JESSICA MARTIN, PLANNING ASSOCIATE, PRIVATE CLIENT GROUP

LOOKING AROUND THE CORNER: A PLAYBOOK OF PLANNING STRATEGIES FOR 2022

BY JESSICA MARTIN, PLANNING ASSOCIATE, PRIVATE CLIENT GROUP

As we celebrate the New Year with our traditions and making resolutions, we cannot escape the elephant in the room of the uncertainty that 2022 will bring. Like most people, we place healthier habits and goals at the top of our lists, but proactive planning for potential tax legislation changes may not have crossed our minds. The next filing season for tax year 2021 is upon us and although most of our focus will be there, we must remember to be active and cognizant of what we do for the remainder of 2022. Taking advantage of tax-saving strategies and implementing succession goals are key areas to consider during this uncertain year.

There has been no movement from the Senate on President Biden's $2 trillion Build Back Better legislation, especially since a wall was hit back in December when Democrat Senator Joe Manchin claimed to oppose the bill in its current form. On January 4th, Senate Majority Leader Chuck Schumer spoke on the Senate floor announcing, "As I mentioned before Christmas, I intend to hold a vote in the senate on BBB. And we'll keep voting until we get a bill passed." However, this seems doubtful as the Senate Democrats' focus is likely addressing voting rights legislation and will not return to the BBB Act until after January.

CLEARSTEAD CONTINUES TO BOLSTER TEAM WITH NEW TALENT

We are pleased to announce that we have added talent to the Research and Investment Management and Private Client teams with Mike Kuebler, Jenny Cuevas, and Rachel Aranowitz.

Mike Kuebler joined Clearstead as an Investment Analyst, Alternatives. Mike previously worked at KPMG as a Sr. Associate analyzing financials and working on M&As. He has a Master's degree in Business Administration and a Bachelor's degree in Foreign Service, both from Georgetown University.

Jenny Cuevas joined Clearstead as a Client Services Associate. Jenny previously worked at Cornerstone Family Office and M&N Advisory Services.

Rachel Aranowitz joined Clearstead as a Client Planning Associate. Rachel previously worked at New York Life as a Retail Annuities Analyst. She has a bachelor's degree in Business Management from Cleveland State University.

These changes underscore the firm's commitment to building its investment consulting practice, promoting the next generation of leadership, and maintaining a rigorous investment process.

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The delay from the Senate is not enough to argue the BBB Act is dead, but as time progresses, other congressional tasks may not help in this matter such as passing the government funding bill by mid-February to avoid a government shutdown. Like the House, the Senate will work to pass a revised version, but for now we should plan with what we know.

NOVEMBER 2021 CLEARPOINT UPDATE

In the current House-approved form of the BBB Act, numerous concerning tax legislation proposals were removed (see the table below for a summary). We can also assume that some things will not be resurrected based on the bill, such as a 4th stimulus payment.

PROPOSAL	REMOVED TAX PROVISION DETAILS
Individual Income Tax Rates	Top rate to increase from 37% to 39.6% for taxpayers with income of $400,000 and up.
Capitals Gains Rates	Top rate on capital gains and dividends to increase from 20% to 25% for taxpayers with income of $400,000 and up.
Estate Tax	Ending step-up in basis and reducing the amount of inherited assets subject to tax.
Unrealized Gains Billionaires' Tax	Annual tax on unrealized gains for taxpayers with assets of $1 billion and up.

As a bit of background, there have been more substantial tax legislation changes over the past decade than ever before. Prior to the passing of the 2017 Tax Cuts and Jobs Act ("TCJA"), 1986 was the last time major changes were made to tax legislation. We continue to grow and evolve, and it makes sense that our tax code aligns with current times, yet professionals are still waiting for guidance to clarify Congress's goals with their legislation. Over the course of the BBB Act's various versions, there noticeably has been a shift from focusing on estate taxes to income tax planning considerations.

Back in the November 2021 ClearPoint, Greg Lonczak brought attention to this "gift" for gifting from Congress. Greg highlighted the uncertainty that existed on potential changes to estate taxes, but this has since been removed. More specifically, language relating to estate tax proposals of decreases in the exemption amounts, valuation discount changes, and inclusion of grantor trusts has been taken off the table. Grantor trusts are among one of the many estate tax planning pools that we consider when helping align families with their succession goals, and for now will continue those considerations.

To echo Greg on what to expect in January 2026, the TCJA is set to sunset on various tax items, notably the estate tax exemption will reduce to half of what we know it to be today or will be somewhere around $6 million per taxpayer ($12 million per married couple).

2026 may feel years away, but we only have four years to plan to take advantage of the bonus estate tax exemption. Now is the time to have conversations on implementing gifting and wealth transfer succession plans to avoid hasty decisions due to procrastination or changes in applicable tax laws.

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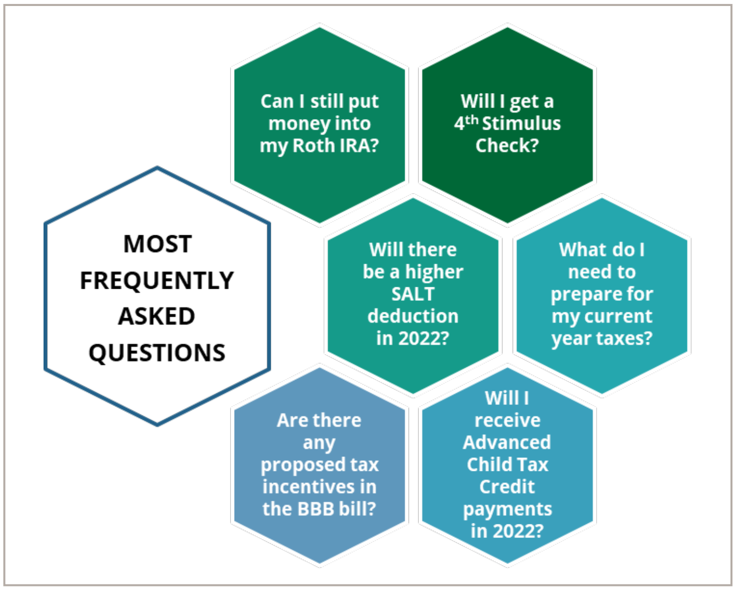

ACTIONABLE STRATEGIES TO CONSIDER NOW

You may be wondering "What should I be doing now?" The ambiguity of whether the BBB Act will pass is enough to turn most away from planning strategies we have come to know very well. Whereas we feel the opposite, take advantage now while you still can. The next section highlights the potential tax provisions we feel could be the most impactful to tax planning.

SALT Deduction – Ever since the passing of TCJA, many itemizing taxpayers have been limited to only taking $10,000 as a deduction for their taxes paid. This constraint is currently set to expire in 2025. In the latest version of the BBB Act, this limitation would be increased to $80,000 ($40,000 for married taxpayers filing separately and for trusts and estates) for tax years 2021 through 2031, but then eradicated altogether. This deduction by its nature has been a strong planning tool for high-earning individuals, as they tend to pay larger amounts of taxes to their state and localities from earned income and real estate. Stacking tax payments to reach the maximum deduction can be as simple as making quarterly tax estimates to your state and locality rather than waiting to pay in April of the following year. Or, if you receive a real estate bill in December that allows you to pay into January, pay it in December. If you can accelerate these payments, now may be the time to map these out.

Retirement Plans – Your retirement account balances may eventually trigger a minimum required distribution (RMD) and contributing to a Roth IRA may become more challenging if the BBB Act is enacted. Until that day comes (or does not), you should continue with any planned conversion or rollovers, as they can be reversed.

Starting in 2022, we may see the first wave of changes. One change includes no longer being allowed to roll over your maximum after-tax contributions from your traditional 401(k) to a Roth IRA. This strategy is popularly known as a Mega Roth Conversion. To illustrate, let us analyze a scenario with a taxpayer who is under 50, has maxed out their traditional 401(k) annual contribution, and their employer does not offer a matching contribution. This taxpayer could contribute after-tax dollars of $38,500 ($58,000 401(k) total limit - $19,500 individual contribution - $0 employer match) into their 401(k) and then roll over that amount into a Roth IRA. This planning strategy allows a taxpayer to put more than the $6,000 individual contribution limit into a Roth IRA every year. The other repealed strategy will be conversions or rollovers of after-tax assets from traditional IRAs to Roth IRAs. The BBB Act would limit any such rollovers to only pre-tax contributions and upon transfer they would be deemed taxable income. These changes do not have income thresholds and will apply to all taxpayers.

2029 could be the second wave of changes, including limiting taxpayers with income (above $400,000) from being allowed to make any more contributions to IRAs. The Act could also require taxpayers with aggregate retirement accounts (including Roth IRAs) exceeding $10 million to take an RMD, regardless of their age. As the bill currently reads, 50% of the amount more than the $10 million at the end of the prior year would be the taxpayer's RMD. If all a taxpayers' retirement accounts exceed $20 million, the RMD will equate to the lesser of (1) the amount to get the total balances down to $20 million or (2) the taxpayer's Roth IRAs and Roth 401(k) accounts aggregate balance. In anticipation of this change, if your total retirement accounts surpass these amounts, there are gifting strategies to consider. Opening and funding a donor advised fund with appreciated securities from your traditional IRAs not only reduces your balance but will also be treated as an itemized deduction while not being taxed on the gains. Another option is writing checks directly from your traditional IRAs to charities to take advantage of the Qualified Charitable Deduction (QCD). You are allowed to do up to $100,000 per year per taxpayer ($200,000 per year for a married couple).

The final wave could begin in 2032, when Roth IRA and Roth 401(k) conversions will be eliminated entirely for taxpayers exceeding the modified adjusted gross income (MAGI) thresholds , greater than $400,000 if single ($450,000 if married and $425,000 if head of house). If you will be affected by this change, you may want consider moving your non-Roth retirement assets over the next decade to a Roth IRA, if possible, and plan accordingly to delay income to fall below the threshold if you need more time.

TODAY	PROPOSED
INCOME THRESHOLD CEILINGS None	**INCOME THRESHOLD CEILING** MAGI > $400,000 (Single) MAGI > $450,000 (married - joint) MAGI > $425,000 (Head of house)
BACKDOOR No Limitation	**BACKDOOR** Repealed for taxpayers exceeding income thresholds above (12/31/31 & on)
CONVERSION/ROLLOVER No Limitation	**CONVERSION/ROLLOVER** Repealed for all taxpayers (12/31/21 & on)
MEGA $58,000 ($64,500 if over 50) per year per taxpayer	**MEGA** Repealed for all taxpayers (12/31/21 & on)
RMD 72 and up	**RMD** For all taxpayers (regardless of age) if aggregate value of retiement accounts exceed $10 million (12/31/28 & on)
IRA Contributions No Limitation	**IRA Contributions** Repealed for taxpyers exceeding income thresholds above (12/31/28 & on)

Child Tax Credit – During the pandemic, the American Rescue Plan (ARPA) was passed in March of 2021 enhancing the Child Tax Credit (CTC). If you have children under 18, you may remember receiving checks from the IRS during the second half of 2021. 50% of the CTC was paid out, leaving the other half available for your tax return. The BBB Act would extend these advanced payments to be the entire credit amount through 2022 and beyond. The issue with this potential advancement system is the IRS will base sending out these payments on your previously filed returns' adjusted gross income (AGI). If you anticipate your 2022 AGI to exceed $150,000 if filing joint ($75,000 for single or $112,500 for head of house) you should opt out of receiving these advanced payments as you will be ineligible for the CTC. The IRS will likely allow taxpayers to opt out of these payments on IRS.gov as in 2021. What will happen if you do not opt out and your AGI is over the threshold? You will have to pay this money back on your return, which can potentially lead to owing interest and penalties. Do not fret for 2021 if you cashed these checks as the payments were only half of the credit and the impact on your return should be minimal. Please do keep any letters you receive that list the amounts cashed by you in 2021 and provide to your tax preparer to avoid any reporting errors.

Other BBB Act proposals to mention -

Excess Business Losses	The limitation on excess losses of noncorporate taxpayers could be made permanent by the bill.
Surcharge on High-Income Taxpayers	In addition to income tax, the bill could impose surcharge taxes on wealthier taxpayers. A 5% surcharge could affect individuals' amounts of AGI that exceed $10 million and for trusts or estates of $200,000. There is an additional 3% for individuals' amounts of AGI that exceed $25 million and for trusts and estates of $500,000.
Net Investment Income Tax (NIIT)	For taxpayers with taxable income greater than $400,000 if single ($500,000 if married), the bill expands the tax to include net investment income derived from the ordinary course of a trade or business.
Wash-Sales	Crypto assets, foreign currencies, and commodities could now be subject to wash-sale rules under the bill.
Small Business Stock (SBS)	If an individual taxpayer's AGI surpasses $400,000, the bill could disallow the 75% and 100% exclusion of gain treatment from the sale of stock. Without the income threshold, trusts and estates are included in this change.
Electric Vehicle Tax Credits	For new qualified electric plug-in vehicles that cost up to $80,000, the bill includes a refundable tax credit of up to $8,500. For the purchase of a qualifying used electric vehicle there is a smaller credit available. The AGI phase out for this credit starts at $500,000 if married ($250,000 if single).

CLOSING

As we move closer to tax season, this is the time to have conversations with your tax and financial planning advisors to make sure your current and future goals align with potential legislation changes. Key areas to revisit may include your personal tax projections, estate succession strategy, and restructuring your net worth. Much like your New Year's resolutions, our goal is to help you meet your financial ambitions. Keeping up to date and looking around the corner with ready to go planning strategies is one of many ways we do this. Implementation of changes to tax legislation takes time and we may not have all the answers just yet, but until we do, we can continue to proactively plan with what we do know.

MARKET BENCHMARK RETURNS

January 31, 2022		1M	3M	12M	YTD
US Large Cap	S&P 500	-5.2%	-1.6%	23.3%	23.3%
US Small Cap	Russell 2000	-9.6%	-11.5%	-1.2%	-1.2%
Developed Intl	MSCI EAFE	-4.8%	-4.6%	7.0%	7.0%
Emerging Intl	MSCI Em Mkt	-1.9%	-4.1%	-7.2%	-7.2%
Real Estate	NAREIT	-7.7%	-0.5%	29.3%	29.3%
Core Fixed	BarCap Agg	-2.2%	-2.1%	-3.0%	-3.0%
Short Fixed	BarCap 1-3Yr	-0.7%	-0.9%	-1.2%	-1.2%
Long Fixed	BarCap LT G/C	-4.9%	-4.4%	-4.5%	-4.5%
Corp Debt	BarCap Corp	-3.2%	-3.2%	-3.1%	-3.1%

Source: Bloomberg

The performance data shown represents past performance. Past performance is not indicative of future results. Current performance data may be lower or higher than the performance data presented.