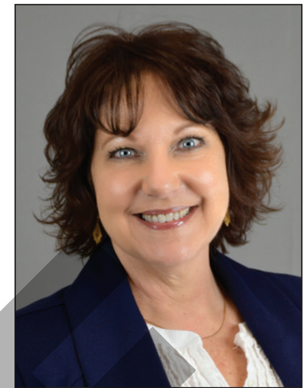
LET'S TALK MONEY®
November/December 2024



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I am committed to helping my clients achieve their financial goals for themselves, their families and their businesses by providing them with strategies for asset accumulation, preservation and transfer.

SWAP REAL ESTATE TO DEFER CAPITAL GAINS TAXES

Mention a Section 1031 exchange, and many investors in real estate immediately think, "minimize capital gains taxes." But a 1031 exchange may provide other advantages.

1031 Exchange Tax Deferral

In a 1031 exchange, you sell a property held for business or investment purposes and swap it for a new one you purchase for the same purpose, allowing you to defer capital gains tax on the sale. The exchange may also be used to defer another tax—depreciation recapture. When you sell property, the depreciation you've claimed on the property is generally taxed at 25%. Selling the property as part of a 1031 exchange also lets you defer this tax. Since the corporate tax rate tends to exceed the capital gains tax rate, this can further support the benefits of your exchange.

Of course, there are requirements. Proceeds from the sale must be held in escrow by a third party and then used to buy the new property. You can't receive the proceeds, even temporarily. The properties being exchanged must be considered like-kind by the IRS for your capital gains taxes to be deferred. Taxes are due when the property is sold. But if used correctly, there is no limit on how frequently you can exercise 1031 exchanges. So, in theory, the exchange can be used to defer taxes for your lifetime, which leads to another advantage.

An Estate Strategy

The ultimate tax deferral occurs with the investor's death. At that time the investment property receives a step-up in cost basis so your heirs don't inherit the previously deferred tax liabilities.

An Investment Tool

A 1031 exchange can also be used as an investment tool. You might use it to increase your real estate portfolio without investing

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High Net Worth Version

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REVOCABLE VS IRREVOCABLE TRUSTS

With this issue, we continue our trust segment with revocable and irrevocable trusts. Each serves a different purpose in estate planning. Your legal and financial professionals can give you more details.

Protecting Family Privacy

Once filed with the probate court, your will becomes a public record. Probate is the legal process for reviewing the assets of a deceased person and determining inheritors. The process can be lengthy (sometimes years) and costly for large estates. Revocable trusts are usually used to remove specified assets, such as real estate, financial assets, life insurance, valuable personal property, mineral rights, and appreciating collections, from your will to avoid probate.

With a revocable trust, you, as the grantor, can change the trust by written amendment at any time during your lifetime as your financial and estate needs or desires change. Another feature is that placing your assets in a revocable trust will help protect them should you become incapacitated.

Minimizing Taxes

As the name indicates, an irrevocable trust generally can't be changed once it's established unless a court permits it to be amended, usually only with the consent of the impacted trust beneficiaries. With this trust, you transfer all ownership of assets into the trust and legally give up all ownership rights to the assets and the trust.

Uses include removing assets from your estate for estate-tax purposes, preventing beneficiaries from misusing assets, gifting assets to the estate while retaining income from the assets, removing appreciable assets from your estate while providing beneficiaries with a step-up basis in valuing the assets for tax purposes and gifting a principal residence to children under more favorable tax rules.

CHARITABLE GIVING BY AFFLUENT HOUSEHOLDS

The 2022 volunteering and charitable giving behaviors of affluent individuals and households are trending consistent with previous years.

Affluent households that gave to charity	**85.1%**
Affluent individuals who volunteered their time	**36.8 %**
Affluent households' average charitable donation	**$34,917**

Source: 2023 Bank of America Study of Philanthropy

YEAR-END TA

Ideally, you have strived to minimize your taxes all year. Good news! Here are some year-end strategies that may help cut your tax bill even more. Before implementing these or any year-end strategies, talk with your tax advisor.

Defer or Accelerate Income

Project whether you'll have higher taxable income in 2024 or 2025. If it's 2025, investigate receiving your employer bonus, investment and business income, etc., this year.

Do the opposite if, for example, you expect to lose a dependent, have a spouse taking leave, suffer business losses, etc., and will have less taxable income in 2025.

Bunch Deductions

For instance, if medical expenses for 2024 year exceed the deductible minimum threshold of 7.5% of adjusted gross income (AGI), squeeze in medical expenses planned for 2025 to maximize tax 2024 savings.

Before bunching any expenses into 2024, consider your overall tax brackets for this tax year and 2025. If you anticipate income increasing enough in 2025 to put you in a higher bracket, it may make sense to postpone a deduction.

Top Off Your Health Savings Account

You have until the April 15, 2025, tax filing deadline to make Health Savings Account (HSA) contributions for this year. If you haven't already maximized your contribution, do so. HSA contributions and earnings are generally excluded from taxable income.

AX PLANNING

Distributions aren't taxed if they're used to pay qualified medical expenses. Other requirements apply, such as being enrolled in a high-deductible medical plan.

HSA Contribution Limits

For planning purposes, compare the 2024 and new 2025 inflation-adjusted limits.

	2024	2025
Individual	**$4,140**	**$4,300**
Family	**$8,300**	**$8,550**
Additional Catchup (for those 55 and older)	**$1,000**	**$1,000**

Review Your Charitable Giving Program

Reviewing your 2024 charitable gifting effectiveness and potential tax benefits may minimize 2024 taxes and help significantly impact 2025.

Make sure your 2024 expectations were reasonable based on your and the charity's timescale for change and the nature of the work. Consider how giving more might increase impact and reduce taxes.

If you're retired, check out this option for increasing 2024 gifts—a direct individual retirement account distribution to charity. The distribution is potentially excludable from income and can satisfy your individual retirement account required minimum distributions for 2024.

SWAP REAL ESTATE TO DEFER CAPITAL GAINS TAXES

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additional money. The additional equity created by the capital gain in the original property is redeployed instead of you coming up with additional capital for a subsequent purchase. This offers the potential to increase wealth creation over time.

Also, consider exchanging one large real estate investment for several smaller ones. This strategy can broaden your property portfolio by type and location and help you respond to changing real property markets, as your needs may require.

A 1031 exchange could potentially build wealth. However, understanding the complex rules requires even the savviest investor to enlist professional help.

DON'T BE YOUR OWN WORST INVESTING ENEMY

Many investors aim to have their gains match or beat a standard investment benchmark. According to Dalbar's annual Quantitative Analysis of Investor Behavior, 2024, the average investor falls short, earning 5.5% less than their targeted stock benchmark and 2.63% less than their chosen fixed income benchmark.

Behind the Statistics

Often, investors weigh emotional behavior and personal recommendations too heavily against the knowledge and experience of investment professionals. Look at the checklist to see if this could be you.

- **When deciding whether to sell a stock,** you may be emotionally fixed on the price you paid for it and avoid selling so you don't regret having made a "bad" investment and incurring a reportable loss.
- **Mental accounting,** using prior gains, can make you hesitant to sell an investment that's had significant gains but now has more modest ones. You can't accept the thought of a smaller profit margin, even when signs indicate the value could fall further. Remember, past performance of any investment doesn't guarantee future results.
- **Paper losses stress people more than gains** to the extent that you often prematurely sell an investment with signs of regaining and possibly exceeding former gains.
- **Being too quick to jump on the latest trend** or family or friends' recommendations without thorough research and talking with your financial professional first can be detrimental to achieving your goals.

WHAT HOMEOWNERS INSURANCE MAY NOT COVER

Your home is your castle. You don't want to risk anything that might diminish its value or comfort. But many people do this by not knowing what their homeowners' insurance policy covers and inadvertently underinsuring their property. Year-end and the start of a new year is a good time to review all your insurance needs with your trusted professional. Here's some information to know beforehand.

For Any Homeowner

Homeowners' policies generally don't cover damage from natural disasters like floods, landslides, sinkholes, and earthquakes. You can secure flood insurance from the National Flood Insurance Program or a private insurer. Additional insurance is also advised if you live in an earthquake-prone area or are at risk for landslides or sinkholes.

For High-Net-Worth Individuals

First, make sure your property is covered for 100% replacement value of your residence and all outbuildings on it, such as a guest house, hobby studio, greenhouse, pool house, stable, and so on. This coverage should automatically increase annually for inflation in your home's value. Also, carry damage and liability insurance for any pool on your property and coverage for any animals stabled.

Expensive jewelry, collections such as art, cars, and antiques, and costly hobby equipment (for cars, woodworking, and other crafts) generally require additional coverage. To insure these items for full value, you should have jewelry and collections professionally appraised and maintain purchase receipts for all items. A personal property endorsement or floater to supplement your homeowners' insurance will be needed for adequate protection. Rates vary between insurers.

Home Offices and Equipment

Standard homeowners' insurance is unlikely to provide adequate coverage for your home office or other business-related activities. According to the Insurance Information Institute, a typical homeowners' policy provides only about $2,500 coverage for business equipment. Further, they often provide no liability coverage for business-related actions, including client meetings.

If you operate a home office or run a small business from home, you'll need insurance that fills business coverage gaps in your standard policy. For professionals who keep a secondary home office—contractors, attorneys, accountants, real estate agents, writers/editors, and bookkeepers—consider adding a permitted incidental occupancies rider to your homeowner's policy. With a primary home office, you'll need to step up to a home business endorsement. This endorsement covers various home-based business activities while falling short of a more costly full business policy.

We Value Your Input...

Your feedback is very important to us. If you have any questions about the subjects covered here, or suggestions for future issues, please don't hesitate to call. You'll find our number on the front of this newsletter. It's always a pleasure to hear from you.

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FINRA

ADVERTISING REGULATION DEPARTMENT REVIEW LETTER

July 25, 2024

Reference: **FR2024-0712-0206/E**

1. Lets Talk Money Nov Dec HNW
   Rule: FIN 2210

Our review is based on your representation that the final version of this communication will prominently disclose the name of the member, pursuant to FINRA Rule 2210(d)(3)(A).

The communication submitted appears consistent with applicable standards.

Reviewed by,

Jeffrey R. Salisbury
Principal Analyst

This year's Advertising Regulation Conference will be held on September 26-27 in Washington, D.C. For more information and to register, please view our site at: https://www.finra.org/events-training/conferences-events/2024-advertising-regulation-conference

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