface, it appears that taxpayers should always harvest gains
- However, harvesting gains introduces a tradeoff between lower tax rates versus the loss of tax deferral
  - Tax is paid at a lower rate, but it is paid sooner
  - Need to determine a crossover point at which selling sooner makes more sense; A way to conceptualize this would be to use a return on investment (ROI) approach

Bracket Management

Harvest Capital Losses

- Harvesting Capital Losses: Selling assets at a loss to offset capital gains
- Reduces or eliminate tax on current capital gain
- On the surface, loss harvesting produces an economic benefit equal to the tax saved, however it generally only provides a timing benefit.
  - Assets purchased with the proceeds have a lower basis than the assets sold
  - Therefore, more capital gains tax is owed in the future
  - However, deferral remains valuable

Bracket Management

Efficiency of Harvesting Capital Losses

- Capital losses are more tax effective if they can be used to offset income taxed at higher rates

	Short-Term Gain	Long-Term Gain
Short-Term Loss	NEUTRAL	INEFFECTIVE
Long-Term Loss	EFFECTIVE	NEUTRAL

- *Remember:* Capture the up to $3,000 capital loss which can offset ordinary income!
- *Warning:* Remember the wash sale rule prevents taxpayers from repurchasing a substantially similar security within 30 days of selling at a loss

College Planning

College Planning

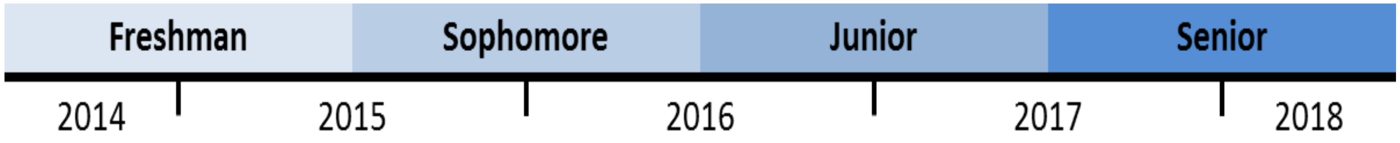
Encourage Clients Fund Saving Plans

- Education Savings Accounts (ESAs) & Qualified Tuition Programs (QTPs/529s)
- Both provide annual tax-free growth & tax-free withdrawals for "qualified education expenses"
- QTPs offer a variety of annual savings incentives which vary by state: deductions, credits & grants
- ESAs can be used for primary & secondary in addition to higher education expenses
- The TCJA expanded QTP "qualified education expenses" to include primary & secondary higher education expenses

College Planning

Carefully Claim the AOTC

- American Opportunity Tax Credit (AOTC) can only be claimed for the first four academic years of a college student and can only be claimed in four tax years.
- This dual limitation can make choosing when to claim the credit difficult because tax years and academic years do not align:



College Planning

Claiming College-Aged Dependents

- Despite the suspension of dependency exemptions by the TCJA, dependency remains an issue
- Education credits can be claimed by parents who have a student dependent:
  - Students who receive ½ of their support from their parents are dependents
  - Students 24 and over must also not earn more than $4,050 in 2018 to be dependents
- However, parents do not have to claim the child as a dependent – which is beneficial for parents phased out of education credits

Retirement Income Tax Planning

Bracket Management

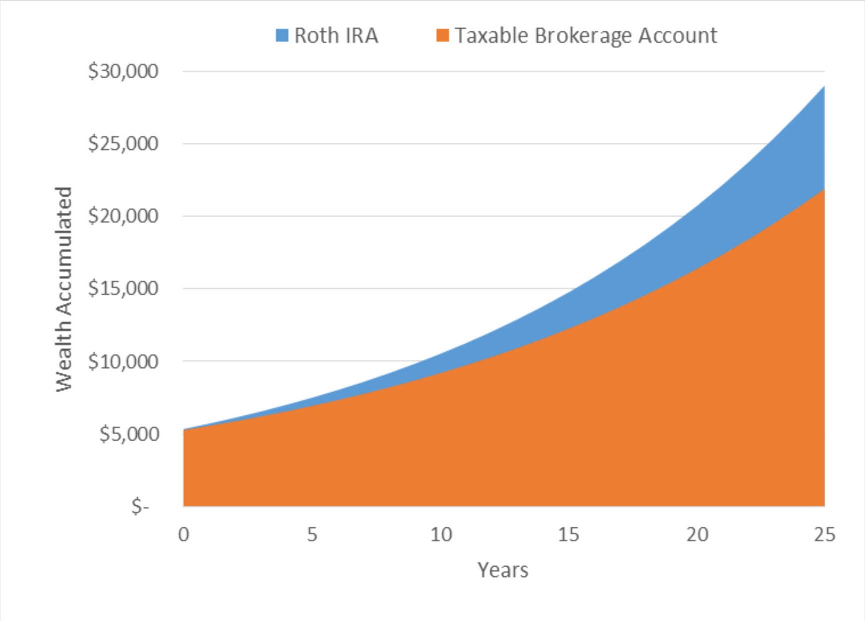
Encourage Retirement Plan Funding

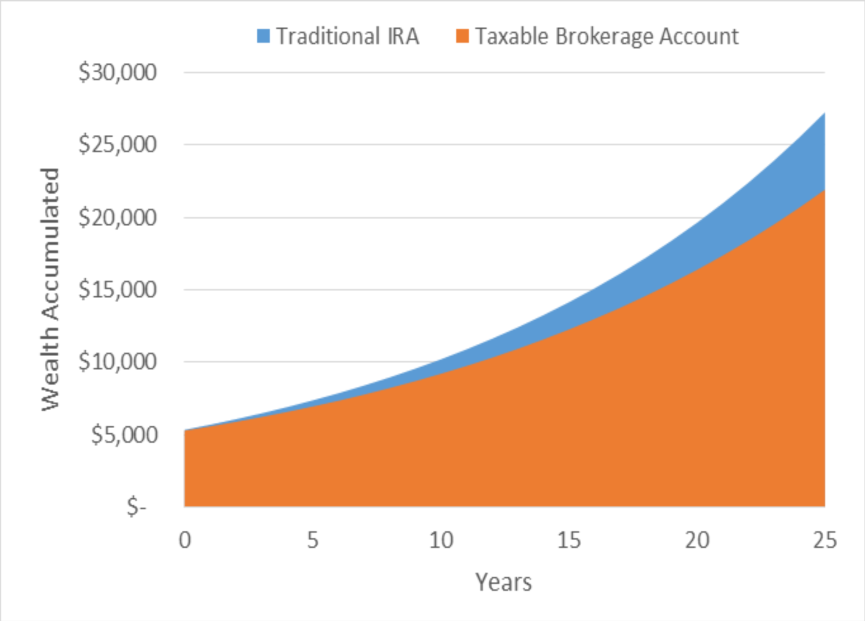
- The 401k and IRA are excellent statutory tax-shelters.
- Remember IRA contributions can be made up in April 15 for the previous tax year
- Deductible contributions can be deceptively valuable by <u>reducing the impact of certain phase-outs.</u>
- Most importantly, the lack of annual “tax-drag” is valuable and therefore an investment in a qualified account will always outperform a taxable investment

Bracket Management

Encourage Retirement Plan Funding

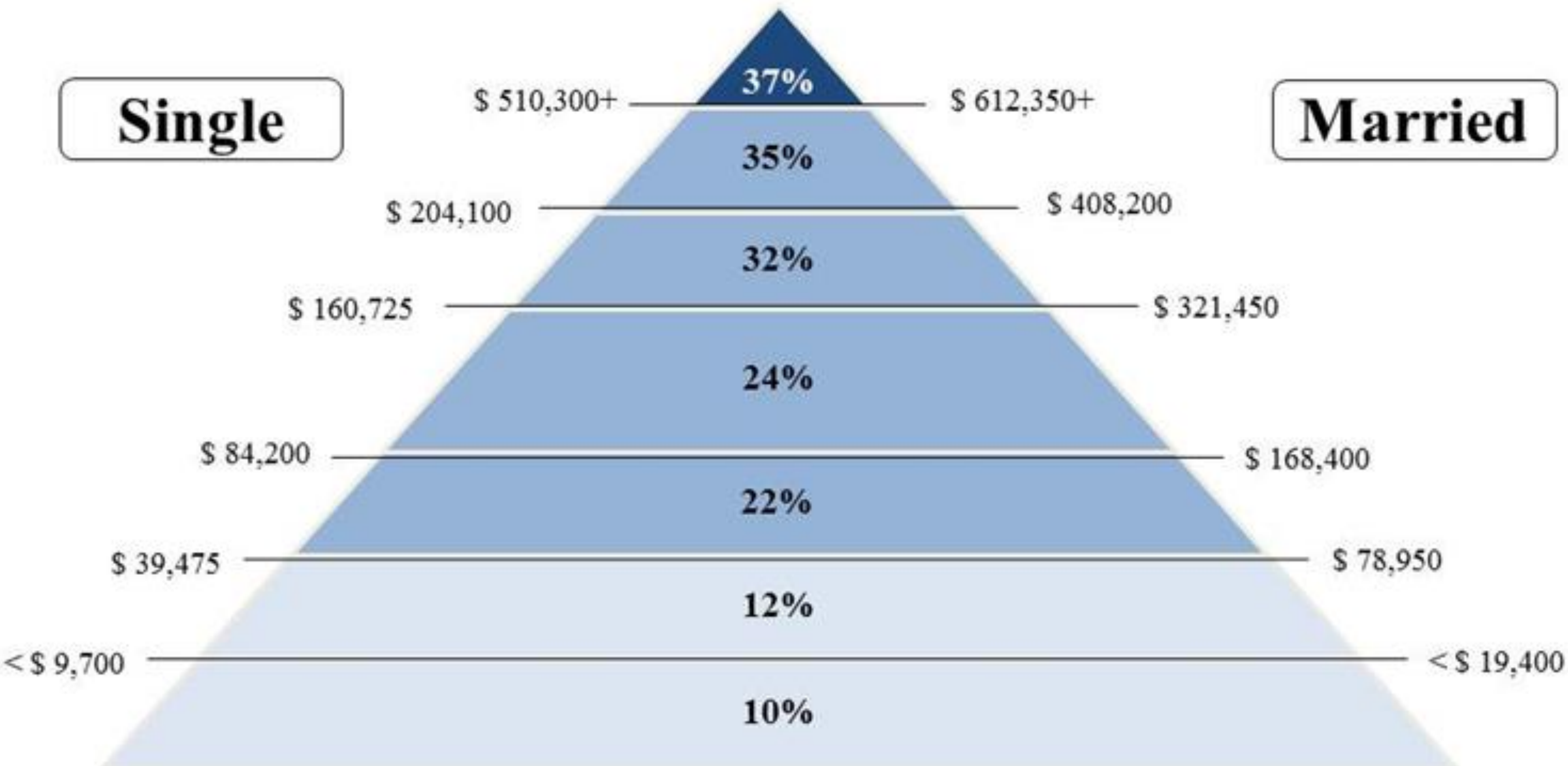
Compare the after-tax value of $5,000 growing in a Traditional or Roth IRA/401k compared to a taxable brokerage account over a significant period of time:





Assumptions: 5% growth rate, 2% yield, 5% annual account turnover, 25% ordinary income tax rate, and a 15% capital gains tax rate.

2019 Rates



Single
Married
37%
$ 510,300+
$ 612,350+
35%
$ 204,100
$ 408,200
32%
$ 160,725
$ 321,450
24%
$ 84,200
$ 168,400
22%
$ 39,475
$ 78,950
12%
<$ 9,700
<$ 19,400
10%

Defined Contribution Plan 2019 Limits

DEFINED CONTRIBUTION PLAN LIMITS	
IRA / ROTH IRA CONTRIBUTION LIMIT	$ 6,000
IRA / ROTH IRA "CATCH UP"	$ 1,000
401k ELECTIVE DEFERRAL	$ 19,000
401k ELECTIVE DEFERRAL "CATCH UP"	$ 6,000
SIMPLE IRA CONTRIBUTION LIMIT	$ 13,000
SIMPLE IRA "CATCH UP"	$ 3,000
SEP IRA EMPLOYEE PERCENTAGE MATCH LIMIT	25%
SEP IRA SELF-EMPLOYED PERCENTAGE MATCH LIMIT	20%
OVERALL LIMIT ON CONTRIBUTIONS TO DCPs	$ 56,000

39

“Asset Location”

37%

35%

32%

24%

22%

12%

10%

0%

Tax-Free
- Roth IRAs
- Life Insurance
- Tax-Exempt Interest Income

Tax-Deferred
- IRAs, 401(k)s, 403(b)s
- Non-qualified Deferred Annuities

Taxable
- Interest Income
- Capital Gains
- Qualified Dividends

"Asset Location"

Interest Income	Dividend Income	Capital Gain Income	Tax Exempt Interest	Pension and IRA Income	Real Estate and Oil & Gas	Roth IRA and Insurance
• Money market • Corporate bonds • US Treasury bonds Attributes • Annual income tax on interest • Taxed at highest marginal rates	• Equity Securities Attributes • Qualified dividends at LTCG rate • Return of capital dividend • Capital gain dividends	• Equity Securities Attributes • Deferral until sale • Reduced capital gains rate • Step-up basis at death	• Bonds issued by State and local Governmental entities Attributes • Federal tax exempt • State tax exempt	• Pension plans • Profit sharing plans • Annuities Attributes • Growth during lifetime • RMD for IRA and qualified plans • No step-up	Real Estate • Depreciation tax shield • 1031 exchanges • Deferral on growth until sale • 199A Deduction Oil & Gas • Large up front IDC deductions • Depletion allowances • 199A Deduction	Roth IRA • Tax-free growth during lifetime • No 70½ RMD • Tax-free distributions out to beneficiaries life expectancy Life Insurance • Tax-deferred growth • Tax-exempt payout at death

Qualified Account Basics

A Quick Refresher

	Traditional IRA	Roth IRA	Non-Deductible IRA
Tax Deduction for Contribution	✓		
Tax-free Distributions		✓	Contribution returned tax-free
Tax-free Compounding	✓	✓	✓
Required Minimum Distributions	✓		✓

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Roth Conversions

Roth Conversions

2017 Tax Reform Refresher

TAX REFORM REPEALED THE ABILITY TO RECHARACTERIZE A ROTH CONVERSION

However, it is still possible to recharacterize a Roth contribution.

Mathematics of Roth IRA Conversions

- In simplest terms, a traditional IRA will produce the same after-tax result as a Roth IRA provided that:
  - The annual growth rates are the same
  - The tax rate in the conversion year is the same as the tax rate during the withdrawal years (i.e. A x B x C = D; A x C x B = D)

Mathematics of Roth IRA Conversions

	Traditional IRA	Roth IRA
Current Account Balance	$ 1,000,000	$ 1,000,000
Less: Income Taxes @ 40%	-	(400,000)
Net Balance	**$ 1,000,000**	**$ 600,000**
Growth Until Death	200.00%	200.00%
Account Balance @ Death	$ 3,000,000	$ 1,800,000
Less: Income Taxes @ 40%	(1,200,000)	-
Net Account Balance to Family	**$ 1,800,000**	**$ 1,800,000**

Mathematics of Roth IRA Conversions

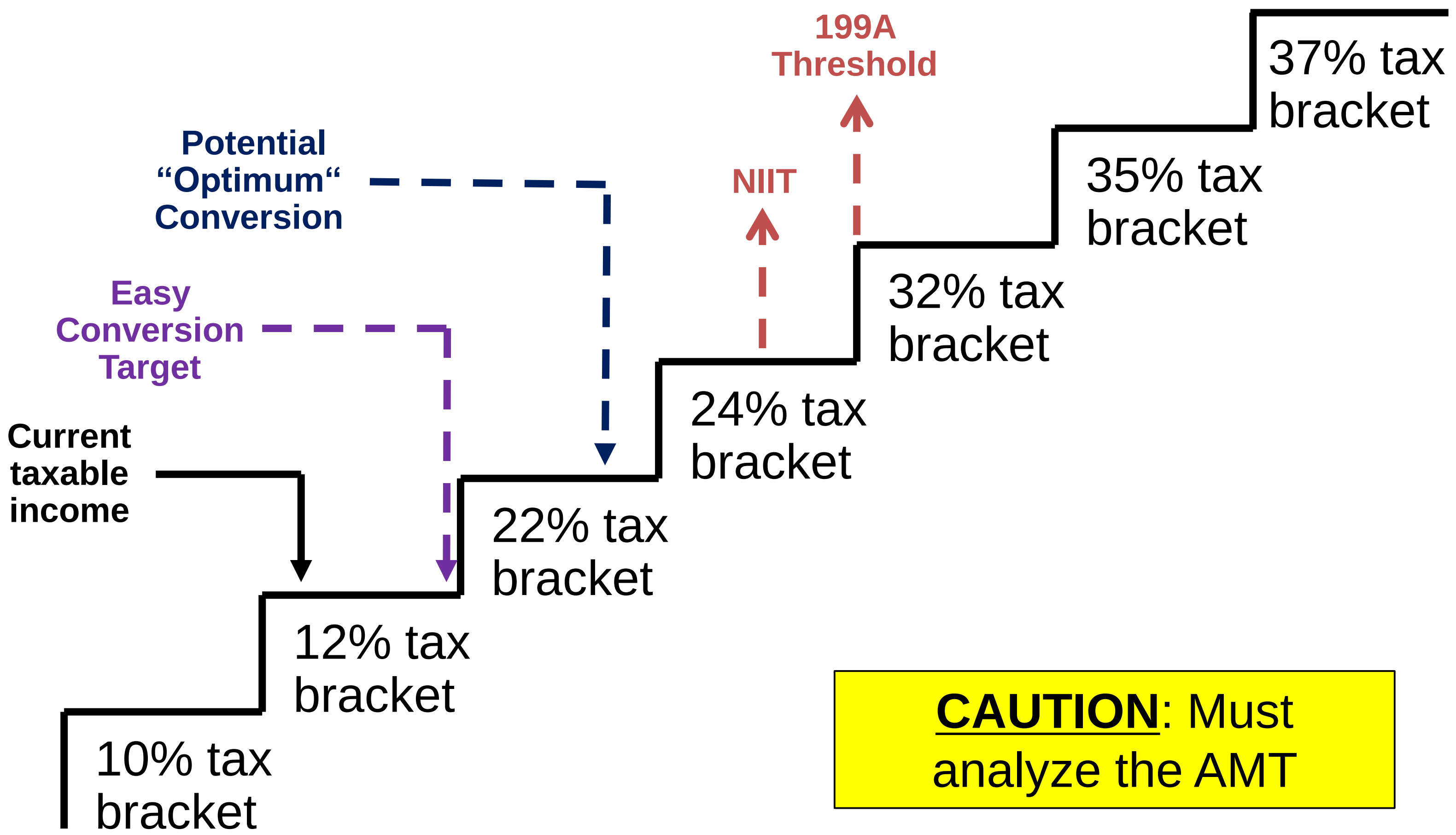
Reasons for converting to a Roth IRA

1. The taxpayer have special favorable tax attributes that need to be consumed such as charitable deduction carry-forwards, investment tax credits, NOLs, etc.…
2. The client expect the converted amount to grow significantly
3. Current marginal income tax rate is likely lower than at distribution
4. Cash outside the qualified account is available to pay the income tax due to the conversion
5. The funds converted are not required for living expenses, or otherwise, for a long period
6. The client expects their spouse to outlive them and will require the funds for living expenses
7. The client expects to owe estate tax

Mathematics of Roth IRA Conversions

- The key to successful Roth IRA conversions is often to keep as much of the conversion income as possible in the current marginal tax bracket
  - However, there are times when it may make sense to convert more and go into higher tax brackets
  - Need to take into consideration the 3.8% Medicare “surtax”
  - Need to take into consideration phase-outs of tax-benefits
  - Need to take into consideration the impact of AMT

Mathematics of Roth IRA Conversions



CAUTION: Must analyze the AMT

Retirement Account "DrawDown"

Retirement Account "DrawDown"

Distribution Planning

Perhaps one of the most important decisions a retiree must make is to determine from which retirement assets to withdraw funds to meet everyday living expenses.

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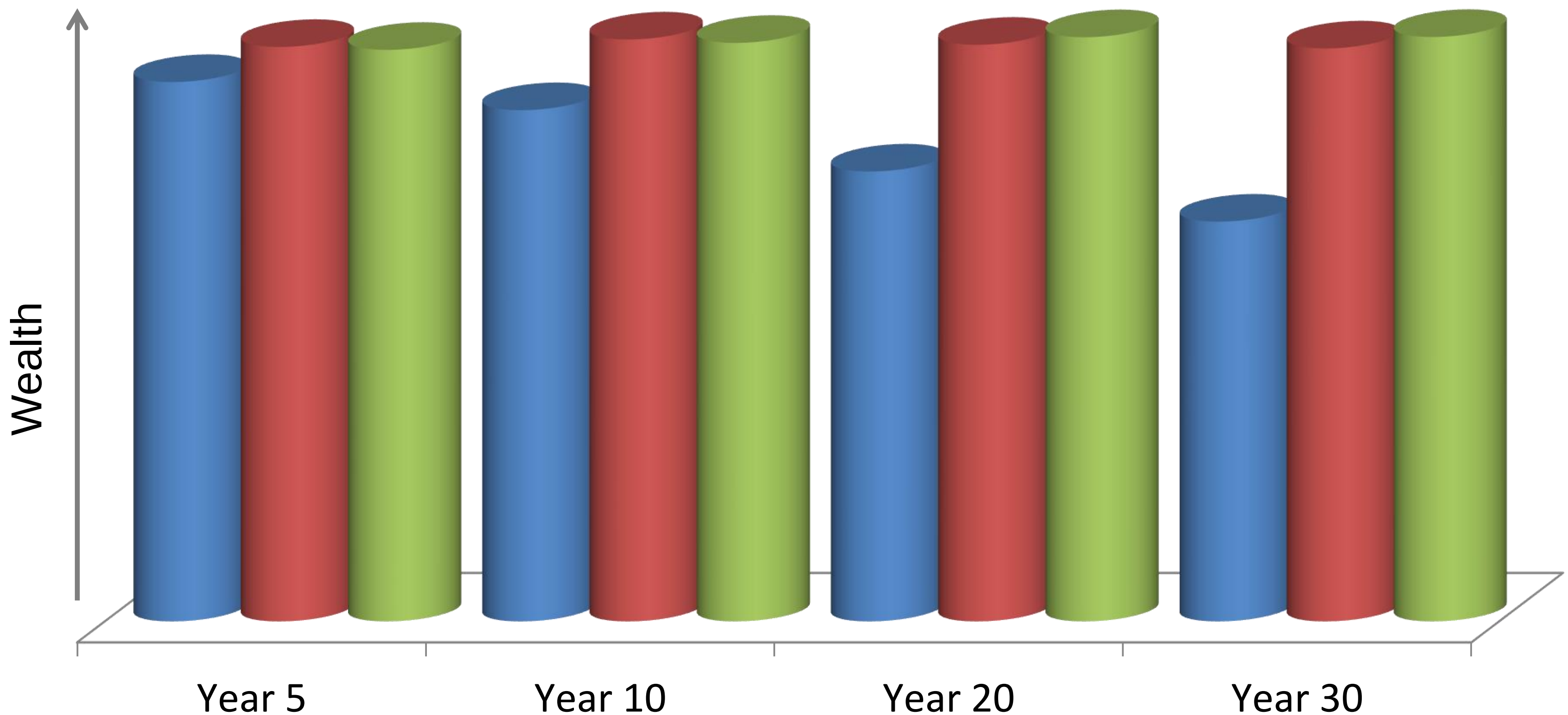
Retirement Account “DrawDown”

Distribution Planning



OPTION 1 - Withdraw 100% From Traditional IRA

OPTION 2 - Withdraw 100% From Brokerage Account

OPTION 3 - Withdraw From Traditional IRA Up to 10% Tax Bracket

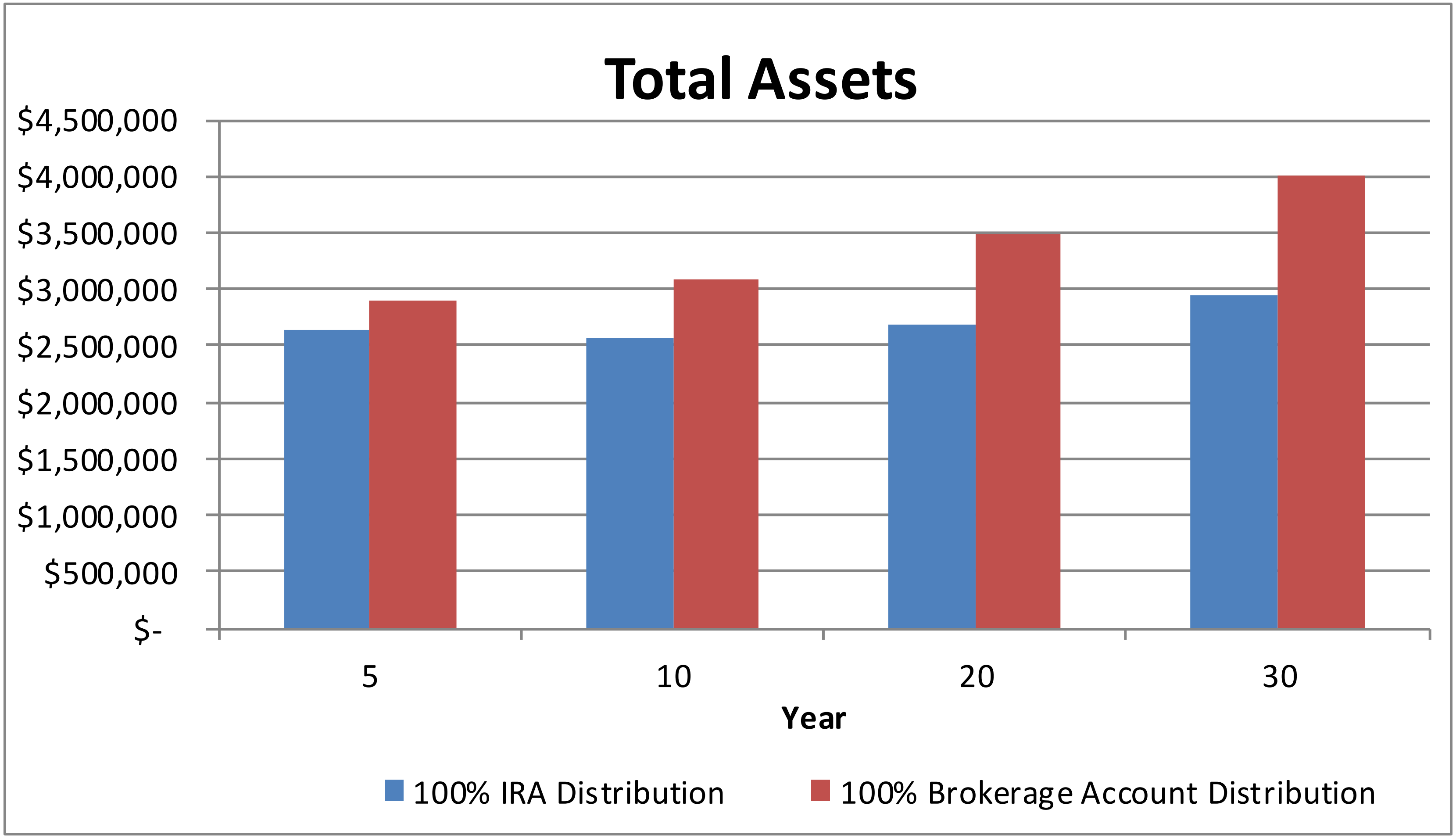
Retirement Account "DrawDown"

Distribution Planning

- Decision factors
  - Size of accounts
  - Investment mix / performance
  - Marginal income tax bracket
  - Time horizon

Retirement Account "DrawDown"

Value of Account Preservation – Example



The SECURE Act

RMDs after Death

PROPOSAL

H.R. 1994 – Sec. 401

Modification of

Required Minimum Distribution Rules

for Designated Beneficiaries

Basically, requires all IRAs and Qualified Plans to be distributed within 10-years of death

RMDs after Death

PROPOSAL

EFFECTIVE DATE

DECEMBER 31, 2019

RMDs after Death

PROPOSAL

- Exceptions for certain beneficiaries:
  - Surviving Spouse
  - Children under the age of majority
  - Disabled
  - Chronically ill
  - Individual not more than 10-years younger than employee

The Conduit Trust Disaster

- A conduit ("safe–haven") trust requires all RMDs to be paid
- This worked well under the life expectancy rules
- However, it is a disaster under the 10-year rule
- In year ten, the entire remaining IRA balance must be paid to the beneficiary

The Conduit Trust Disaster

Years after Death	Age	RMD Current Method	10-Year Rule Options Equal Schedule	Full Deferral
0	30	$18,762	$142,378	$0
1	31	$20,100	$142,378	$0
2	32	$21,535	$142,378	$0
3	33	$23,072	$142,378	$0
4	34	$24,720	$142,378	$0
5	35	$26,486	$142,378	$0
6	36	$28,379	$142,378	$0
7	37	$30,409	$142,378	$0
8	38	$32,584	$142,378	$0
9	39	$34,917	$142,378	$0
10	40	$37,417	$142,378	$1,967,151

Assumes $1,000,000 IRA at death & a 7% interest rate

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Decanting a Conduit Trust

- When to Consider
  - Death occurs after the effective date
  - The long-term benefits of a trust are required
  - The 10-year period is locked in
- Reform or Decant
  - Remove the conduit language
  - Replace with accumulation type language
- Income Tax Planning

Solutions to Analyze

Overview

- Roth Conversions
- Multi-generational spray trusts
- Fiscal year planning
- Spousal rollovers and the *new* spousal rollover trap
- IRAs to CRTs
- IRA Trusts for State Income Tax Savings
- Life insurance to offset increased tax-risk of early death
- Qualified charitable contributions
- Naming a charity as a beneficiary

ROTH CONVERSIONS

- As it relates to the new 10-year rule, the purpose of Roth Conversions is to spread distributions over many years and lower brackets

MULTI-GENERATION SPRAY TRUST

- As it relates to the new 10-year rule, the purpose of using a spray trust is to spread income across a large number of taxpayers thereby lowering the effective rate and to retain the ability to accumulate income as prudent

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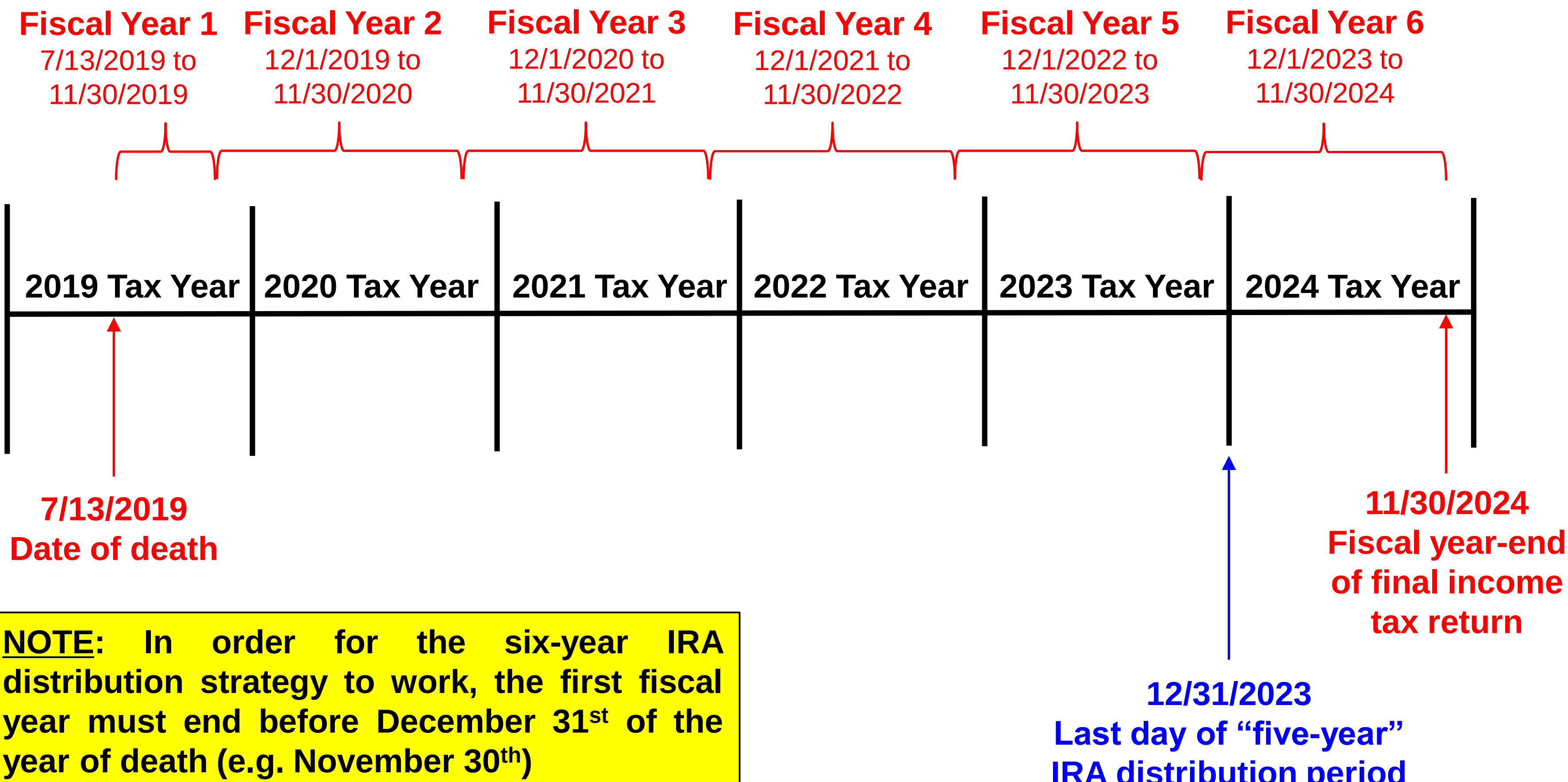
FISCAL YEAR PLANNING

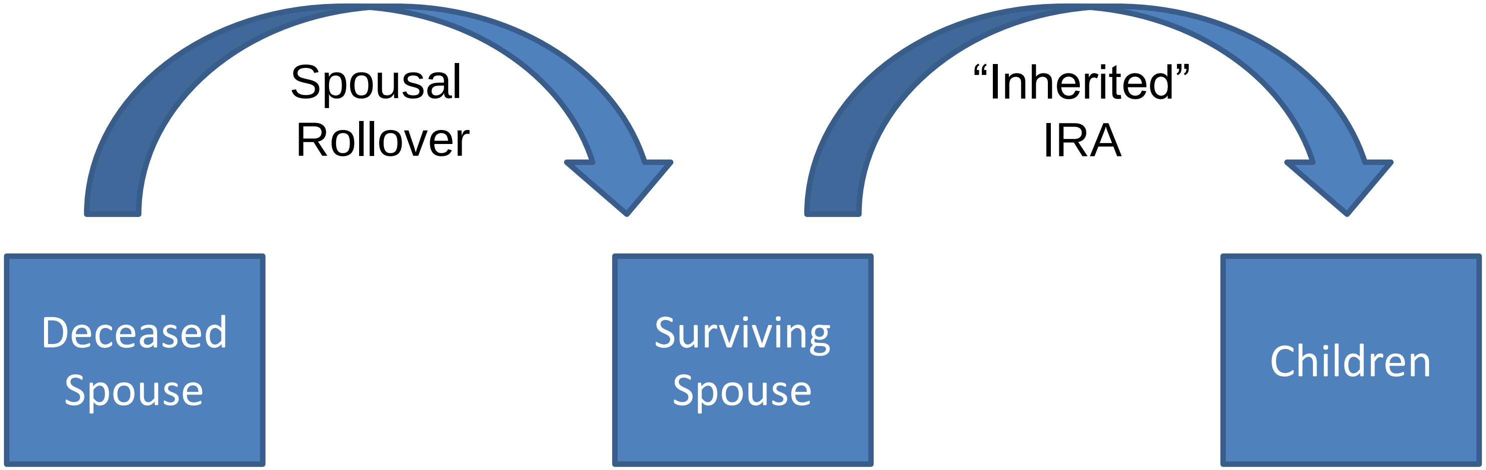
- By electing a fiscal year for the estate/QRT, the five-year IRA distribution period is allocated over six tax years.



<u>NOTE</u>: In order for the six-year IRA distribution strategy to work, the first fiscal year must end before December 31st of the year of death (e.g. November 30th)

THE NEW SPOUSAL ROLLOVER TRAP

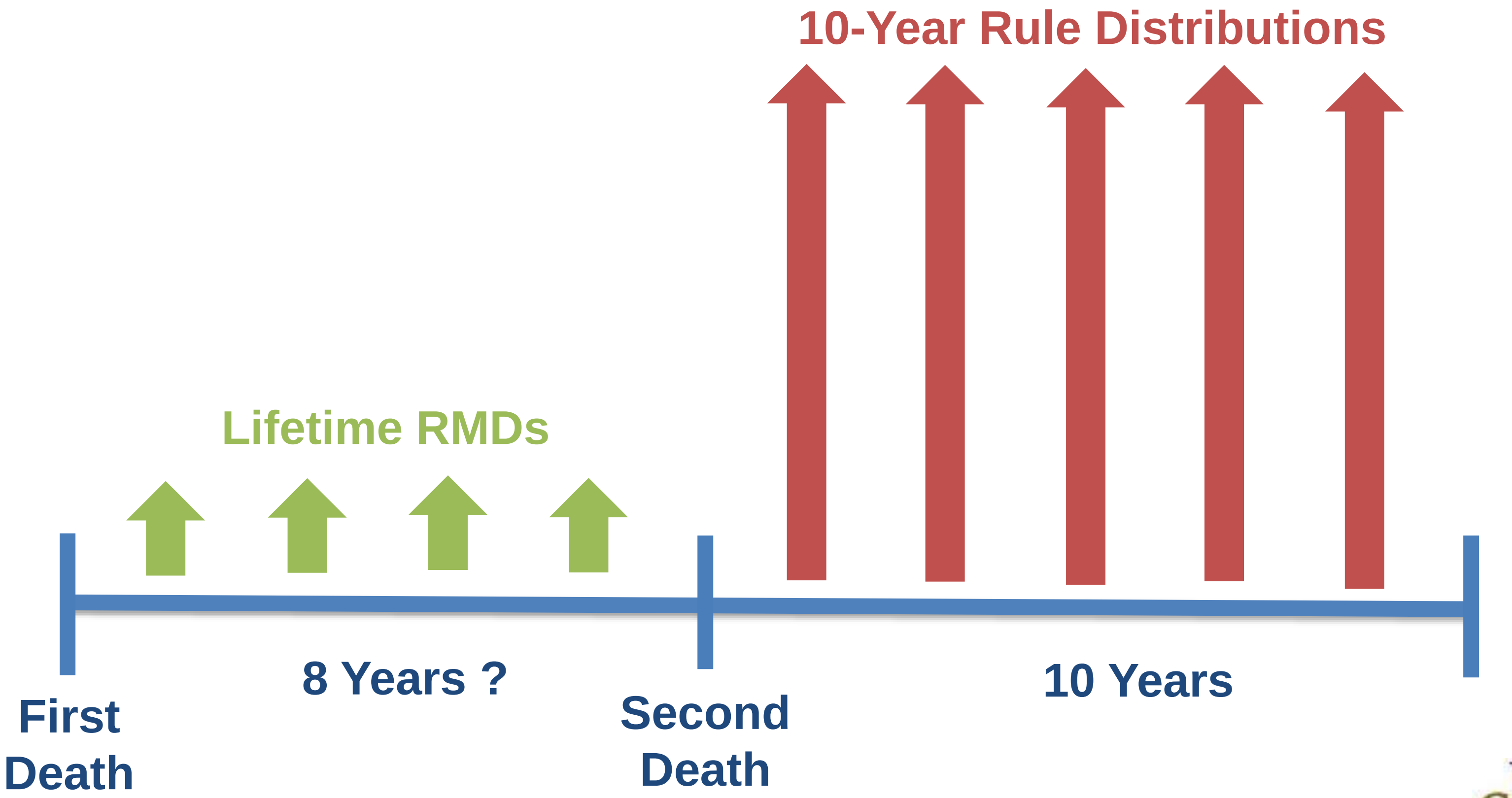
Old Best Practice



THE NEW SPOUSAL ROLLOVER TRAP

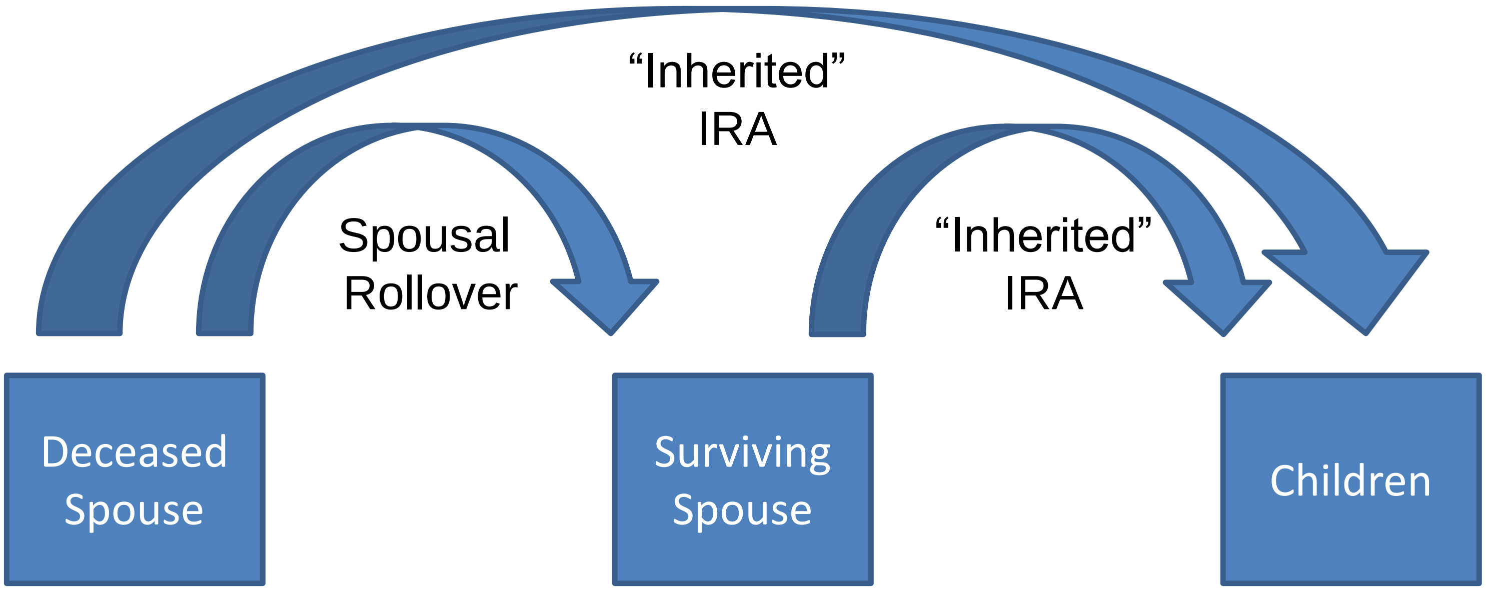
Old Best Practice &

the New Spousal Rollover Trap



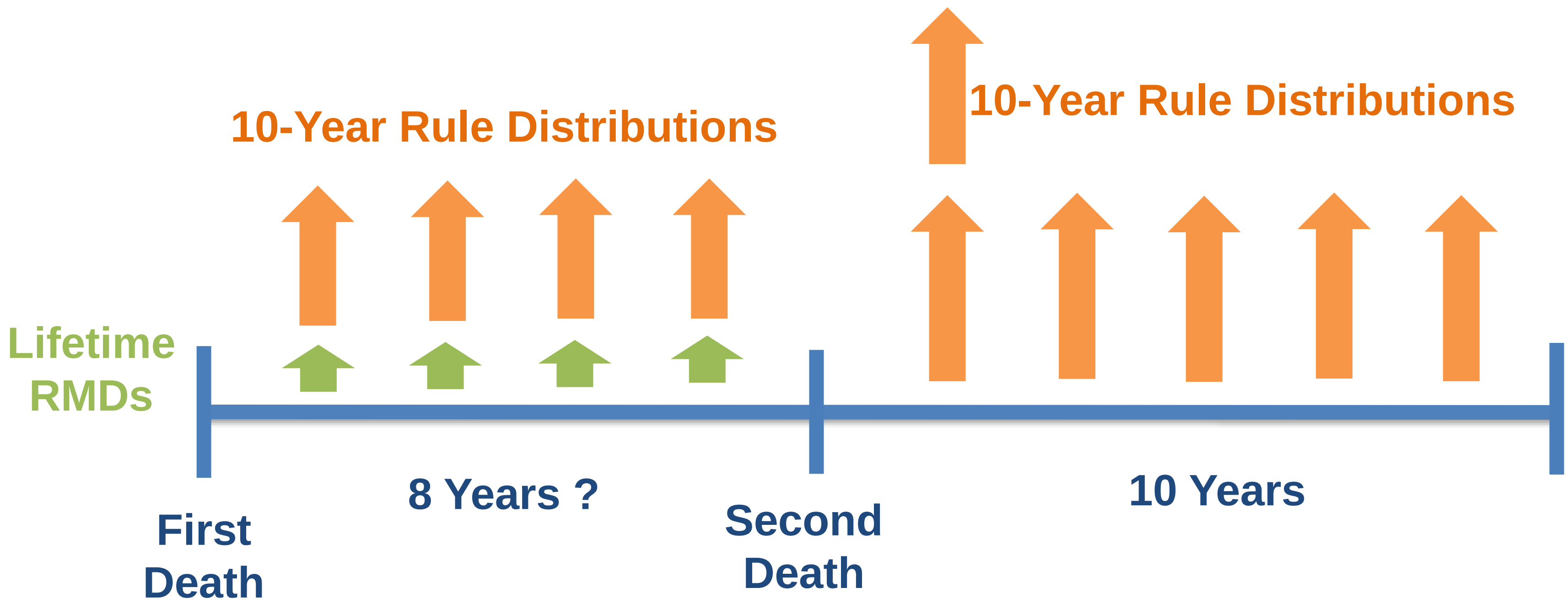
THE NEW SPOUSAL ROLLOVER TRAP

Potential New Best Practice



THE NEW SPOUSAL ROLLOVER TRAP

Potential New Best Practice

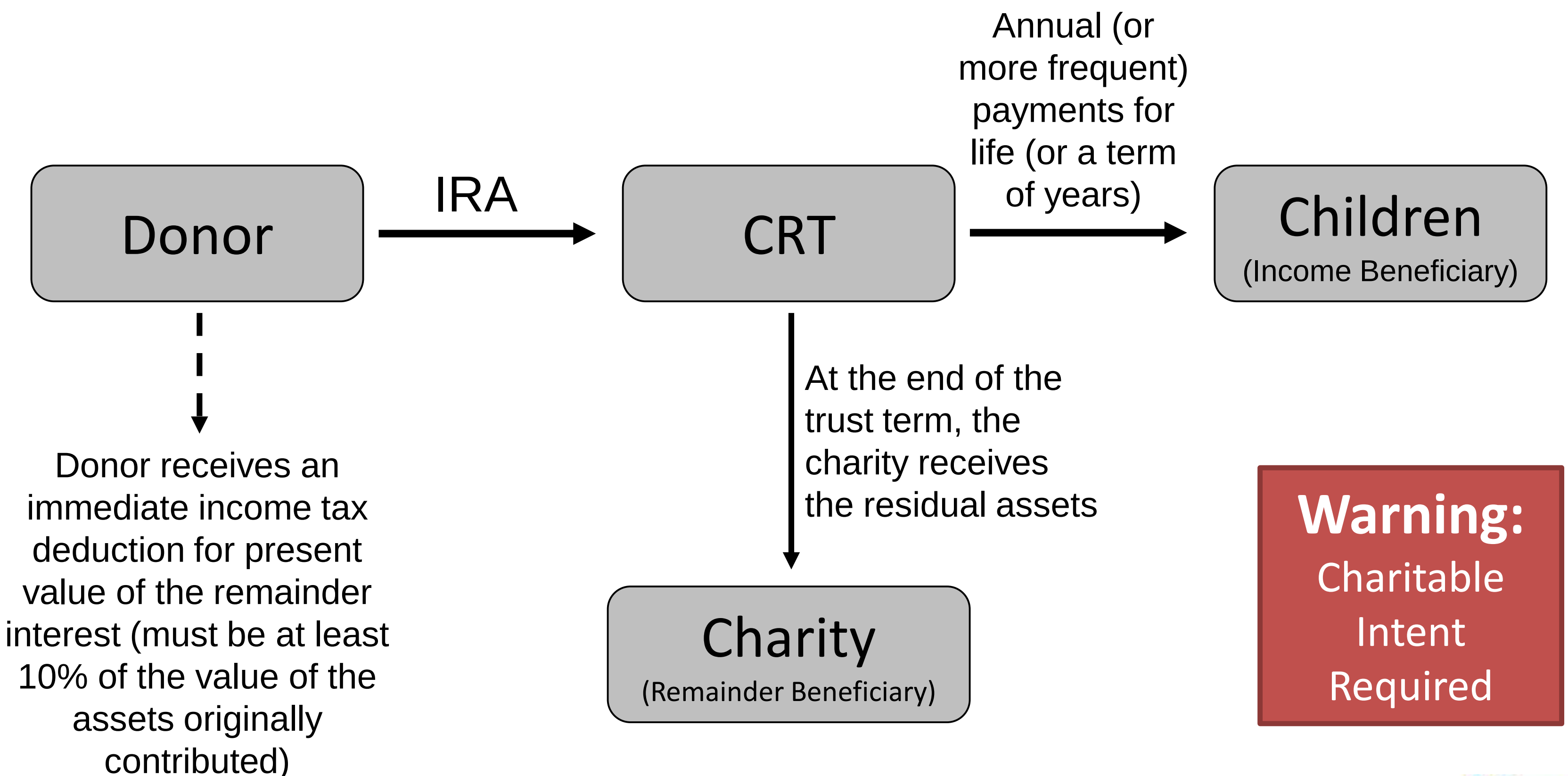


Charitable Remainder Trusts

Charitable Remainder Trusts

Overview

- Charitable Remainder Trust (CRT)



Charitable Remainder Trusts

Types of CRTs

- Charitable Remainder Annuity Trust (CRAT)
  - The beneficiaries receive a fixed percentage of the initial trust value or a stated amount annually or more frequently.
  - The amount paid doesn't change from year to year.
  - The annual payment must be 5-50% of the fair market value of the assets at the time of contribution.
  - The term of the annuity can be:
    - For a term up to 20 years,
    - Over the life of the annuitant(s),
    - Over the shorter of the two, or
    - Over the longer of the two.

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Charitable Remainder Trusts

Types of CRTs

- Charitable Remainder Unitrust (CRUT)
  - Income beneficiaries receive a stated percentage of the trust's assets revalued each year.
    - The distribution will vary from year to year depending on the investment performance of the trust assets and the amount withdrawn.

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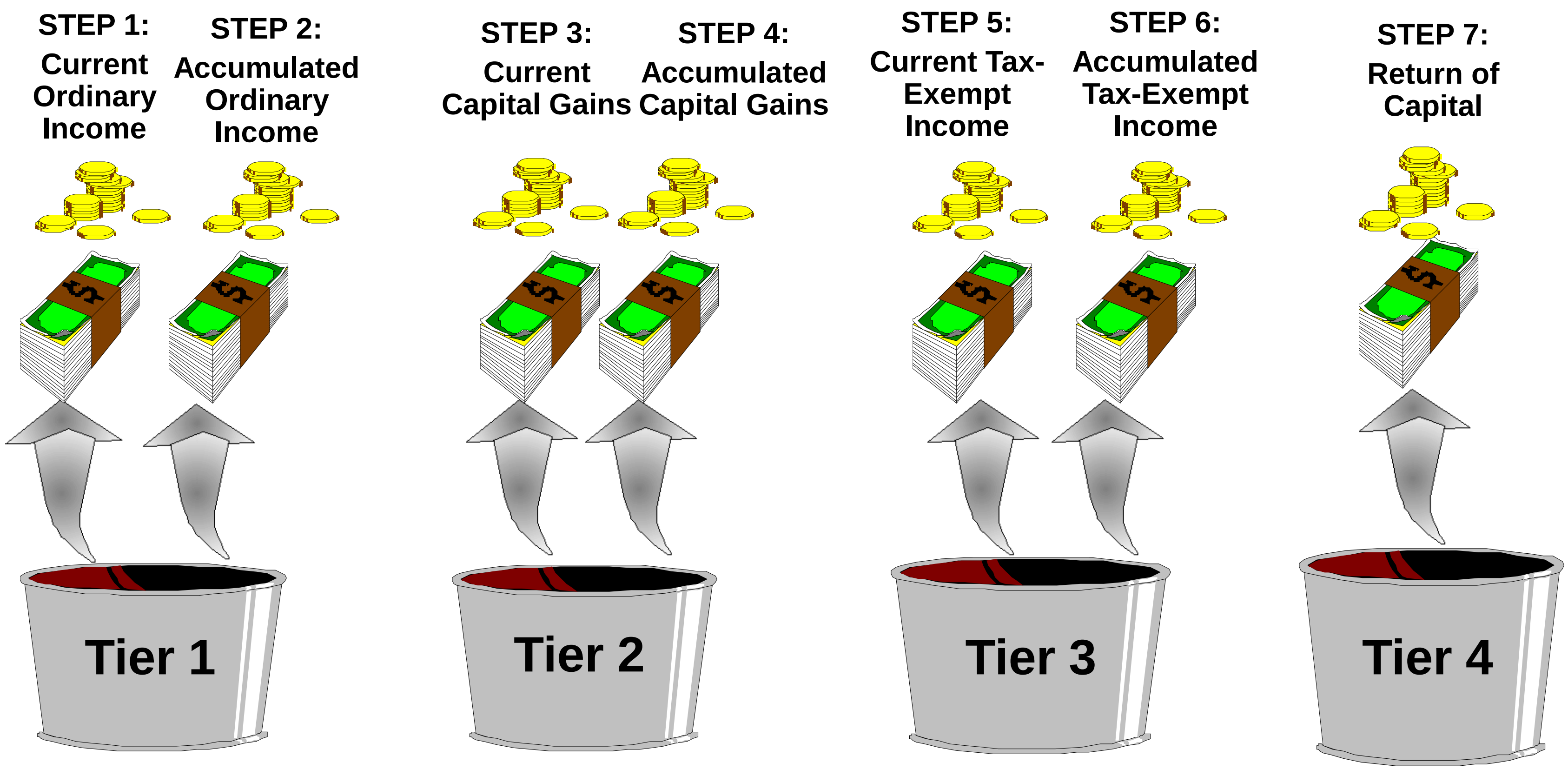
Charitable Remainder Trusts

Taxation of Distributions

- The character of income received by the recipient is subject to and controlled by the tier rules of IRC §664(b):
  - First, distributions are taxed as ordinary income
  - Second, distributions are taxed as capital gains
  - Third, distributions are taxed as tax-exempt income (e.g. municipal bond income)
  - Finally, distributions are assumed to be the non-taxable return of principal

Charitable Remainder Trusts

Taxation of Distributions



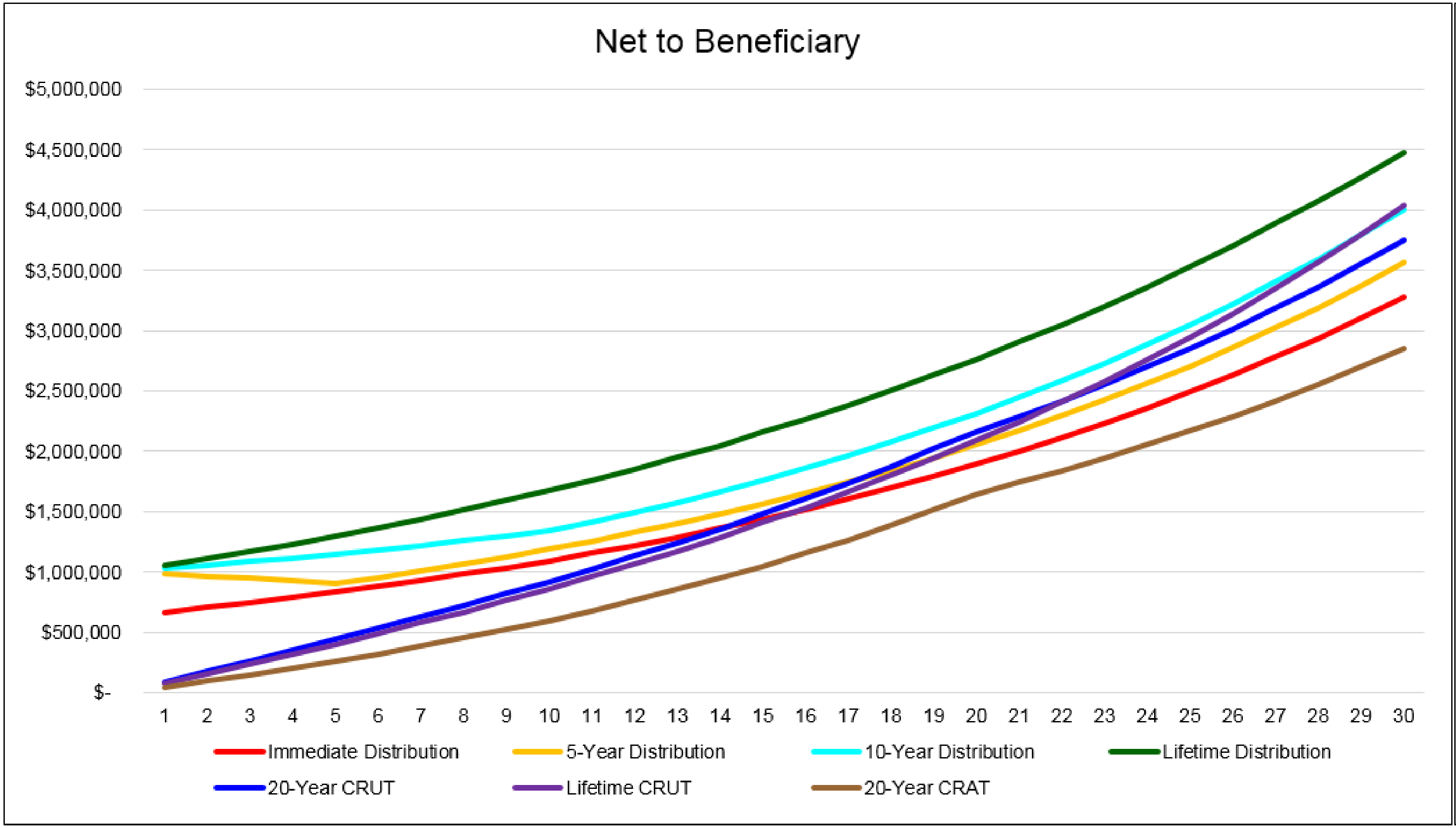
Charitable Remainder Trusts

Example – IRA Payable to CRT at Death

- Assumptions
  - 50-year old beneficiary
  - 6% rate of return: 2% yield, 4% growth
  - 10% turnover rate
  - Tax rates: 37% on immediate distribution; 32% 5-year distribution; 24% 10-year distribution; 22% lifetime distribution & all CRT models
  - May 2019 interest rates

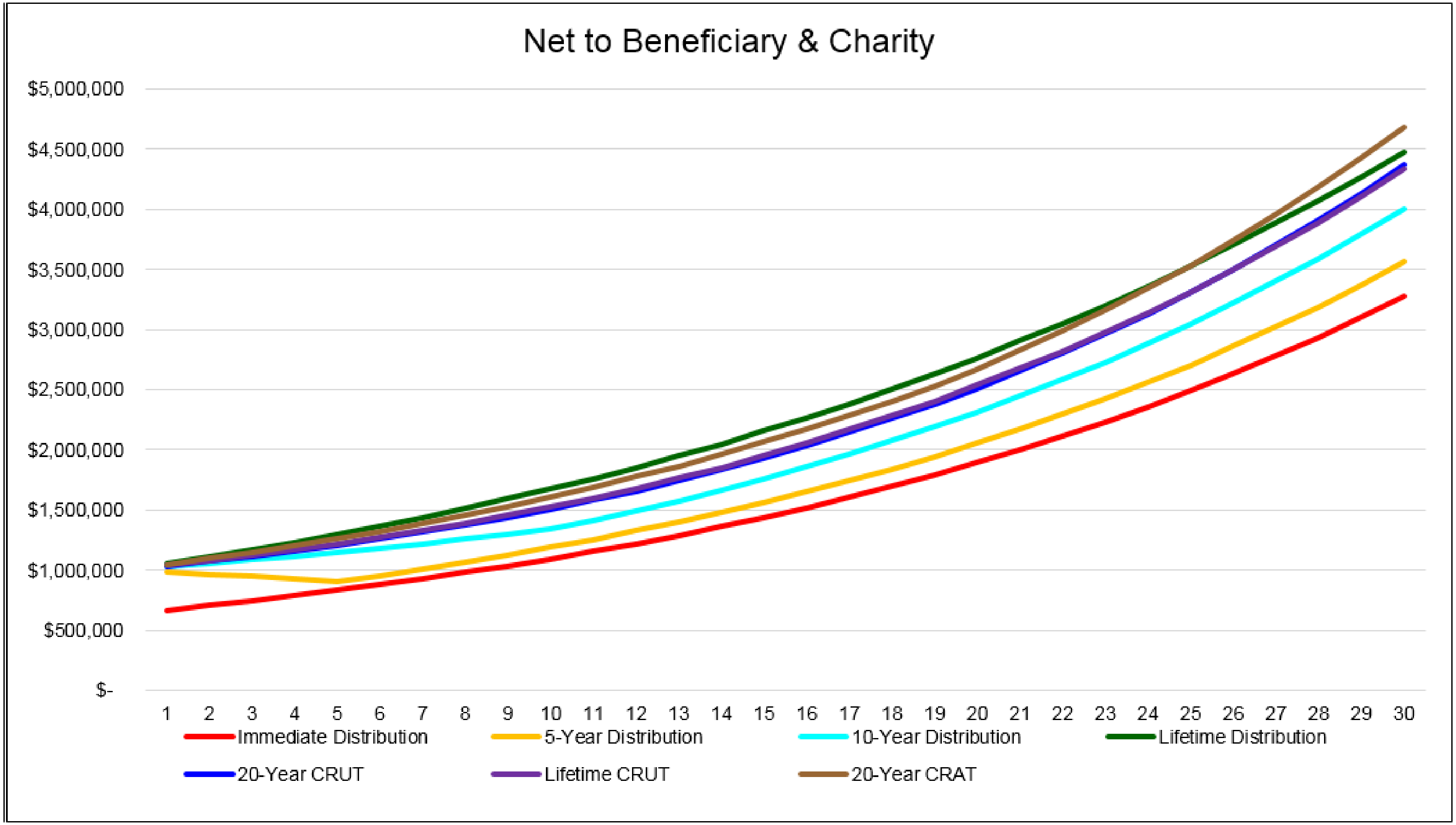
Charitable Remainder Trusts

Example – IRA Payable to CRT at Death



Charitable Remainder Trusts

Example – IRA Payable to CRT at Death



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Opportunity Zones

Opportunity Zones

Overview

- "Qualified opportunity zones" are certain designated low-income census tracts.
- On cdfifund.gov you can find an interactive map showing the areas which qualify.
- The tax incentives for investing in qualified opportunity zones include:
  - Deferral of unrecognized gain
  - Reduction or elimination of unrecognized gain

Opportunity Zones

Overview

- Capital gain from the sale of an investment is not recognized if rolled into a Qualified Opportunity Zone Fund within 180 days
- Moreover, the longer the investment is held the amount of gain ultimately recognized is reduced:

Years Held	Basis Increase
5	**10%**
7	**+5%** (15% total)
10	**100%** (no gain recognized)

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Trusts & Estates

Estate & GST Taxes

- The TCJA doubled the Basic Exclusion Amount and GST exemption in 2018-2024 ($10,000,000 in 2011 dollars)
- In 2025 the exemptions revert to pre-TCJA law (5,000,000 in 2011 dollars)

POTENTIAL

"USE-IT-OR-LOSE-IT"

OPPORTUNITY

Estate & GST Taxes

Exemption Sunset Math

- Option 1
  - No planning
  - "Double" exemption sunsets 1/1/26 and is lost
- Option 2
  - Couple gifts $5,000,000 each to trust in 2019
  - Their previous gifts reduce their exemption by $5,000,000 to $0 (ignoring inflation adjustments) in 2026
  - Gifting during the "double period" accomplished nothing
- Option 3
  - Couple gifts $10,000,000 each to trust in 2019
  - Their previous gifts reduce their exemption $0 in 2026
  - $5,000,000 each (ignoring inflation adjustments) of additional exemption is captured

Estate & GST Taxes

IDEAS

- **Continue annual exclusion gifts ($15,000 exemption in 2019)**
- Continue medical & education gifts

- Tax-free gifts to use higher exemptions
- Portability elections to preserve exemptions
- Five-year GRATs (for ETIP to end before sunset)
- Five-year SCIN or private annuity
- "Springing" SLATs (i.e. SLAT with contingent GPOA provision)

Estate & GST Taxes

IDEAS

- **Use Trusts to Create Additional Taxpayers**
  - $10,000 SALT deduction per trust
  - $157,500 199A Threshold Amount per trust

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Estate & GST Taxes

IDEAS

- **Use trusts to avoid state income taxation**
  - Completed Gift Non-grantor Trusts –

Estate & GST Taxes

IDEAS

- **Use trusts to avoid state income taxation**
  - Incomplete Gift Non-grantor Trusts –
    - A trust settled in state with a trust code which facilitates the strategy
    - Transfer to the trust is not a completed gift and therefore does not incur gift tax because the settlor retains certain powers
    - Trust is a non-grantor trust
    - Useful to avoid income taxation in the settlor's resident state
    - Only possible in certain states including: Alaska, Delaware, Nevada, Wyoming

Estate & GST Taxes

IDEAS

- **Use trusts to avoid state income taxation**

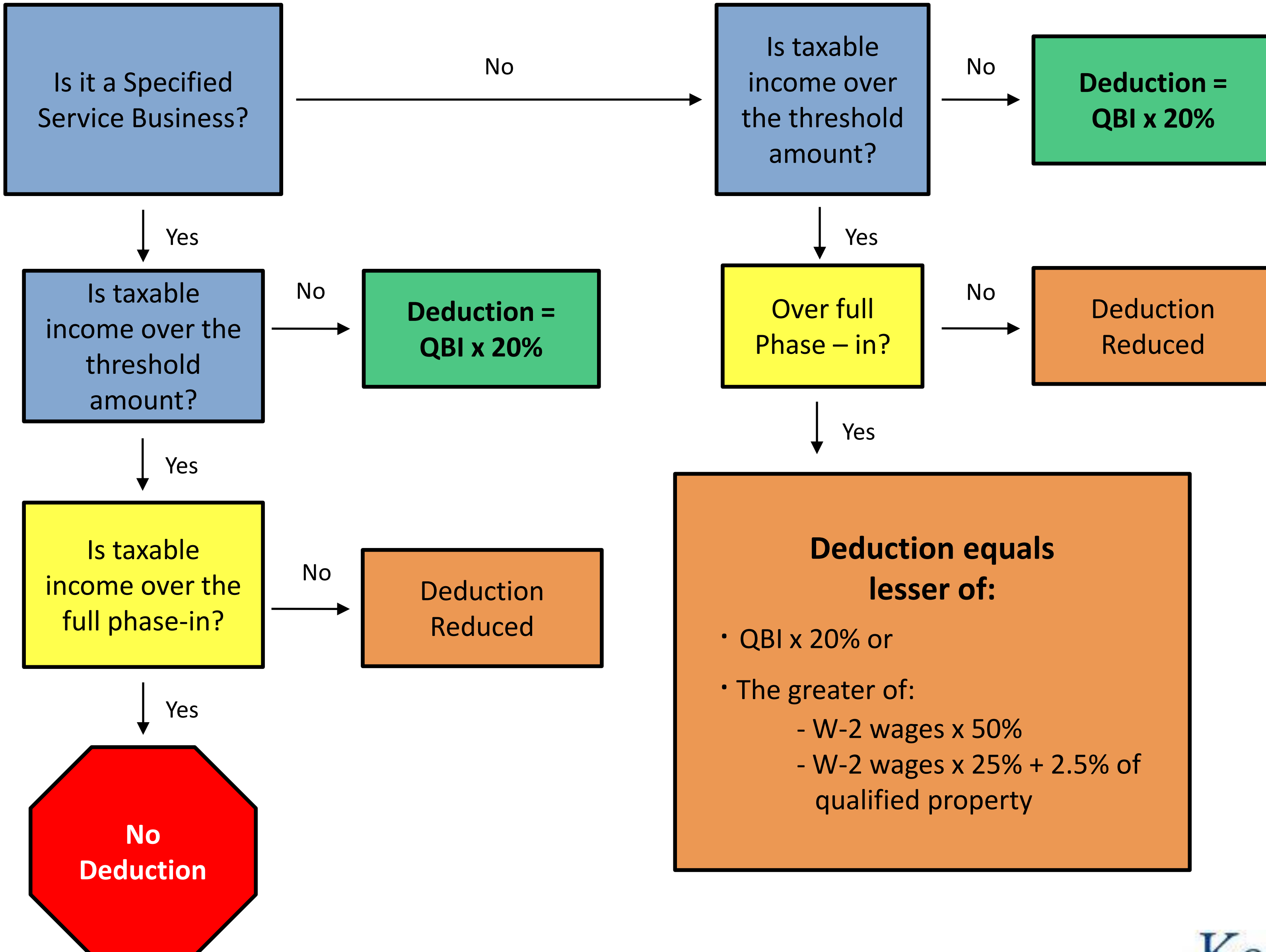
		Current		No SALT Deduction		W/ING	
Income		$	100	$	100	$	100
State Tax	5%		(5)		(5)		
Federal Tax	35%		(33)		(35)		(35)
		$	62	$	60	$	65

Estate & GST Taxes

Decanting

- Decanting Ideas for 2019
  - Turn a grantor trust into a non-grantor trust
  - Turn one non-grantor trust into several (e.g. one for each beneficiary)
  - Add a Power of Appointment (or other terms to force inclusion) in order to capture the basis "step-up"

IRC § 199A


Is it a Specified Service Business?
No
Is taxable income over the threshold amount?
No
Deduction = QBI x 20%
Yes
Is taxable income over the threshold amount?
No
Deduction = QBI x 20%
Yes
Over full Phase – in?
No
Deduction Reduced
Yes
Is taxable income over the full phase-in?
No
Deduction Reduced
Yes
No Deduction
Yes
Deduction equals lesser of:
• QBI x 20% or
• The greater of:
- W-2 wages x 50%
- W-2 wages x 25% + 2.5% of qualified property

Eligible Taxpayers

TYPES OF TAXPAYERS	THRESHOLD AMOUNT
Married persons	$ 321,400
All others	$ 160,700

Four Business Classifications

And the Limitations

	Non-Service	Service
Taxable income less than $321,400 (MFJ)	**20% deduction**	**20% deduction**
Taxable income greater than $321,400 but less than $421,400	Limitation phased-in	Deduction phased-out
Taxable income greater than $421,400	**Wage/Capital Testing**	**No deduction**

THE HEART OF PLANNING IS MANAGING TAXABLE INCOME AND THE WAGE / CAPITAL LIMITATION.

Basics

“Income Deficit”

- The deduction also cannot exceed the lesser of
  - The “Combined QBI Amount,” or
  - 20% x (total taxable income – capital gain)

- Combined QBI amount = deduction for each qualified trade or business ***PLUS*** **20% of REIT dividends and PTP income**

§ 199A, § 11011

Calculation of the Deduction

Simplified

- For taxpayers with income in excess of $415,000 (MFJ) the deduction for pass-through income from a non-service trade or business is limited to the greater of:
  - 50% of W-2 Wages, or
  - 25% of W-2 Wages plus 2.5% of "unadjusted basis immediately after acquisition"

- This limitation for is phased-in from $315,000 - $415,000 (MFJ) of taxable income

- **Additionally, for Specified Service Businesses, the entire deduction is phased-out from $321,400 - $421,400 (MFJ) of taxable income**

§ 199A, § 11011

Calculation of the Deduction

Simplified

- W-2 Wages
  - Equal to wage expense [§199A(f)(1)]
  - Does not include guaranteed payments or payments to independent contractors
- Qualified Property
  - Tangible property being depreciated (e.g. does not include land)
  - Depreciation period is the later of the regular depreciation period or 10-years
- Unadjusted Basis
  - Equal to basis immediately after acquisition
  - Not adjusted for depreciation

§ 199A, § 11011

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Key Planning Ideas

- **Reduce Taxable Income below the threshold amount**
  - Tax-free bonds
  - Life insurance & annuities
  - Real estate investments
  - Oil & gas investments
  - Recognize losses
  - Avoid recognizing gains
  - Charitable contributions
  - Pension plan contributions
  - Increase payroll
  - Accelerate business expenses
  - Cost segregation studies
  - Captive insurance companies
  - Broaden ownership group to those with lower taxable income
  - Gifts to taxpayers with lower taxable income (e.g. children & trusts)

Key Planning Ideas

- **Increase QBI for those below the threshold amount**
  - Defer business expenses (e.g. insurance premium or property tax payment plans)
  - Defer acquisitions of new property eligible for 179 or bonus treatment
  - Reduce wages paid
  - Drop S-election to avoid owner's wage
  - Reduce leverage

Key Planning Ideas

❑ Pass the "Wage" or "Capital" Test

- ❑ **Increase qualified property**
  - ❑ Acquire or improve property before year-end
  - ❑ Carefully consider whether items are capitalized or expensed
  - ❑ Understand what property will "roll-off" at year-end
- ❑ **Increase Wages**
  - ❑ Employee bonuses
  - ❑ S-election

- ❑ **REVIEW AND COMPUTE THE EFFECTIVENESS OF BOTH AGGREGATION ELECTIONS**

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Traditional v. Roth v. Life Insurance

It's all about marginal rates !

- If a business owner can claim 199A in full, their actual current rate is 80% of the scheduled tax rate:

  35% x 20% = 7%

  35% – 7% = 28%

  28% ÷ 35% = 80%

- This changes the mathematics of the Traditional v. Roth v. Life Insurance analysis we are familiar with

Traditional v. Roth v. Life Insurance

It's all about marginal rates !

Equal Rates at Contribution & Distribution
199A Doesn't Apply

	Traditional 401(k)	Roth 401(k)
Annual Savings	$ 19,000	$ 19,000
Less: Income Tax Cost (35%)	-	(6,650)
Net Balance	$ 19,000	$ 12,350
Growth Until Death	200%	200%
Account Balance @ Death	$ 38,000	$ 24,700
Less: Income Tax Cost (35%)	(13,300)	-
Net to Family	$ 24,700	$ 24,700

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Traditional v. Roth v. Life Insurance

It's all about marginal rates !

Equal Rates at Contribution & Distribution
199A Applies

	Traditional 401(k)	Roth 401(k)
Annual Savings	$ 19,000	$ 19,000
Less: Income Tax Cost (80% of 35%)	-	(5,320)
Net Balance	$ 19,000	$ 13,680
Growth Until Death	200%	200%
Account Balance @ Death	$ 38,000	$ 27,360
Less: Income Tax Cost (35%)	(13,300)	-
Net to Family	$ 24,700	$ 27,360

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Personal Trainer Example

Roth Contributions & Conversions to Increase the Deduction

- Your personal trainer, Tom, will make $100,000 (QBI) in 2019 giving his clients fitness lessons and nutritional advice
- He operates as a sole proprietor and just files a Schedule C to report his business income
- He diligently contributes to his IRAs and has done well in the market, but basically has no other sources of income

Personal Trainer Example

Roth Contributions & Conversions to Increase the Deduction

- He will claim the $12,200 standard deduction for single filers and plans a $6,000 contribution to his IRA – his taxable income will be about $81,800

You explain he will not be entitled to a full 199A deduction because his taxable income was too low

Taxable Income x 20% < QBI x 20%

Personal Trainer Example

Roth Contributions & Conversions to Increase the Deduction

- You therefore advise Tom to consider Roth IRAs to increase his 199A deduction in 2019
- You explain that if Tom makes a Roth IRA Contribution instead of a Traditional IRA contribution this will not decrease his deduction.
- You also explain that if he makes a $12,200 Roth Conversion, he will be entitled to the full 199A deduction

Personal Trainer Example

Roth Contributions & Conversions to Increase the Deduction

- Your simple advice increases Tom's deduction and allows him to save more for retirement on an after-tax basis

- His effective Roth IRA contribution and conversion rate will only be 19.2% (24% x 80%)

Dentist Example

- Lisa is a married dentist who receives $400,000 of pass-through income from her practice, organized as an S-corporation, and pays herself a wage of $150,000.
- Her taxable income exceeds the threshold amount and phaseout – she is ineligible for the 199A deduction.

No Deduction for a Service Business

Income > Threshold Amount + Phaseout

Dentist Example

- Lisa lives modestly relative to income and invests the majority of her earnings
- Therefore, you advise her to look into whether her retirement plans are fully funded

Contributions to Pre-tax Retirement Funds Reduce Taxable Income

Dentist Example

DEFINED CONTRIBUTION PLAN LIMITS

IRA / ROTH IRA CONTRIBUTION LIMIT	$	6,000
IRA / ROTH IRA "CATCH UP"	$	1,000
401k ELECTIVE DEFERRAL	$	19,000
401k ELECTIVE DEFERRAL "CATCH UP"	$	6,000
SIMPLE IRA CONTRIBUTION LIMIT	$	13,000
SIMPLE IRA "CATCH UP"	$	3,000
SEP IRA EMPLOYEE PERCENTAGE MATCH LIMIT	25%	
SEP IRA SELF-EMPLOYED PERCENTAGE MATCH LIMIT	20%	
OVERALL LIMIT ON CONTRIBUTIONS TO DCPs	$	56,000

Dentist Example

Current Age	DC/401k Contribution	Cash Balance Allocation	Total
35	54,000	70,000	124,000
40	54,000	90,000	144,000
45	54,000	115,000	169,000
50	60,000	145,000	205,000
55	60,000	190,000	250,000
60	60,000	245,000	305,000

Please note these are prior-year figures.

A Special Thanks to Shore-Tompkins
for Providing this Slide.

Dentist Example

- Next, you point out if she invests in an Oil & Gas operating interest, she is specifically exempt from the passive loss rules and therefore can reduce her income

- Oil & Gas investment incentives
  - Intangible drilling costs (IDCs) are the majority of the costs of drilling a well and 100% deductible in the year incurred with an election
  - Tangible drillings costs allow for depreciation deductions
  - Depletion provides an additional deduction
  - Usually, well over 80% of the investment is deductible in the year made

Dentist Example

- Lisa is also charitably inclined and you point out the deduction is phased-out based on her taxable income
- You explain the following options might allow her to lump a large charitable contribution into a single year:
  - Donor advised funds
  - Supporting organizations
  - Community foundations
  - Private foundations
  - Charitable gift annuities
  - Pooled income funds
  - Charitable remainder trusts

Dentist Example

- Example of steps Lisa might take to reduce her taxable income and be eligible for the deduction:

	Income (Deduction/Loss)
W-2 Income	$ 150,000
Pass-through Income	400,000
Defined Benefit Plan (DBP) Contribution	(150,000)
Oil & Gas Partnership ($65,000 investment)	(50,000)
Accelerated Charitable Contribution to DAF	(30,000)
Taxable Income	**$ 320,000**

- Lisa could reduce her income to a level that allows her to fully claim the 199A deduction

2020 Action Steps

2020 Action Steps

Checklist

- ❑ Bracket Management
  - ❑ Bonuses
  - ❑ Recognition events
  - ❑ Business expenses
  - ❑ AMT awareness
- ❑ Significant Financial Events Next Year
  - ❑ Recognition events
  - ❑ New investments
  - ❑ Re-allocation plans
  - ❑ Vesting
- ❑ Itemized Deduction Timing
  - ❑ Medical expenses
  - ❑ Property tax
  - ❑ Charitable contributions
  - ❑ Casualty & theft losses
- ❑ Major Life Events Next Year
  - ❑ Family changes
  - ❑ Job changes
  - ❑ Moving

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2020 Action Steps

Checklist

- ❑ Retirement Planning
  - ❑ Fund IRAs
  - ❑ Fund 401ks
  - ❑ Fund pension plans
- ❑ Executive Planning
  - ❑ Review NQCD
  - ❑ Review NQSOs / ISOs
  - ❑ Review concentrated positions
- ❑ Education Planning
  - ❑ Fund 529 plans
  - ❑ Fund Coverdell accounts
- ❑ Estate Tax Planning
  - ❑ Plan lifetime exemption gifts
  - ❑ Plan annual exclusion gifts
  - ❑ Plan medical gifts
  - ❑ Plan tuition gifts

Questions?