YEAR END NEWSLETTER

Dear Clients and Friends,

As year-end approaches, we would like to share some time-sensitive information as well as various planning strategies with you as we wrap up 2019 and look forward to 2020.

Each person's financial situation is different. Not only does the tax code change, but so do the needs and priorities of each individual and family. We are here to discuss this with you in detail as well as coordinate with your tax preparer and legal counsel. 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.

PRIOR TO YEAR-END

Distributions from your IRA and/or inherited IRA in 2019

If you have an IRA and are 70½ or older, you are required to take your Required Minimum Distribution (RMD) from your IRA by December 31st to avoid penalty.

If you have an inherited IRA, an RMD likely needs to be taken (regardless of your age) by December 31st.

Please consult your tax preparer regarding calculations for RMDs and applicable tax withholdings.

If you are charitably inclined, using all or a portion of your RMD to give to charity is considered a Qualified Charitable Distribution "QCD" and can be highly tax efficient. More information on QCDs below.

GIVING

Annual Gifts to Individuals

The most commonly used method for tax-free gifting to individuals is the annual gift tax exclusion. In 2019, you can gift up to $15,000 to as many people as you choose, free of gift tax. Married taxpayers can gift up to $30,000 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 (not given to the student or patient who then, in turn, uses the funds to pay for tuition or medical services).

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 does not allow for a state tax deduction when contributing to a California 529.)

A "bunching" technique should be considered if you wish to give more than $15,000 to a 529 plan. You can give five years' worth of your annual gift tax exclusion amount into one recipient's 529 account. In 2019, that means, instead of giving $15,000 to one 529 account, you could put a total of $75,000 into the account ($150,000 if spouses elect to "gift-split"). If you choose to do this, you cannot make annual exclusion gifts up to $15,000 to that person for the next four years. Before electing to "bunch" 529 contributions, please discuss with your tax preparer. Please note that all 529 contributions must be made with cash.

Contributions to Custodial Accounts

A custodial account is an account set up and administered by an adult for the benefit of a minor. Annual gifts to custodial accounts continue to be an effective way to gift to children but please remember contributions to custodial accounts are subject to the gift tax rules as well. Gifts to custodial accounts can be made with cash and/or appreciated securities. Please consult with your tax preparer to decide on the most tax efficient way to gift to a custodial account.

Giving to Charity

As a result of The Tax Cuts and Jobs Act of 2017 (TCJA), there are significant planning opportunities surrounding charitable donations. We are here to help guide you as you fulfill your philanthropic goals.

Giving to Charity with Appreciated Securities

When possible, charitable donations of more than a few thousand dollars should be made with long-term appreciated securities. Gifting appreciated securities allows for you to reduce your low basis holdings (normally subject to long-term capital gains tax if sold) while receiving an immediate tax deduction equal to the fair market value on the date of the gift. Gifting with appreciated securities is more tax efficient than gifting with cash but please be mindful of year-end deadlines for gifting with securities set by each custodian.

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 to make sure you are benefiting from a tax deduction given the increase in the standard deduction. "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.

Qualified Charitable Distributions (QCD) From Your IRA or Inherited

If you are age 70½ or older, you can make one or more QCDs from your IRA or inherited IRA to qualified charities to satisfy all or a portion of your required minimum distribution. You may choose to benefit more than one charity, but the total amount of QCDs may not exceed $100,000 annually and each check must be made payable to the charity. A QCD is highly tax efficient as it reduces your taxable income which can lead to tax savings but is also excluded from your charitable deductions for tax purposes. If you are interested in making a QCD, please let us know as soon as possible as it must be made by December 31st.

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 2019 is $6,000. If you are 50 or older, the limit is $7,000. Deadline for 2019 contributions is April 15, 2020 into an IRA or Roth IRA.

2019 contributions into a SEP IRA may be as late as October 15, 2020 if you file an extension for your 2019 tax return.

Eligibility to contribute to an IRA needs to be discussed with your tax preparer.

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 $19,000 to an employer-sponsored savings plan. If you're 50 or older, you can contribute an additional $6,000—for a total of $25,000 in 2019. Deadline for 2019 contributions depends on your plan but is likely by December 31st.

Roth IRA Conversions

Regardless of income levels, you can convert a traditional or rollover IRA into a Roth IRA. In addition to understanding the difference between traditional and Roth IRAs, there are many things to consider when deciding whether a Roth conversion makes sense for you in any given year. Broadly speaking it makes sense if (1) the taxes on the conversion can be paid from personal assets, (2) 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 (3) the Roth assets have a long investment time horizon. A potential Roth IRA conversion requires a conversation with your tax preparer. Please note as of 2018, 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 not enrolled in Medicare, HSAs can be powerful savings tools. The maximum annual contribution limit for individuals is $3,500 in 2019, while the maximum annual contribution for families is $7,000. Individuals age 55 or older that are not yet enrolled in Medicare may 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 2019 contributions into an HSA can be as late as April 15, 2020.

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, health-care 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.

Estate and Gift Taxes

The top marginal Federal estate, gift and GST tax rate remains at 40% in 2019. The lifetime Federal estate and gift tax exemption amount in 2019 is $11,400,000 per person ($22,800,000 per married couple). 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. The current Federal estate and gift tax exemption amount is stated to sunset at the end of 2025 and revert to the pre-2018 Federal exemption amount of $5,490,000 per person ($10,980,000 per married couple).

Please note, year-end is a busy time of year and each custodian imposes their respective deadlines to guarantee requested transactions are completed by year-end. We encourage you to plan accordingly.

As always, we are here to guide you through the planning opportunities outlined in the previous pages 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 over $32 billion in advised assets, including approximately $5 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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