ONEDIGITAL

PROACTIVE TAX PLANNING FOR UPCOMING TAX CHANGES

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Six Life Lessons That Also Apply to Investing
By David Booth, kiplinger.com

UPCOMING EVENTS & WEBINARS

Ditch Debt for Good: Learn How to Break the Cycle
04/09/2024 at 3pm EST via OneDigital Financial Academy

Current Estate Tax Laws Set to Sunset at End of 2025

Communication and planning have always been essential when attempting to transfer wealth efficiently. Tax planning can also play a significant role for larger estates. Currently, the federal estate tax laws are very generous, however, when the 2017 Tax Cuts and Jobs Act (TCJA) rules expire at the end of 2025, that might not be the case. We believe in proactive tax planning and waiting until the tail-end of these time constrained rules could cost you. We like to be ahead of changes, especially when it comes to potentially major tax liability.

The Tax Cuts and Jobs Act (TCJA)

Starting in 2018, the TCJA doubled the estate and gift, and GST tax exclusion amount. As our chart shows, this exclusion has moved from $5.49 million for an individual in 2017, all the way up to $13.61 million in 2024. For couples in 2024, the tax exclusion is $27.22 million.

Jerry Lynch, CFP®, CLU, ChFC
and the JFL-OneDigital Team
305 West Main Street, Boonton, NJ 07005
(973) 439-1190 | www.JFLTotalWealth.net

The doubled amount sunsets (or expires) on December 31, 2025. For high-net-worth individuals, this could affect wealth transfer strategies. As the tax law presently stands, the current lifetime estate and gift tax exemption will revert to pre-TCJA levels and will be cut in half and adjusted for inflation on January 1, 2026. With current inflation statistics, this could bring the amounts to around $7 million for individuals and $14 million for couples in 2026.

While there could very well be new tax legislation between now and the expiration date, when reviewing estate plans, families should consider that this TCJA provision is scheduled to expire. Proactive estate and tax planning could help avoid a costly missed opportunity.

While many Americans do not need to worry about this sunsetting tax law, as their net worth does not meet the minimum, it is still important that they have estate planning documents to help transfer assets and wealth to their loved ones efficiently. Also, some states have estate tax transfer taxes that start at much lower levels than the federal amount. For those who are close to the potential after sunset federal limits, but not there yet, they should watch the growth of their net worth to stay on top of it. Wealthy individuals and families should not procrastinate, and we recommend planning now to ensure preparedness for the pending drastically reduced limits.

In this article we want to provide you with valuable information. However, navigating estate planning can be challenging and difficult, so checking with both your estate planning professional and financial professional is always advised. **We are always available if you have any questions regarding your personal financial situation.**

Wealth Transfer and Strategic Gifting

The passing of a loved one brings many emotional challenges, so having your estate plan carefully prepared well in advance can offer the solace of knowing your loved ones will not have to navigate financial and legal challenges while they are grieving. There are two major ways to transfer wealth: leaving an inheritance after you pass, or gifting during your lifetime.

The latter can be particularly alluring and can offer some tax-saving possibilities. Many families can look at transferring wealth during someone's lifetime without incurring any federal gift or estate taxes. This is usually in addition to the annual exclusion for gifts, which in 2024 is $18,000 for individuals and $36,000 for couples.

For example, John has an estate valued at $15 million and in 2024 transfers $10 million to a trust for his children. Under the current TCJA provisions, he can use the $13.61 million exclusion to make that $10 million transfer tax-free. However, if he waits until 2026, the exclusion amount is scheduled to be about $7 million after the

Most of the Tax Cuts and Jobs Act (TCJA) changes are scheduled to expire on December 31, 2025.

Let us help you navigate what changes may affect you!

Please contact our office for information on these sunsetting tax laws.

Federal Estate Tax Threshold History

On January 1, 2026, the exclusion amount will "sunset" and return to the pre-2017 TCJA amount of $5,000,000 (adjusted for inflation), for single taxpayers.

2008	$2,000,000
2009	$3,500,000
2010	$5,000,000
2011	$5,000,000
2012	$5,120,000
2013	$5,250,000
2014	$5,340,000
2015	$5,430,000
2016	$5,450,000

2017	$5,490,000
2018	$11,180,000
2019	$11,400,000
2020	$11,580,000
2021	$11,700,000
2022	$12,060,000
2023	$12,920,000
2024	$13,610,000

TCJA sunset, meaning $3 million of the $10 million gift would be taxable. A relatively small difference in timing can result in a huge tax bill.

Before making any moves or decisions about your gifting strategy, please consult with us. It is critical to understand potential tax implications and ensure everyone involved in your estate plan, including your heirs, optimize and take advantage of the best strategies for your situation.

Wealth Transfer and a Bypass (Family Trust)

Another popular method of optimizing tax exemptions for married couples is a Bypass Trust. When one spouse passes, a portion of their assets can be placed into a trust which passes to their beneficiaries on the death of the surviving spouse. The assets placed into this trust, and any appreciation of those assets, are protected from estate taxes when the surviving spouse passes away.

This strategy, like many others in estate planning, can be complicated and the tax ramifications and appropriateness should always be discussed with a qualified estate planning attorney and financial professional prior to making any decisions.

Portability for Estate and Gift Tax

In very simple terms, portability is a way for spouses to combine their exemption from estate and gift tax. In most circumstances, it's a process where a surviving spouse can realize and use the unused estate tax exemption of a deceased spouse, so then, the surviving spouse has both their own exemption from estate and gift tax and, the unused exemption of the deceased spouse. **This can be a highly complicated process that requires filings and needs to be discussed with your financial professional and estate planning attorney.**

Keeping Your Estate Plan Current—Don't Forget the Basics!

Even if your estate plan is not affected by the sunsetting TCJA provisions, it is still wise to have an updated estate plan. Life happens and not having proper documents can cause undue stress and work for your loved ones. It's important to keep your estate plan updated. Divorces, marriages,

Consider These Major Documents for Your Estate Plan

- **Will:** This document will state the terms under which you wish all your assets to be distributed upon your death. A Will also include other extremely important decisions, from the guardian of your children to who is the executor of your estate.

- **Health Directive:** This document clearly states your healthcare desires and appoints an agent to make these desired decisions if you become unable to do so yourself.

- **Durable Power of Attorney:** This document appoints an agent to act on your behalf, from financial transactions to real estate matters, while you are still alive. The Durable Power of Attorney terminates upon your death.

- **Living Trust:** A living trust allows you to take assets you own and place them into the ownership of a trust you create during your lifetime. The trust owns your assets and you manage them while you are alive.

children coming of age, new children, or grandchildren – are among the major, but easily overlooked occurrences that can directly affect your estate plan.

Revisiting your beneficiaries is important as well. Many people grow fond of new charities, individuals may no longer be appropriate candidates, or percentages may change. Confirming who you have chosen as primary and contingent beneficiaries is very important.

You've spent a lifetime acquiring your estate, it is important to preserve your legacy in the manner in which you desire. **If you would like to review your estate plan with us, please contact our office and we would be happy to discuss it with you.**

Use It or Lose It!

At present, the potential for you to lose your opportunity to leverage the higher exemption levels is a possible scenario. **Don't postpone your opportunity to explore the options currently available to you!**

We are Here to Help

We value our clients and are honored to be a part of their journey. We strive to understand the objectives of each individual so we can create an optimal plan.

As a reminder, please keep us aware of any changes (such as health issues, changes in your retirement goals, or the sale of a home). The more knowledge we have about your unique situation the better equipped we will be to best advise you. If you'd like to have an assessment of your investment portfolio and overall financial picture, we can discuss this at your next review meeting, or you can call us to set up an appointment.

As always, we appreciate the opportunity to assist you with all your financial needs.

'Yes, as a matter of fact I was in banking before I retired.'

Key Reasons
Estate Plans Can Fail

- ➪ No estate plan!
- ➪ Beneficiaries not listed or updated.
- ➪ Lost documents.
- ➪ Outdated documents (such as a will).
- ➪ Not updating powers of attorney.
- ➪ Choosing an inappropriate executor.
- ➪ Not funding a living trust.
- ➪ Forgetting about tax implications.
- ➪ Not seeking professional help!

Don't fall victim to these key reasons estate plans fail!

Planning for retirement—regardless of age—is a complicated process.

ARE YOU READY?

Now more than ever, it's important to have experienced advisers in your corner helping to make sure you're on the best path to financial security.

- ✓ Investment management
- ✓ Estate planning
- ✓ Tax strategies
- ✓ Retirement planning
- ✓ Insurance coverage

Contact our office at 973-439-1190 to schedule a complimentary financial consultation.

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Six Life Lessons That Also Apply to Investing

Beyond returns, a good investing experience depends on how you feel on the journey—just like in life.

By David Booth, Chairman and Founder, Dimensional Fund Advisors

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No matter how familiar you are with investing, you've navigated uncertainty, weighed risks and rewards and made carefully considered tradeoff decisions. You've tackled the central challenges of life—which also happen to be the central challenges of investing.

Having a good investment experience is about more than returns. It's about how we feel along the journey. Investing should help us live better, more fulfilling lives. By integrating our life and investment philosophies, we can see money as a tool that empowers our plans rather than as a goal in and of itself. Here are six principles that can help us in life and investing.

Uncertainty creates opportunity

Uncertainty can be uncomfortable, but without it, there would be no opportunity. When we decide to move to a new city or change career paths, we don't know exactly what will happen. Yet these experiences help us grow and change our lives.

When we invest, returns are compensation for taking on uncertainty. Without risk, there would be no reward. But there's also risk in *not* investing. If our money doesn't grow over time, it won't go as far in the future.

This approach to life and investing guides us through uncertain times and helps refocus our attention on the opportunities ahead.

Plan, don't predict

None of us has a crystal ball, so we develop strategies to help manage an uncertain future. We apply to a list of potential colleges, not just our first choice. We pack more than what we think we need and get to the airport three hours early. We wear a life jacket on a boat, even though we know how to swim.

Investing is just like life: We make plans that account for a broad range of possible outcomes. This way, we can feel empowered by the unknown instead of paralyzed by it.
Research has shown that stock returns are not predictable. That's why it's best to focus on planning for what *can* happen, rather than trying to predict what *will* happen. The good news

is we don’t need to be able to pick stocks to have a good investment experience. Over the past century, markets have returned, on average, about 10% a year, based on S&P 500 index annual returns, 1926-2022. And the market’s returns are available to every investor through a range of low-cost, diversified strategies.

So don’t try to outguess markets—trust them (and be prepared for some short-term disappointments from time to time). Odds are you’ll have a better investment experience in the long run.

Flexibility adds value

When you’re in the market for a new car, you probably know exactly what you want, down to the color of the interior trim. But it can be hard to locate the precise model and features you’re after, and once you do find them, you may have to pay a premium.

If you’re willing to be flexible—maybe going with black instead of gray—you can get that new car faster, and at a better price.

Flexibility adds value in investing, too. Staying flexible around what stocks to hold and when to trade can give you an advantage. While index funds are a solid, low-cost solution for many investors, they are forced to trade on certain days to track their index. The funds may not get the best prices on the securities they hold, resulting in investors leaving returns on the table.

Harness the power of compounding

Even the small, seemingly inconsequential decisions we make can have a big impact over time. Whether we’re training for a marathon or learning a foreign language, each step moves us closer toward our goals.

The same is true of investing. A 10% return on your investment each year—similar to the stock market’s historical annualized average—would double your money every seven years. Starting early can help an investor make up for not having a lot of money to invest right away. In both life and investing, compounding is a powerful force. Many people feel they don’t have enough money to invest, but even small savings can help prepare you to cross the finish line.

Control what you can control

So much in life is out of our control, whether it’s the weather or the fate of our favorite sports teams. However, we can take charge of how we prepare for and react to life’s curveballs. We may not need an umbrella every day, but it comes in handy when the uncontrollable happens. In investing, you can’t control the ups and downs of the market. What you can control is how much you save, the risk you take on and the guidance and research you seek in putting together an investment plan that’s right for you.

The future is uncertain, but the quality of your decisions doesn't have to be. When you make informed choices, you have the satisfaction of knowing you did everything within your control, even if things didn't work out exactly the way you'd hoped.

Tune out the noise

When we focus on an important goal, other people's opinions can be distracting, even derailing. Who cares if a friend doesn't agree with your new exercise plan, as long as it's working for you? Once you've come up with an informed road map for success, rally your supporters and turn down the volume on your detractors.

This mindset is also key to being a successful long-term investor. Many of us are exposed to a barrage of investment commentary, from TV pundits shouting predictions, to friends touting the "next big investment," to our smartphone pushing us the latest news every minute. Things that seem too good to be true usually are—and yielding to our "fear of missing out" can exact a deep price in the form of lower returns over a lifetime.

We all know that markets rise and fall—so we can be disappointed by downturns, but we shouldn't be surprised by them. Reacting emotionally to market volatility may be more detrimental to your portfolio performance than the drawdown itself.