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CPAs | CONSULTANTS | WEALTH ADVISORS

Align Your Tax and Investment Plans for Financial Success

February 21, 2024

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Introductions

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Agenda

- Cash Flow Planning
- Post Year End Planning
- How Taxes Impact Investments
- Legislative Changes

Poll Question

Does your financial planning process involve both a tax advisor and a wealth advisor?

- Yes
- No
- Didn’t know that was a thing

Cash Flow Planning

Defining Financial Health: Cash Flow Vs. Net Worth

- **Net Worth:** overall measure of wealth, provides a snapshot of all assets current value minus outstanding liabilities at any given time.

- **Cash Flow:** real-time measure of an individual's ability to meet their financial obligations and represents the money that is coming in and going out of all accounts. Income minus expenses.

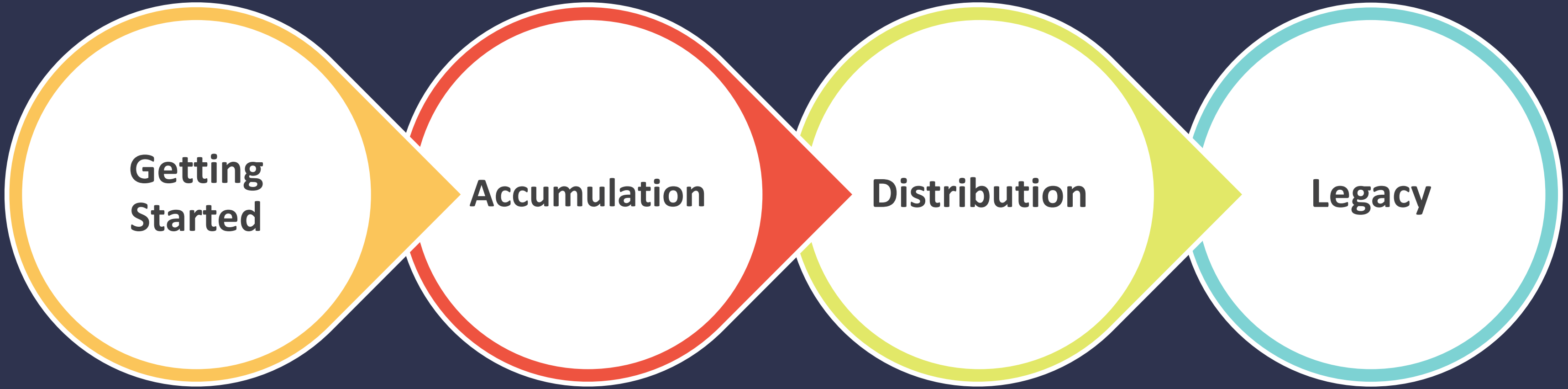
The Importance of Cash Flow in a Comprehensive Financial Plan

- **Assess Liquidity:** Helps individuals understand their day-to-day finances to better analyze expenses and liquidity needs.

- **Plan:** Aids in making informed decisions about saving, making investments and taking on or managing debt.

- **Manage Risk:** Allows for assessment of potential financial concerns before they become serious issues by understanding areas where overspending or cash shortfalls may exist.

Individual Life Cycle



Four Stages of Investor Life Cycle

Getting Started:
20s to 40s, creating a plan and discipline

Create a plan and good habits with a focus of investing for growth to enhance net worth over the long term and saving for major life events such as buying a home, starting a family, and retirement.

Accumulation phase:
40s to 60s, building wealth, pursuing financial stability

Gradual rebalance of investments to more balanced allocation in order to protect wealth and reduce risk. Pay off debt and save for retirement.

Distribution phase:
60s and beyond, preserve wealth and generate income

Shift investment focus to income-generation and preservation to minimize risk and fund lifestyle as you transition into retirement.

Legacy phase:
End of life & beyond, transfer wealth to next generation and/or charity

Re-evaluate investment strategy and adjust focus to be more suited to align with recipient objective and time horizon. Maintain low basis positions that would benefit from step up in basis

Cash Flow Impacts Multiple Areas

Estate planning:

Assess whether assets being transferred to next generation will have a need for liquidity.

Consider life insurance for estate tax liability or property management costs.

Tax planning:

Minimize tax liabilities and take advantage of tax-saving strategies to ultimately reduce the cash needed to make tax payments.

Consider Opportunity zones, charitable contributions, 1031 exchanges.

Risk management:

High net worth individuals may need to consider additional insurance coverage, such as umbrella liability insurance to protect against claims.

Charitable giving:

High net worth individuals may want to incorporate charitable giving into their cash flow planning.

Consider a donor-advised fund or other charitable giving strategies.

Investment allocation:

Review and adjust asset allocation of investment portfolio for tax efficiency and to align it with financial goals, risk tolerance and liquidity needs.

Post Year End Tax Planning Opportunities

Retirement/HSA Contributions

Retirement contributions

HSA Contributions

Post Year End – Business Owners

Depreciation Options

- Bonus Depreciation
- Section 179

Profit Sharing Contributions

Other Post Year End Opportunities

Section 529 Contributions — Potential State Tax Deduction

Opportunity Zones

Incentives from Inflation Reduction Act

Impact of Taxes on Investments

Understanding Investment Account Types

- **Taxable accounts:** such as Personal or Trust accounts

- **Tax-advantaged or tax deferred accounts:** such as an IRA, 401(k), HSA or 529

How Do Taxes Impact Investments?

Capital gains taxes	When an investor sells an asset with a gain, they are typically subject to capital gains taxes on the amount of the gain which can influence a decision to sell an asset.
Dividend taxes	Investors who receive dividends from stocks or other investments may be subject to taxes on that income. Tax rate on dividends can vary depending on the investor's income level
Tax-advantaged accounts	Certain types of investment accounts, such as IRAs and 401(k) s, offer tax advantages that can make them more attractive to investors. Contributions to these accounts may be tax-deductible, and investment gains within the account are not subject to taxes until they are withdrawn.
Tax-loss harvesting	Investors may strategically sell losing investments to offset gains and reduce their overall tax liability while maintaining a diversified portfolio.

Tax Efficient Investing – Asset Location

- Asset location refers to the practice of placing different types of investments in different types of accounts to enhance after-tax returns
- Make tax efficient or tax-exempt investments in taxable accounts and taxable investments in tax-advantaged accounts
- Determine the most tax-advantaged approach to draw down funds once you reach retirement (ex. Roth vs. Traditional)

Upcoming Legislative Changes

Current Proposed Legislation

- Big Three Business Proposal
  - Bonus Depreciation
    - Extend 100% bonus depreciation for 1/1/2023 to 12/31/2025
  - IRC 174 Expensing
    - Restore current deduction for domestic R&E expenses
  - IRC 163(j) interest expense
    - Reinstate depreciation and amortization add-back

Current Proposed Legislation

- State and Local Tax (SALT) Proposal
  - Increase SALT deduction to $20,000 for joint tax filers who earn under $500k in 2023

- Expanded Child Tax Credit
  - Increased refundable portion of credit from $1,600 to $1,800

Sunset of Current Tax Provisions

Increase in Individual Tax Rates

2023 tax rate	Tax rate after TCJA sunset
10%	10%
12%	15%
22%	25%
24%	28%
32%	33%
35%	35%
37%	39.6%

Sunset of Current Tax Provisions

- Loss of QBI Deduction
  - 10% increase for those in top tax bracket
    - Current top rate is eligible for QBI
      - 29.6% (80% of 37%)
    - Top tax bracket in 2026
      - 39.6%

Sunset of Current Tax Provisions

- Change in Itemized Deductions
- Reduction in Standard Deduction
- SALT Deduction
- Mortgage Interest Deduction
- Charitable Contribution Deduction
- Pease limitation (3% phaseout)

Sunset of Current Tax Provision

- Reduction in Estate and Gift Tax Lifetime Exclusion
  - 2024 exclusion: $13.6MM
  - Projected 2026 exclusion: $6.4MM

Thank you!

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