YEAR END NEWSLETTER

Dear Clients and Friends,

We hope you had a wonderful Thanksgiving and are preparing for a festive holiday season. As 2023 comes to a close, we reflect on all that we are thankful for at Angeles, including time with clients, family and friends throughout the year. Moments with loved ones seem particularly precious during this time of heightened geo-political unrest.

On the investment front, many of the same themes from 2022 remained a topic of discussion in 2023: inflation, rising interest rates, bond yields, corelated volatility in both fixed income and equity markets as well as the topic of a looming recession. We find that headwinds are being combated by strength in the US economy reflected in the labor market and corporate profits.

From a planning perspective, we are always thinking of ways to mitigate taxes and look for unique opportunities presented by the current economic and political backdrop to facilitate client progress towards long-term goals. As we approach the end of the year, there are several recurring annual topics we like to discuss with clients as well as some new themes that are at the forefront of conversations due to the current interest rate environment, inflation and changes due to the SECURE Act. Details on these different strategies are discussed below along with important actionable items to make note of prior to 12/31/23.

December is a busy time of year for custodians, 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 discuss these topics with you in detail as well as coordinate with your tax preparer and legal counsel. It is important to note that 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.

DISTRIBUTIONS FROM RETIREMENT ACCOUNTS

The Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019 implemented substantial modifications to the regulations governing the distribution of assets for non-spousal beneficiaries of inherited retirement accounts which encourages more conversation and planning around the distribution of assets out of IRAs.

Required Minimum Distributions in 2023

If you have an IRA and are 73 or older, you are required to take your Required Minimum Distribution (RMD) from your IRA by December 31st to avoid penalty. If you turned 73 in 2023, you don't need to take your RMD until April 1, 2024. Furthermore, the SECURE Act 2.0 is set to increase the future RMD age to 75, starting in 2033.

If you have an inherited IRA, an RMD likely needs to be taken (regardless of age) by December 31st; however, under the SECURE Act guidelines, "designated beneficiaries" (DB) who inherited IRAs on or after Jan. 1, 2020, must empty the account within 10 years of the original account owner's death to avoid substantial penalties. 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)

Because designated beneficiaries of inherited IRAs can no longer "stretch" distributions over their lifetimes going forward, clients with large IRA balances are strategizing the best way to pass these accounts to the future generation. The use of Qualified Charitable Distributions (QCD) is always something to consider for clients that are charitably inclined and of RMD age and potentially now even more appealing with the 10-year required distribution for inheritors. 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. Starting in 2024, this $100K cap will be indexed for inflation.

As always, please consult your tax preparer regarding calculations for RMDs and applicable tax withholdings.

GIVING

Making Non-Charitable Gifts

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 2023, you can gift up to $17,000 to as many people as you choose, free of gift tax. Married taxpayers can gift up to $34,000 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 and Texas do not allow for a state tax deduction when contributing to a California and Texas 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 $17,000 to a 529 plan. You can give five years' worth of your annual gift tax exclusion amount into one recipient's 529 account. In 2023, that means, instead of giving $17,000 to one 529 account, you could put a total of $85,000 into the account ($170,000 if spouses elect to "gift-split"). If you choose to do this, you cannot make annual exclusion gifts up to $17,000 to that person for the next four years. Please note that all 529 contributions must be made with cash. Before electing to "bunch" 529 contributions, please discuss with your tax preparer.

In 2017, the Tax Cut and Jobs Act expanded the use of 529 plans to allow for tax-free distributions for private, public or religious elementary, middle and high school tuition up to $10,000 per year. Note that 529 plans are sponsored at the state level and there are potential variations in how states adhere to federal tax laws governing these plans. It is possible that the IRS may not tax a distribution for K-12 tuition, but your state might. Before making distributions out of 529 plans for K-12 tuition, please consult your tax advisor.

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 to 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.

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. The income beneficiaries of a CRT receive a fixed percentage of the trust's fair market value, which is revalued annually. In a rising interest rate environment, the potential for higher returns on the trust's investments could lead to increased income payments to the beneficiaries. When a donor contributes assets to a CRT, they receive a charitable deduction for the present value of the remainder interest that will eventually go to the charitable beneficiary. In a rising interest rate environment, the IRS assumes a higher discount rate for valuing the remainder interest, potentially leading to a larger charitable deduction for the donor. 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.

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. With higher interest rates as a headwind for GRATs, an analysis with your estate professionals should be considered to determine if funding GRATs still makes sense at this time.

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 rising rate environment.

GIVING TO CHARITY

Giving Cash

The annual deductible limit for cash gifts to qualified public charities remains at 60% of the donor's Adjusted Gross Income (AGI) in 2023. 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. Gifting long-term appreciated securities (e.g., stocks held for more than 12 months) eliminates the capital gains tax and potential Medicare surtax that you would have otherwise incurred on the sale of the stock. This makes gifting appreciated long-term securities a more tax efficient way to give in comparison to gifting cash to charity.

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. It is important to calculate the annual payout with your CPA to take carryover and qualified expenses into consideration if applicable.

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 2023 remains the lesser of the 1) taxpayer's total taxable compensation or 2) $6,500. If you are 50 or older, the contribution limit is $7,500 ($1,000 catch up contribution still remains). Deadline for 2023 contributions is April 15, 2024 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) $66,000 for 2023. Contributions into a SEP IRA may still be considered a 2023 event and made as late as October 15, 2024 if you file an extension for your 2023 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 $22,500 to an employer-sponsored savings plan. If you're 50 or older, you can contribute an additional $7,500 - for a total of $30,000 in 2023. Deadline for 2023 contributions depends on your plan but is likely December 31st of the current tax year.

Roth IRA Conversions

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 $3,850 in 2023, while the maximum annual contribution for families is $7,750. Individuals age 55 or older that are not yet enrolled in Medicare may continue to 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 2023 contributions into an HSA can be as late as April 15, 2024.

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.

Estate and Gift Taxes

Under current law, the top marginal Federal estate, gift and GST tax rate remains at 40% in 2023. The lifetime Federal estate and gift tax exemption amount rose from $12,060,000 per person in 2022 to $12,920,000 per person in 2023 ($25,840,000 per married couple). For a couple who has already maxed out lifetime gifts, this means that they may now give away another $1.72 million in 2023 which is significant.

The current Federal estate and gift tax exemption amount is scheduled to sunset at the end of 2025 and automatically reduce to around half ($6,200,000 per individual) 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

Don't forget – 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 look forward to our continued partnership in 2024

As always, we are here to guide you through the planning opportunities outlined above and look forward to our continued work together.

Your Team at Angeles Wealth Management

Angeles Wealth is the private client affiliate of Angeles Investment Advisors, an institutional investment advisory firm with $39.9 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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