2022 Estate and Gift Tax: Looking Back, and an Update

There were many who predicted significant changes to the current federal estate and gift tax law in the past year, but nothing has materialized as of this writing. Many predicted that the amount that would be subject to tax would be greater due to a lowering of the exemption amount, and that the rates would be higher. It just didn’t happen. Indeed, the exemption is going up.

According to the IRS website and Kiplinger, the federal estate tax exemption is going up for 2022. The amount is adjusted each year for inflation. It’s important to remember that the current law will sunset at the end of 2025, at which point the amounts and rates will revert to those in effect in 2016, which are significantly lower, meaning more estates will be taxable.

2022 Federal Estate Tax Exemption

Generally, when you die, your estate is not subject to the federal estate tax if the value of your estate is less than the exemption amount. For people who pass away in 2022, the exemption amount will be $12.06 million ($11.7 million for 2021). For a married couple, that comes to a combined exemption of $24.12 million.

This is also known as the Basic Exclusion amount. It is as high as it’s ever been. The annual exclusion for gifts was $11,000 (2004-2005), $12,000 (2006-2008), $13,000 (2009-2012) and $14,000 (2013-2017). In 2018, 2019, 2020, and 2021, the annual exclusion is $15,000. Again, in 2022, the annual exclusion is $16,000.

Federal Estate Tax Rate

Only a small percentage of Americans die with an estate worth $12 million or more. But for estates that do, the federal tax bill is significant. Most of the estate's value is taxed at a 40% rate.

According to Kiplinger, the first $1 million in an estate is taxed at lower rates – from 18% to 39%. That results in a total tax of $345,800 on the first $1 million, which is $54,200 less than what the tax would be if the entire estate were taxed at the top rate. Once the estate's value exceeds $1 million, the excess is taxed at the 40% rate.

That's the picture from a federal perspective. What about Maine? Yes, Maine has an estate tax, with an exemption level of $5.87 million. The Estate tax rates range from 8% – 12%, which is one of the lowest rates among the states that have an estate tax. There is no tax on heirs, so no Inheritance tax.[1]

Federal Gift Tax

Gifts can be taxable if they are big enough. First, there's the exclusion of what you don't need to report each year. This would apply to gifts to any one individual in the calendar year by a taxpayer. You could double the amount for gifts from a married couple filing jointly. The current exclusion is $16,000. It has increased over the years. Those gifts that exceed the exclusion Amount are reported and cumulatively are not taxable as gifts until they exceed a total of the exemption amount during your lifetime, currently over $12 million.

By the time 2026 rolls around, we will likely hear much more about estate and gift taxes. The current law is slated to sunset December 31, 2025 and go back to 2016 levels January 1, 2026.

All taxpayers should consult with their own professional tax and legal advisors when making estate and significant gifting plans to take their unique facts and circumstances into account.

[1] https://www.kiplinger.com/retirement/inheritance/601551/states-with-scary-death-taxe

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Fixed Income Investment Strategies: 4 Ways to Mitigate Inflation Risk

Fixed income investments (also known as bond investments) play an important role in a well-diversified portfolio, potentially serving as downside protection in times of uncertainty. Still, as of this writing in January 2022, some fixed income investors are understandably cautious about the risk of rising consumer prices on their portfolios. The primary concern is the potential for interest rates to increase.

Rising interest rates put pressure on fixed income investments by causing prices for existing bonds to fall. This is known as interest rate risk. Although there is no way to completely avoid the impact of higher inflation on fixed income, the risk can be mitigated. Let's review four strategies that could help manage fixed income portfolio risk.

1) Reduce Interest Rate Risk

Why is interest rate risk a primary concern for many bond investors? After all, a bond's original terms do not change within the interest rate environment. If you hold a bond to maturity, you're entitled to receive the full principal amount, plus any outstanding accrued interest.

If you want to sell a bond before maturity, however, the situation is different. Prior to maturity, most existing bonds sell at a premium or a discount to the full principal amount, plus accrued interest. If interest rates have risen since a bond was issued, the price of the bond typically declines.

So, what strategies can we employ to potentially reduce the interest rate risk of a bond portfolio? Adjusting the duration of your bond portfolio is one of the first methods to consider. Duration is a measure of the sensitivity of the price of a bond to a change in interest rates. Notably, duration is *not* the same thing as a bond's term to maturity.

For instance, a bond with a duration of 5 would be expected to see its price fall 5 percent if interest rates were to rise by 1 percent. In comparison, a bond with a duration of 2 would be expected to see a 2 percent decline if interest rates were to rise by 1 percent.

To guard against a rise in rates, it might help shorten the duration of your bond portfolio. It's important to note, though, that shortening duration alone may not ensure that a portfolio is adequately protected while generating a reasonable return.

2) Increase Credit Spread Risk

A credit spread is the difference in interest rates between a U.S. Treasury bond and another type of bond of the same maturity but different credit quality. Typically, bonds with a lower credit quality offer higher interest rates than U.S. Treasury bonds. The risk for investors is that a bond with a lower credit quality comes with a higher risk of default. Default means a bond has missed an interest or principal payment.

So, how does this strategy work? Most importantly, investors must consider whether the potential benefit of receiving a higher interest rate is worth the higher risk of default. If this strategy is implemented, the fixed-income portion of a portfolio is oriented away from U.S. Treasury bonds and toward investments that increase credit spread risk. This category includes corporate bonds, mortgages, and high-yield investments. High-yield investments have lower credit ratings than investment-grade corporate bonds, although they typically offer higher yields.

These investments are a step out on the risk spectrum, but the risk is concentrated on credit spread risk. Corporate bonds, mortgages, and high-yield investments are typically driven by improving economic fundamentals. As a result, they could benefit from rising rate environments that see faster economic growth. Given the reasons for the recent inflation increase—namely reopening efforts and economic recovery—spread-oriented investments may make sense for some investors.

It’s important to note that corporate bonds, mortgages, and high-yield investments are not immune to the negative effect rising interest rates may have on prices. Nonetheless, the move from primarily interest rate-sensitive to spread-oriented investments could help lower the interest rate risk of a fixed income allocation. These investments could potentially provide a reasonable yield by shifting the risk exposure toward credit.

3) Consider Foreign Exposure

It might also be beneficial to shift a portion of your fixed income allocation to international bonds. Several factors can affect global interest rates, but the economic fundamentals for individual countries primarily drive their respective rates. Given the diverging global economic recovery, tactical opportunities may arise in developed and emerging international markets.

Including international bonds diversifies a bond portfolio away from U.S.-based interest rate risk. Accordingly, this strategy could help dampen price volatility for a fixed income allocation when interest rates are rising.

As with spread-oriented investments, this strategy involves some interest rate risk. Still, diversifying exposure to include foreign interest rate risk may help lower a portfolio's overall volatility.

4) Employ Yield Curve Positioning

Another strategy to consider is focusing on holding a diversified portfolio of fixed income investments spread across the yield curve. What is the yield curve? A yield curve is a line that plots the interest rates (also known as the yield) of bonds having equal credit quality but different terms to maturity.

When analysts consider interest rate risk, most hypothetical scenarios envision an environment where rates shift in parallel across the yield curve. In reality, however, this scenario rarely happens.

The interest rates for bonds usually depend on whether it’s a short-term or long-term bond. Short-term bonds are generally more sensitive to changes in the Federal Reserve’s monetary policy. On the other hand, interest rates for a long-term bond are driven more by the outlook for long-term economic growth. Given this fact, holding a bond portfolio with a diversified range of maturity dates could help protect against changes in monetary policy that increase interest rates.

Bond laddering is a strategy that can help diversify interest rate risk exposure across the yield curve. Instead of buying bonds that are scheduled to come due during the same year, purchasing bonds that mature at staggered future dates should be considered. This can allow for more regular reinvestment of income and helps insulate a portfolio against yield changes in a certain segment of the market.

Need Additional Information?

For assistance in evaluating your options, please contact me. We’ll talk through these strategies for managing the potential outcomes and risk of your fixed income portfolio.

Bonds are subject to availability and market conditions; some have call features that may affect income. Bond prices and yields are inversely related: when the price goes up, the yield goes down, and vice versa. Market risk is a consideration if sold or redeemed prior to maturity.

A bond ladder, depending on the types and amount of securities within the ladder, may not ensure adequate diversification of your investment portfolio. While diversification does not ensure a profit or guarantee against loss, a lack of diversification may result in heightened volatility of the value of your *investment portfolio.*

The main risks of international investing are currency fluctuations, differences in accounting methods; foreign taxation; economic, political or financial instability; lack of timely or reliable information; or unfavorable political or legal developments.

This material is intended for informational/educational purposes only and should not be construed as investment advice, a solicitation, or a recommendation to buy or sell any security or investment product. Investments are subject to risk, including the loss of principal. Some investments are not suitable for all investors, and there is no guarantee that any investing goal will be met. Past performance is no guarantee of future results. Please contact your financial professional for more information specific to your situation.

Debt Management in a Healthy Financial Plan

Wise debt management is a key component of healthy and effective financial planning. Today, most people carry some amount of debt to finance a degree or buy a home or car. Other debts may be incurred out of necessity or as part of an investment plan. Whatever your reasons for taking on debt, you should understand the different types of debt and their risks. This knowledge will help you manage debt wisely as part of your overall financial plan.

Primary Types of Debt

The two primary types of debt are:

- **Unsecured debt.** Credit card balances and student loans are common types of unsecured debt. Typically (without considering pandemic-related relief), missing one or more of your monthly payments on unsecured debt could result in late fees, increased interest rates, damage to your credit score, and/or action by a collection agency. A delinquent borrower can also be sued by the lender.
- **Secured debt.** With secured debt, the lender has an interest in an asset, such as a home mortgage or car loan. In the event of default, the lender has a legal right to repossess its interest in the asset.

Risks to Consider

The distinction between unsecured and secured liabilities should not lead to conclusions about when debt is appropriate. Credit card balances and car loans, for example, are rarely part of a healthy financial plan, in part because assets acquired this way are subject to rapid depreciation. Furthermore, because unsecured debt is convenient, it can get out of control quickly. So, avoiding credit card debt and car loans is advisable unless you have a strict budget and the discipline to stick to it.

Other types of debt, such as mortgages and business loans, could increase your long-term net worth, provided the asset value increases or remains more valuable than the loan balance. In these cases, you have less risk of the debt getting out of control because secured loans can be fully satisfied by disposing of the secured asset. But the obvious downside is you could lose your home, car, or other valued asset. As a result, even if secured debt has lower interest rates and more favorable terms, you should carefully weigh the potential downsides before taking it on.

How Much Debt Can You Afford?

With any type of loan, lenders decide what level of risk they will accept when making a lending decision. Factors they consider include credit history and the prospective borrower's debt-to-income ratio. But the lender's main concern is answering the question, "What is the maximum amount we can offer this borrower with the least likelihood they will default on the loan?"

It's important to realize that a lender's willingness to loan funds does *not* mean accepting the loan is prudent. When analyzing your ability to carry debt, consider your budget carefully and focus on the following:

Liquidity. If you suddenly lost your job, would you have enough cash to cover your current liabilities? It's a good idea to maintain an emergency fund to cover three to six months of expenses. But don't go overboard. Guard against keeping more than 120 percent of your six-month expense estimate in low-yielding investments. And don't let more than 5 percent of your cash reserves sit in a noninterest-bearing checking account.

Current debt. Your total contractual monthly debt payments (i.e., minimum required payments) should come to no more than 36 percent of your monthly gross income. Your consumer debt—credit card balances, automobile loans and leases, and debt related to other lifestyle purchases—should amount to less than 10 percent of your monthly gross income. If your consumer debt ratio is 20 percent or more, avoid taking on additional debt.

Housing expenses. Generally, your monthly housing costs—including your mortgage or rent, home insurance, real estate taxes, association fees, and other required expenses—shouldn't amount to more than 31 percent of your monthly gross income. If you're shopping for a mortgage, keep in mind that lenders use their own formulas to calculate how much you can afford. These formulas may not work for your situation. For a mortgage insured by the Federal Housing Administration, your housing expenses and long-term debt should not exceed 43 percent of your monthly gross income.

Savings. Although the standard recommended savings rate is 10 percent of gross income, your guideline should depend on your age, goals, and stage of life. You should save more as you age, for example, and as retirement nears, you may need to ramp up your savings to 20–30 percent of your income. Direct deposits, automatic contributions to retirement accounts, and electronic transfers from checking accounts to savings accounts can help you make saving a habit.

Debt Pay-Down Strategies

If you're carrying debt that exceeds what's normal for the average household, we can discuss strategies to pay it down as aggressively as is reasonable. Here are two approaches to consider:

- **Snowball debt elimination.** This involves identifying lowest-balance debts and targeting them for priority repayment while making only the minimum payment on other items of debt. Once the lowest balance is paid off, move on to paying down a new set of lowest-balance debts.
- **Debt avalanche.** This strategy advocates paying off debts with the highest interest rate first. This makes mathematical sense but requires discipline and the ability to stick with the process.

Debt and Your Investment Plan

In some cases, you may believe that holding debt, such as a mortgage or margin investments, is beneficial. This idea is usually based on the potential for your investments to outperform the interest rate on the applicable loan and the investment opportunities you could explore with that extra liquidity.

For instance, you might believe that paying off a mortgage or margin loan could represent a tax-free return on investment essentially equal to the interest rate paid on the debt. But you would enjoy a significant net benefit only if the rate of return substantially exceeds the cost of the interest. And that result cannot be guaranteed. So, though this strategy could potentially yield a monetary benefit, the overall risk involved is significant.

Need Additional Information?

We'll talk through these strategies for managing debt and explore other planning solutions that can help you stay or get on track to financial security. By carefully approaching debt with a detailed plan on how much to borrow and how to repay your debt, you can reach your goals and support your long-term financial success.

This material has been provided for general informational purposes only and does not constitute either tax or legal advice. Although we go to great lengths to make sure our information is accurate and useful, we recommend you consult a tax preparer, professional tax advisor, or lawyer. Third party links are provided to you as a courtesy and are for informational purposes only. We make no representation as to the completeness or accuracy of information provided at these websites.

More Generous Savings Provisions for Retirement Planning in 2022

By Sarah Ruef-Lindquist, JD, CTFA

In 2022, retirement contribution limits for 401(k) and other types of defined contribution plans (403(b), 457 and Thrift Savings plans) will increase $1,000 to $20,500 for those under age 50, and for those 50 and older to $27,000.

This amount is $1,000 higher than it has been and is great news for retirement savers. Taking advantage of plans that allow taxpayers to make pre-tax contributions that then are treated as tax-deferred until withdrawn in retirement is a smart part of retirement planning.

Pre-tax contributions reduce your tax liability because the amount of the contribution is deducted from gross income. The retirement account is not taxed on any income or capital gain as long as funds remain in the IRA, with the exception of amounts withdrawn. Those are taxed as ordinary income. Taxes can be delayed to age 72, when annual minimum distributions are required to begin. Then income tax is due on withdrawals.

There is no change in the contribution limit for Individual Retirement Accounts (IRA’s). That amount remains at $6,000 for those under age 50, and $7,000 for those age 50 and older. The amount has not changed since 2019.

Other recent legislation allows people to continue to make contributions after age 70, as long as they have income of at least the amount of the contribution.

More workers may now qualify for Roth IRA contributions, based on income phaseouts that are rising $4,000 ($129,000 – $144,000) for single filers and rising $6,000 ($204,000 – $214,000) for married filing jointly.
Be sure to check with your tax preparer or financial advisor about how any changes in the laws regarding retirement savings and planning impact your particular situation.

Sarah Ruef-Lindquist Discusses 'Pandemics and Planned Giving'

Pandemics and Planned Giving was the topic of a presentation made by Sarah Ruef-Lindquist, JD, CTFA at the Northern New England chapter of the Association of Fundraising Professionals annual conference, held Nov. 3 and Nov. 4.

Ruef-Lindquist, a financial advisor at Allen Insurance and Financial in Camden, said the COVID-19 pandemic drove people to focus on estate planning, while the confluence of historic stock and real estate values, potential estate and income tax changes and compelling societal need has laid the groundwork for many fruitful conversations with organizations' most loyal supporters.

Ruef-Lindquist explored these dynamics, which she said could impact gift planning for years to come. Attendees at the conference, held in Manchester, N.H., included approximately150 fundraising and non-profit professionals from across Maine, New Hampshire and Vermont.

Ruef-Lindquist has had a role in planned giving as an attorney, former trust officer and philanthropic advisor and consultant to non-profits across New England. She is outgoing president of the Maine Planned Giving Council and she previously served as vice president for Southern Maine at the Maine Community Foundation and CEO of the Maine Women's Fund.

The Certified Trust and Financial Advisor (CTFA) designation awarded by the Institute of Certified Bankers, American Bankers Association.

Your Guide to Year-End Financial Planning: A 10-Point Checklist

From the hope that came with reopening to the disappointment of another COVID-19 resurgence, 2021 is panning out to be another roller-coaster year. With the fourth quarter upon us, one routine remains consistent: it's time to start organizing your finances for the new year. New rules related to the pandemic, coupled with tax and retirement changes that carried over from last year, means there's a lot to consider. This checklist highlights some key points to help guide you as you get started.

1) Boost Your Retirement Contributions
Workplace accounts. Are you maximizing contributions to your

workplace plan? If not, now's the time to think about increasing your contribution to take full advantage of any employer match benefit. For 2021, the maximum employee deferral for 401(k), 403(b), and 457 accounts is $19,500, and individuals ages 50 and older can defer an additional catch-up of $6,500. For SIMPLE IRAs, the deferral remains $13,500 and the catch-up is $3,000.

Traditional IRA. Maxing out your contributions to a traditional IRA is another option. The SECURE Act repealed the maximum age for contributions, so individuals ages 70 and a half and older who earned income in 2021 can contribute to a traditional IRA. Modified adjusted gross income (MAGI) limits for contributions to traditional and Roth IRAs increased in 2021, so be sure to review MAGI eligibility thresholds. The maximum contribution amount to a traditional or Roth IRA remains $6,000 with a $1,000 catch-up for clients ages 50 and older.

2) Use FSA Dollars and Make HSA Contributions

Note that in 2020, the IRS relaxed certain use-or-lose restrictions for Flexible Spending Accounts (FSAs) that remain in effect this year. Employers can extend the grace period for unused FSAs up to 12 months in 2021. In addition, if you have a dependent care FSA, you can save as much as $10,500 in 2021

If you have a high deductible health plan (HDHP), now is a good time to explore maximizing your Health Savings Account (HSA) contributions. In 2021, the maximum contribution for an individual HSA is $3,600, and the maximum for a family HDHP is $7,200. If you're age 50 or older you can contribute an additional $1,000. We're happy to discuss prorated contributions with you if you had an HDHP for part of 2021.

3) Manage Your Marginal and Capital Gains Tax Matters

If you're on the threshold of a tax bracket, you may be able to put yourself in the lower one by deferring some income to 2022. Here are a few thresholds to keep in mind:

- **37 percent marginal tax rate:** Taxable incomes exceeding $523,600 (individual), $628,300 (married filing jointly), $523,600 (head of household), and $314,150 (married filing separately)
- **20 percent capital gains tax rate:** Taxable incomes exceeding $445,851 (individual), $501,601 (married filing jointly), $473,751 (head of household), and $250,801 (married filing separately)
- **8 percent surtax on investment income:** The lesser of net investment income or the excess of MAGI greater than $200,000 (individual), $250,000 (married filing jointly), $200,000 (head of household), and $125,000 (married filing separately)
- **9 percent additional Medicare tax:** W-2 earnings and self-employment income above the same MAGI thresholds as the investment income surtax (For clients with W-2 earnings above the MAGI thresholds, total Medicare taxes will be 2.35 percent; for self-employed clients, total Medicare taxes will be 3.8 percent.)

4) Pay Attention to American Rescue Plan (ARP) Details

This statute, signed into law by President Biden in March 2021, changed the Child Care Tax Credit and the Child and Dependent Care Credit (for 2021 only). It also changed the taxation of unemployment compensation and canceled student debt.

- **Child Tax Credit:** In July 2021, the IRS began issuing 50 percent of this credit in six monthly advanced payments. Payments are based on 2020 income, so if your income increased in 2021, keep in mind you may need to reconcile the advanced payments. Be sure to review your eligibility for the credit.

- **Child and Dependent Care Credit:** In 2021, the credit is fully refundable. If your family earns less than $125,000 annually, you may claim a 50 percent refundable credit on care expenses of $8,000 for one child or dependent or expenses of $16,000 for two or more children or dependents.
- **Unemployment compensation:** In 2020, $10,500 of unemployment benefits were exempt from income tax. This exemption does not apply in 2021, so if you received benefits but didn't have taxes withheld, it's possible you may owe taxes.
- **Canceled student debt:** Under the ARP, you won't owe taxes on student loans that are canceled or forgiven between 2021 and 2025. This relief applies to both federal and private loans.

5) Rebalance Your Portfolio
Reviewing your capital gains and losses may reveal tax planning opportunities, such as harvesting losses to offset capital gains.

6) Make Your Charitable Giving Payoff
The CARES Act above-the-line deduction was extended to 2021, meaning you can deduct up to $300 per person ($600 if you file jointly) for cash charitable contributions. If you itemize, the deduction of up to 100 percent for all cash charitable contributions is available in 2021. (**Please note:** This deduction doesn't apply to cash contributions made to donor-advised funds or private, nonoperating foundations)

Qualified charitable distribution (QCD) rules haven't changed, so if you're older than 70 and a half, you can make a QCD of up to $100,000 directly to a charity; if you're married and filing jointly, you may exclude up to $100,000 donated from each of your and your spouse's IRA.

7) Form a Plan for Stock Options

If you hold stock options, it's a good idea to develop a strategy for managing your current and future income. As part of this, be sure to have your tax advisor prepare an alternative minimum tax (ATM) projection. Keep in mind, ATM exemption limits increased in 2021 to $73,600 for single tax filers and $114,600 for married joint filers. If you're thinking about exercising incentive stock options, you may want to wait until January 2022 if, depending on your ATM projections, there's any tax benefit to waiting.

8) Prepare for Estimated Taxes and RMDs

- Under the SECURE Act, if you reached age 70 and a half after January 1, 2020, you can wait until you turn 72 to start taking RMDs. RMDs are required in 2021.
- If you took coronavirus-related distributions (CRDs) from your retirement plan, we can review the repayment option you chose in 2020. Remember, the choice not to repay all of a CRD in 2020 is irrevocable.
- If you took a 401(k) loan after March 27, 2020, you'll also need to establish a repayment plan and confirm the amount of accrued interest.

9) Adjust Withholding and Prepare for Student Loan Repayment

If you think you may be subject to an estimated tax penalty, consider asking your employers (via Form W-4) to adjust your withholding to cover shortfalls. The IRS tax withholding calculator can help you with your estimates.

Student loan payments, which the CARES Act paused in March 2020, are scheduled to resume in February 2022. If you reduced other debt during this period, you'll need to adjust your monthly cash flow to include upcoming student loan payments.

10) Assess Your Estate Plans

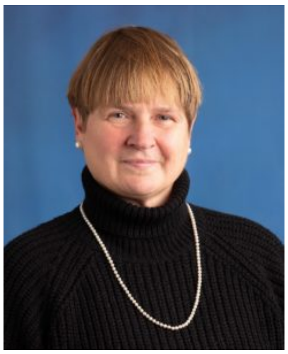
Year-end is always a good time to review and update your estate plan to make sure it's still in line with your goals and accounts for any change in circumstances. Depending on your net worth, establishing a defective grantor trust, spousal lifetime access trust, or irrevocable life insurance trust may be an effective strategy to reduce your estate tax exposure. In addition, take the time to update your beneficiary designations and review trustee appointments, power of attorney provisions, and health care directives.

Rely on Us as a Resource

It's not too early to get a jump on planning—and even though your situation is unique to you, this high-level checklist can be a great starting point. Please feel free to contact us to talk through the issues and deadlines that affect you. We're also happy to collaborate with your CPA, attorney, and other professionals you work with to help ensure you're prepared for the coming year.

Retirement Savings and Tax Legislation in the Pipeline

By [Sarah Ruef-Lindquist, JD, CTFA]



Sarah Ruef-Lindquist, JD, CTFA

Last October, I wrote about some of the changes possibly in store for individuals and their income taxes as 2021 approached. Now, a year later, we have a little bit better idea of what MIGHT be in store, but Congress has not yet submitted a bill for the president’s signature. There has also been some discussion and activity around further modification of laws for retirement savings in addition to those in the SECURE Act from 2019 that would impact how and when people save for retirement, and how those retirement funds are accessed.

We have had a House version and a Senate version produced on the tax laws, and here’s what I’m seeing for possible provisions, based on what I’m reading and hearing from folks in DC who focus on these developing issues:

• According to an article in Forbes [1], income tax rates will rise modestly, bringing individual tax rates to 39.6% for ordinary income for married individuals who file jointly with taxable income over $450,000, heads of household with taxable income over $425,000, and unmarried individuals with taxable income over $400,000.

• Maximum capital gains tax rates would also increase from 20% to 25%, for sales that occur on or after Sept. 13, 2021, and will also apply to Qualified Dividends. The present rate of 20% will continue to apply to any gains and losses incurred prior to September 13, 2021, as well as any gains that originate from transactions entered into under binding written contracts prior to September 13, 2021.

• For IRA owners with large IRAs, accounts that exceeds $10 million as of the end of a taxable year, no further contributions will be allowed if the owner has taxable income over $400,000, or married taxpayers filing jointly with taxable income over $450,000.These large IRA owners will be required to make a minimum distribution equal to "50% of the amount by which the individual's prior year aggregate tradition IRA, Roth IRA, and defined contribution account balance exceeds the $10 million limit". Even more extreme treatment will apply to those who have over $20,000,000 in combined accounts.

A "Secure 2.0" bill has some additional provisions for retirement accounts. According to www.benefitspro.com[2] , for those aged 62-64 with a 401(k), catch-up contributions would increase from $6,500 to $10,000. Similarly, for that same age bracket contributing to a SIMPLE IRA or Simplified Retirement Plan (SEP), catchups would increase from $3,000 to $5,000 per year.

Required Minimum Distributions (RMDs) are IRS-mandated amount of money that must be withdrawn from traditional IRAs or employer-sponsored retirement accounts each year. The current RMD start age is 72-years old, but this legislation would incrementally increase that age from 72- to 75-years old over the next ten years. A few extra years of tax-free appreciation and income could yield additional funds if the market does well.

- RMD 73 starting on Jan 1, 2022
- RMD 74 starting on Jan 1, 2029
- RMD 75 starting on Jan 1, 2032

The penalties for missing an RMD would also change. Currently, there is a 50% excise tax on withdrawals that do not occur within the specified window. SECURE 2.0 would reduce this penalty to 25%, and only 10% if corrected in a timely manner.

Finally, we wrote last year we were anticipating losing favorable tax treatment for inherited investments. Essentially, we were hearing that the long-standing "step-up in basis" was going away. This would mean that heirs would have to use the tax basis of their benefactor to calculate their own capital gain upon sale of these assets, rather than using the value on the date of the benefactor's death for basis. This was the "step-up" we had come to use for many years to reduce the impact of capital gains on inheritances. The provision appears to be safe – for the time being – as its removal is not in the most recent versions of proposed legislation.

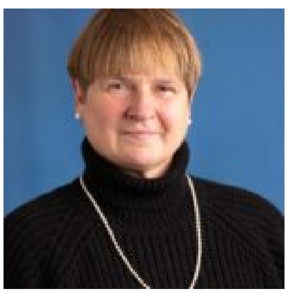
Be sure to check in with your financial and tax advisors about how these provisions may impact your tax or retirement savings situations. The final versions of the legislation may differ widely from what we have summarized above.

Sources:

[1]
https://www.forbes.com/sites/alangassman/2021/09/16/income-tax-law-changeswhat-advisors-need-to-know/?sh=7170396517ff

[2] https://www.benefitspro.com/2021/09/16/what-americans-need-to-know-about-the-secure-act-2-0/?slreturn=20210904132953

Charitable Giving Opportunities for 2021



Sarah Ruef-Lindquist, JD, CTFA

By Sarah Ruef-Lindquist, JD, CTFA

As year-end approaches, many of us think about the charitable organizations that we have supported and want to continue supporting through annual giving. The tax advantage of making charitable gifts has changed dramatically in the past several years, and some opportunities exist that may not after the end of this year.

In recent years, the increased amount of the standard deduction has made itemizing charitable deductions less tax efficient. Because individual taxpayers have a standard deduction of $12,550 and married joint filers $25,100, often the combined value of itemized deductions, including charitable gifts, does not exceed those amounts. However, even non-itemizers can take advantage of the $300 for individual or $600 for married joint filer charitable deduction opportunity for 2021. This is an extension of the CARES Act of 2020.

The CARES act provision allowing cash contributions of up to 100% of AGI (Adjusted Gross Income) is also available for charitable giving in 2021 for itemizers. Gifts exceeding that amount may be carried over to future tax returns for up to 5 additional years. The CARES incentives are not available for gifts to donor-advised funds, supporting organizations or private foundations. This provision could increase the tax efficiency of large cash gifts that would otherwise be limited in their deductibility to 60% of AGI before or after the CARES act is effective.

A taxpayer who itemizes age 59 ½ or older can make a distribution from any defined contribution plan (401(k), IRA, 403(b)) and deduct up to 100% of AGI in 2021 under the extended provision of the CARES act. This could present a unique opportunity for many wishing to make a large gift to charity and use their retirement funds to do so.

And there are perennial gifting strategies that have tax efficiencies. One of these would be using appreciated stock instead of cash to make charitable gifts. 2021 saw record high market values for the stock market. The capital gains that are imbedded in these assets means that the full current market value of the stock can be a charitable gift without any capital gains tax being paid. The charity gets to realize the full value of these assets, while the donor does not recognize any capital gain when using them for charitable gifts.

Another option for those age 70 ½ or older involves IRA’s.

Qualified Charitable Distribution (QCD) of up to $100,000 per year from IRA’s are extremely tax efficient. Not only can the distribution cover what would otherwise be considered a Required Minimum Distribution for those age 72 or older, but they are distributed directly to charity from an IRA without any income tax payable. Usually, distributions from an IRA require payment of income tax (federal and state, if applicable), but not so with QCD’s. For those who are less reliant on these funds from year to year, this is a particularly attractive option that involves giving the specific instructions to your IRA advisor or administrator to make the distribution.

As you consider any charitable giving for 2021, be sure to seek the advice of a professional financial or tax advisor to understand fully how any charitable gift can impact your particular financial and estate plans.

To Buy or Not to Buy . . . When Do You Need Life Insurance?

Whether you need life insurance depends partly on your stage of life. If you’re younger, you may have less need for coverage. As you move along the path in life, you’ll likely have more of a need. And, as your responsibilities lessen, your need may decrease.

Here’s a look at how your phase of life affects your life insurance needs.

Young and Single
As a young adult, you likely don’t depend on others for financial support. In most cases, your death wouldn’t create a financial hardship for others, making life insurance a low priority.

You could argue that you should buy now! The cost of life insurance factors in several things, including your health. At this point in your life, rates will probably be low. Now, while this may be a valid argument if you’re at higher risk for medical conditions (e.g., diabetes) later in life, for now, you may want to consider investing the money you’d spend on premiums.

Some exceptions to this include:

• You have a mortgage or other loans with a cosigner. Your death would leave them entirely responsible for the debt, so you may want insurance to cover this.
• You have a child or you’re supporting your parent/grandparent. As they depend on you, life insurance could provide support for them if you were to die.

Married . . . with Children (Or Without)
Married couples without children have little need for life insurance, especially if you both contribute equally to the household and don’t have a mortgage.

Once you buy a home, though, it’s a different story. Even if you both have well-paying jobs, the mortgage debt may be more than one person can handle on a single salary. And other debts, such as credit cards, can add to financial worries. In this situation, both of you should consider buying a modest amount of life insurance to provide financial support.

If you start a family, your life insurance needs are at their peak. In most cases, it’s appropriate for both parents to have life insurance.

If your family has a single income, it is completely dependent on that salary for financial security. In this case, both parents should carry enough life insurance to cover lost income or the economic value of lost services—like having to pay for childcare if the stay-at-home parent dies.

Dual-income families need life insurance, too, because it’s likely the surviving spouse will suffer financial hardship keeping up with household expenses and childcare costs.

Separation Anxiety
If you get a divorce, you’ll need to decide what to do about your life insurance, both from a beneficiary and coverage perspective. Add in dependents and it becomes more complex.

Keep it simple. If you don’t have children, it may be as simple as changing your beneficiary and adjusting your coverage.

Work it out. If you have children, the custodial and noncustodial parents will need to work out the details of your life insurance. You’ll want to make sure your children—and not your ex-spouse—are provided for in the event of your death. This may mean purchasing a new policy or changing the beneficiary to your children. If you and your ex-spouse can’t agree, the court will decide for you.

Climbing the “Corporate” Ladder
So, how do career changes affect your life insurance needs? It’s important to review your coverage whenever you leave your employer or start your own business.

When you leave your job, any employer-sponsored group life insurance coverage typically ends. Find out if you’ll be eligible for group coverage with your new employer or look into purchasing coverage yourself. You may also be able to convert your group coverage to an individual policy; it may be more expensive, but it’s a good choice if you have a preexisting medical condition that may prevent you from buying life insurance coverage elsewhere.

You should review your coverage amount, too. Your policy may no longer be adequate, especially if you’ve incurred more debt and expenses. If you own a business, consider your business debt. If your business isn’t incorporated, your family could be responsible for those bills if you die.

The Golden Years
Ah . . . retirement! Once you hit these golden years, your life insurance needs may change again. If fewer people depend on you financially, your debts have been paid, and you have substantial financial assets, you may need less coverage than before. But it’s possible that your life insurance needs will remain the same. The proceeds from your life insurance can be used to pay for your final expenses or to replace any lost income for your spouse (e.g., social security or a pension). Proceeds can even be used to pay estate taxes or as a charitable donation.

No matter what phase of life you’re in, it’s a good time to review your options and decide whether you need coverage and, if so, how much. If you’d like to discuss options, please reach out to me or my office.

This material has been provided for general informational purposes only and does not constitute either tax or legal advice. Although we go to great lengths to make sure our information is accurate and useful, we recommend you consult a tax preparer, professional tax advisor, or lawyer.

Investor360° Security Enhancement: Multifactor Authentication Required on Sept. 9

A note to our financial planning clients:

To create a more secure login process in Investor360°®, **multifactor authentication (MFA) will be required for all users (mobile and desktop platforms) beginning Sept. 9, 2021.**

What Does This Mean?

When you log in after Sept. 9, you will be asked to set up MFA in Investor360° on either a desktop browser or mobile app. A set of instructions will appear on your desktop or mobile device screen to assist you with the setup process. We're including a link here to the **Investor360° Mobile Reference Guide.**

Want to Download Investor360° Mobile?

On your mobile device, you can download Investor360° Mobile from the Apple Store or Google Play.

Questions?

If you have any questions or would like to give feedback about Investor360° MFA, please give us a call at 236-4311.