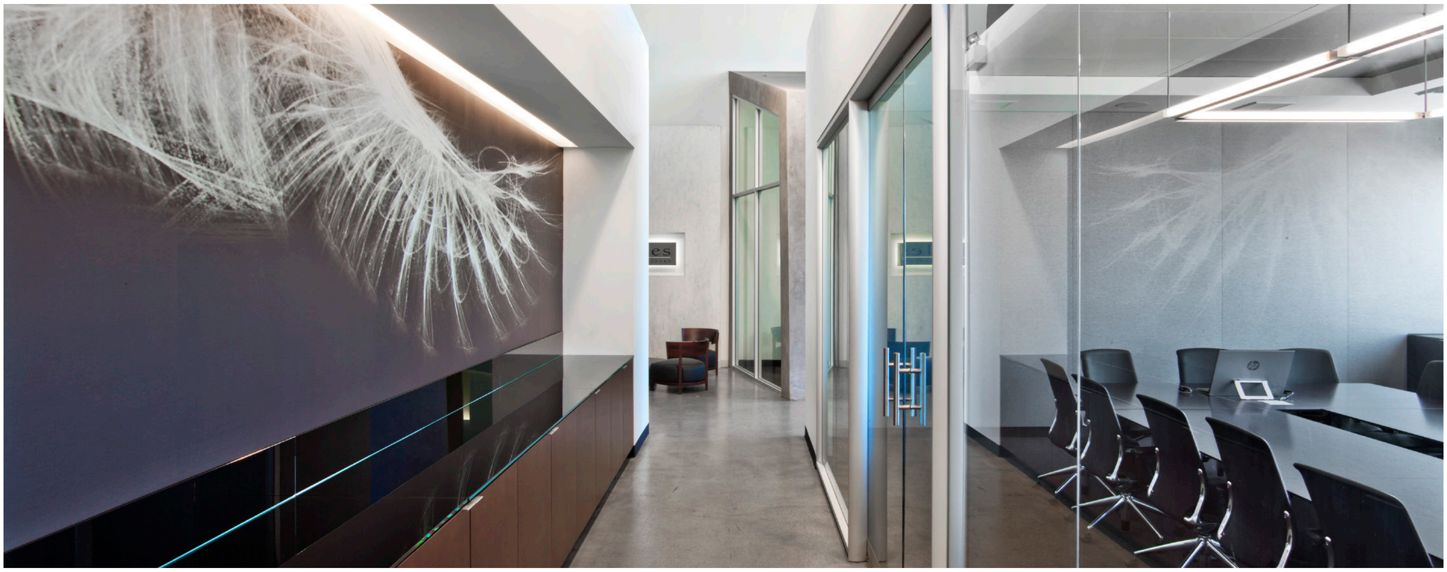

YEAR END NEWSLETTER

Dear Clients and Friends,

This year has been a difficult environment for investors, but we find that along with volatility comes plenty of opportunity for long-term planning.

We have experienced a bear market across almost all asset classes globally. Stock market volatility, a rise in interest rates, and high inflation have caused significant headwinds – all of which we have seen before and have persevered through - but nevertheless, has made it a very difficult calendar year for all investors. As we head into the last few weeks of the year, we reflect on these dynamics and are reminded time and time again as to why we are long-term investors and why we have a long-term plan in place to provide a sound financial foundation through volatile times.

As always, we are here to discuss topics outlined below with you in detail as well as coordinate with your tax preparer and legal counsel. It is important to note Angeles Wealth Management cannot provide tax or legal advice and this letter should not be construed as such, but we are happy to coordinate these discussions.

TAX PLANNING

We find that reviewing and implementing routine planning strategies coupled with a focus on action items specific to current market conditions helps optimize your tax situation and strengthen your overall financial picture. 2022 presents us with many areas of opportunity and planning techniques to think about.

Details on these different strategies are discussed below along with important actionable items to make note of prior to 12/31/22.

Tax-Loss Harvesting in 2022

In a year of market volatility, tax-loss harvesting is something we do proactively to mitigate capital gains tax in the current year as well as offset capital gains tax in future years. Harvesting tax-losses within a portfolio allows us to gain greater flexibility for many reasons. It allows for greater leeway to trim or sell highly appreciated, concentrated positions with little to no tax liability when making portfolio improvements. If you find yourself with an excess of realized capital losses, in most cases, it does not go to waste. Any such unused capital loss can offset capital gains in future years and can also be used against ordinary income up to $3,000 in 2022, with the excess carried forward to use against ordinary income in future tax years.

Distributions from Retirement Accounts in 2022

If you have an IRA and are 72 or older, you are required to take your Required Minimum Distribution (RMD) from your IRA by December 31st to avoid penalty. If you turned 72 in 2022, you don't need to take your RMD until April 1, 2023. If you have an inherited IRA, an RMD likely needs to be taken (regardless of your age) by December 31st. Please consult your tax preparer regarding calculations for RMDs and applicable tax withholdings.

If you are charitably inclined, using all or a portion of your RMD to give to charity is considered a Qualified Charitable Distribution "QCD" and can be highly tax efficient. More information on QCDs below.

GIVING

Making Non-Charitable Gifts

The lifetime Federal estate and gift tax exemption amount of $12,060,000 per individual is set to automatically reduce to around $6,000,000 at the end of 2025. Clients looking to make significant non-charitable gifts during their lifetime or in the form of bequests may want to accelerate some or all of these gifts. With account values reduced, now may be a good time to gift since lifetime exemptions are high and current market values are lower which allows for assets to be transferred and appreciation to take place outside of your estate.

Annual Gifts to Individuals, Custodial Accounts, Crummey Trusts, Insurance Trusts, & 529s

The most common method for tax-free gifting remains the annual gift tax exclusion. In 2022, you can gift up to $16,000 to as many people as you choose, free of gift tax. Married taxpayers can gift up to $32,000 to any one individual, free of gift tax (considered a "gift-split"). Gifts to individuals can be made with cash and/or appreciated securities. Another way to gift to individuals without incurring gift tax is by making gifts for someone else's benefit directly to educational and medical institutions to cover tuition and medical expenses. These payments are not capped and are not subject to gift tax if they are made directly to the institution.

Using the annual gift tax exclusion can also be helpful for funding insurance trusts, Crummey Trusts and 529 plans. Gifts to custodial accounts can be made with cash and/or appreciated securities but please remember contributions to custodial accounts are subject to gift tax and kiddie tax rules. All gifts should be coordinated with your tax advisor and trust and estate advisor.

Contributions to 529 Qualified Tuition Plans

A 529 plan is a tax-advantaged savings plan designed to encourage saving for future education costs. Future withdrawals from the 529 accounts are not subject to taxation if used for qualifying educational expenses. Making a gift for the benefit of any child to a state-specific 529 is one way to use some or all of your annual gift exclusion. In addition, many states offer donors state income tax deductions or credits if they contribute to their resident state plan (e.g., New York taxpayers are eligible to deduct up to $5,000 ($10,000 if married filing jointly) for contributions to New York 529 accounts that they own. California does not allow for a state tax deduction when contributing to a California 529.) When choosing the right 529 plan (especially if the donor does not benefit from a tax deduction or tax credit), we recommend prioritizing researching "direct-sold" plans with low fees which may not necessarily be provided by the donor's home state.

A "bunching" or "superfunding" technique should be considered if you wish to give more than $16,000 to a 529 plan. You can give five years' worth of your annual gift tax exclusion amount into one recipient's 529 account. In 2022, that means, instead of giving $16,000 to one 529 account, you could put a total of $80,000 into the account ($160,000 if spouses elect to "gift-split"). If you choose to do this, you cannot make annual exclusion gifts up to $16,000 to that person for the next four years. Please note that all 529 contributions must be made with cash. Additionally, with the recent market correction, since these plans are long-term in nature, it could be an attractive time to bunch gifts into the 529 as we expect markets to rebound in the future. Before electing to "bunch" 529 contributions, please discuss with your tax preparer.

Funding a Spousal Lifetime Access Trust (SLAT)

A SLAT is a gift from one spouse (the donor spouse) into an irrevocable trust for the benefit of the other spouse (the beneficiary spouse) and his/her descendants.

It is one of many types of irrevocable trusts utilized to transfer wealth to future generations without being subject to gift and estate tax. If structured properly, SLATS provide an opportunity for the donor spouse to take advantage of the high federal lifetime gift and estate tax exclusion by getting assets outside of the joint estate while still providing limited access to assets. That said, SLATS work best when funded with assets that both the donor spouse and the beneficiary spouse do not need to access. There are many scenarios to take into consideration when funding a SLAT such as risk of death or divorce of the nondonor spouse, elimination of a step up in basis at death of either spouse, and decisions on how to fund the trust. SLATS can be funded with investment assets that are expected to grow over the long term. The contribution into the SLAT from the donor spouse should be made from individually owned assets (not joint). SLATS can also own a life insurance policy. When the policy pays out, it will pay out estate tax and income tax free.

The Impact of Rising Interest Rates on Certain Gifting Strategies

Several gifting strategies are linked to Federal rates, so a rise in interest rates can either create a preferred scenario for these strategies or a headwind. When interest rates were low, two popular strategies for transferring appreciation to the next generation with little to no gift tax were Grantor Retained Annuity Trusts (GRATs) and intrafamily loans. The ideal environment for GRATs to work is when the assets of a GRAT appreciate faster than today's interest rates and the excess growth transfers to the remainder beneficiary (typically, a next generation family member or a trust for their benefit) at the end of the trust term free of gift and estate tax. Higher interest rates are a headwind and can prohibit the GRAT from being considered successful, meaning the assets transferred to the GRAT don't perform well enough to clear the higher hurdle rate specified by the IRS.

Intrafamily loans will need to charge a higher interest rate to avoid being treated as an outright gift loan by the IRS which could temporarily make them unappealing for some families. While strategies such as GRATs and intrafamily loans may still serve your long-term goals, evaluating their performance is important, especially in a year of rising rates.

An example of a gifting strategy that benefits from rising interest rates is the Charitable Remainder Trust (CRT). A CRT is an irrevocable trust that generates a potential income stream for the donor with the remainder of the donated assets going to the designated charity or charities. CRTs become more appealing as interest rates rise because the higher applicable interest rate, the increased likelihood the CRT will meet the IRS minimum remainder thresholds.

GIVING TO CHARITY

Giving Cash

The annual deductible limit for cash gifts to qualified public charities was reduced back to 60% of the donor's Adjusted Gross Income (AGI) in 2022. For business owners, the deductible limit for cash donations made by C-Corporations to qualified charities is limited to 10% of taxable income. For those who make charitable contributions of a few thousand dollars or more, it may be beneficial to make such gifts with long-term appreciated securities rather than with cash.

Giving to Charity via a Donor Advised Fund ("DAF")

A DAF is a separate account you set up for the sole purpose of supporting charitable organizations. When the account receives your gift of appreciated securities, you avoid triggering capital gains tax and at the same time receive a tax deduction equal to the fair market value of the gift on the date the DAF receives your donation. Once the DAF has been funded, donations out of the DAF can be made over any period of time. This can be helpful if you don't know exactly which charities you would like to give to or if you tend to make smaller gifts to multiple charities. If you already have a DAF, please be mindful of the year-end deadlines for making contributions into the account. If you do not currently have a donor advised fund in place and this sounds interesting to you, please let us know. We will coordinate the discussion with your tax advisor. "Bunching" techniques can also be useful when contributing to a DAF.

Private Foundations

If you have a private nonoperating foundation, please make sure it completes the annual 5% payout requirement before December 31st.

Qualified Charitable Distributions (QCD) From Your IRA or Inherited IRA

Even though the SECURE Act increased the age you are required to make distributions out of your retirement accounts from 70 ½ to 72, if you are age 70½ or older, you can still make one or more QCDs from your IRA or inherited IRA to qualified charities up to $100,000 a year.

SAVING

Contributing to an IRA (Traditional, Roth, SEP)

If you are eligible to contribute to a Traditional IRA or Roth IRA, the annual contribution limit in 2022 remains the lesser of the 1) taxpayer's total taxable compensation or 2) $6,000. If you are 50 or older, the contribution limit is $7,000. Deadline for 2022 contributions is April 15, 2023 into an IRA or Roth IRA.

A self-employed business owner can contribute to a SEP IRA, but this contribution cannot exceed the lesser of 1) 25% of the employees' compensation or 2) $61,000 for 2022. Contributions into a SEP IRA may still be considered a 2022 event and made as late as October 15, 2023 if you file an extension for your 2022 tax return.

Contribution to a 401(k) or 403(b) as well as Most 457 Plans

If you are under 50 years old, you can contribute up to $20,500 to an employer-sponsored savings plan. If you're 50 or older, you can contribute an additional $6,500—for a total of $27,000 in 2022. Deadline for 2022 contributions depends on your plan but is likely December 31st of the current tax year.

Roth IRA Conversions

In 2022, we have seen retirement account balances decline in value which makes converting these assets into Roth IRAs "cheaper" than it would have been a year ago. Additionally, taking advantage of depressed retirement account values and converting assets into Roth assets allows for the rebound of those assets to occur in a tax-free Roth account. A Roth conversion may make sense for you in any given year if 1) the ultimate beneficiary of your IRA is intended to be your heirs, (2) the taxes on the conversion can be paid from personal assets, (3) the tax rate paid at the time of the conversion to a Roth is likely lower than the rate expected to be paid when the assets are required to be withdrawn from the traditional IRA (4) the Roth assets have a long investment time horizon. A potential Roth IRA conversion requires a conversation with your tax preparer. Please note the recharacterization of a Roth conversion is no longer permitted.

Contributions to Health Savings Accounts (HSAs)

If you have a high deductible health care plan and are <u>not</u> enrolled in Medicare, HSAs can be powerful tools to save for future expenses while reducing your current taxable income. Since an HSA is not a "use-it-or-lose-it account" (the way an FSA is), it is a great way to save for health care costs later in retirement on a tax-free basis. The maximum annual contribution limit for individuals is $3,650 in 2022, while the maximum annual contribution for families is $7,300. Individuals age 55 or older that are not yet enrolled in Medicare may make a catch-up HSA contribution of up to $1,000 per person. Contributions to an HSA are tax deductible. Some HSA accounts are investable. Withdrawals out of an HSA are tax-free if used for qualifying medical expenses. The deadline for 2022 contributions into an HSA can be as late as April 15, 2023.

OTHER ONGOING PLANNING CONSIDERATIONS

Estate Planning Documents

It is important to review that your estate planning and insurance documents produce an outcome consistent with your goals and objectives. It is important to review your will, as well as the guardians for minor children, how property is titled, your designated beneficiaries on retirement plans and insurance policies, healthcare proxy and durable power of attorney. A review of these documents is often needed if your family circumstances have changed, such as a birth, death, divorce or change in state residency.

Review of Designated Beneficiaries:

Retirement plans, pensions, IRAs, life insurance policies, annuities, payable on death accounts, and certain other accounts transfer to the beneficiaries designated on the respective account forms. These designations have priority over designations in wills and trusts. Because of this, be sure your beneficiary designations are up to date.

In addition, it is important to review your IRA beneficiaries, especially if your beneficiary is considered a designated beneficiary ("DB"). A DB is considered a named beneficiary individual who is <u>not</u>:

- A surviving spouse
- A disabled or chronically ill individual
- An individual who is not more than 10 years younger than the IRA owner
- A child of the IRA owner who has not reached the age of majority
- A certain type of trust (e.g. conduit trust whose beneficiaries meet the new "eligible" designated beneficiary requirements)

If beneficiaries on large retirement accounts are considered a DB, it is worth speaking to your trust & estate advisor to make sure beneficiary designations are appropriate.

Estate and Gift Taxes

Under current law, the top marginal Federal estate, gift and GST tax rate remains at 40% in 2022. The lifetime Federal estate and gift tax exemption amount in 2022 is $12,060,000 per person ($24,120,000 per married couple). As discussed previously, the current Federal estate and gift tax exemption amount is scheduled to sunset at the end of 2025 and so we encourage continued discussions around lifetime gifts, specifically for clients with sizeable estates.

The "portability" of the Federal estate tax exemption remains in place which means when a spouse dies and portability is elected, any unused lifetime Federal estate and gift tax exemption can be transferred to the surviving spouse. To take advantage of the portability election, an estate tax return must be filed.

Educating the Next Generation

An important reminder – we want to educate your children and your children's children about ways they can be diligent and responsible. It's important to review opportunities to fund IRAs with young adults with earned income, and make sure that employee-sponsored retirement accounts for those that are new to the workforce are set up and funded when applicable. We find conversations demonstrating the power of compounding over multiple investment cycles very rewarding with young investors.

We're Here to Discuss!

As always, year-end is a busy time of year, and each custodian imposes their respective deadlines to guarantee requested transactions are completed by year-end, so we encourage you to plan accordingly. As always, we are here to guide you through the planning opportunities outlined above and look forward to our continued work together.

Wishing you a Happy Thanksgiving,

Your Team at Angeles Wealth Management

Angeles Wealth is the private client affiliate of Angeles Investment Advisors, an institutional investment advisory firm with $37.9 billion in total assets, including approximately $6 billion in discretionary assets.

Angeles Wealth Management provides wealthy families and individuals with access to both an institutional-quality investment process and robust wealth advisory services. These include goals-based financial planning, trust services through Angeles Wealth Private Trust, and philanthropic consulting via our Angeles Philanthropic Families service.

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