



PORTER

WEALTH MANAGEMENT

Tax and Estate Planning for Retirees
Post Secure Act



TOPICS COVERED

1. SECURE Act Changes on retirement accounts
2. Update on proposals in Congress that will impact planning for retirees
3. Opportunities / Pitfalls
 1. Spousal Tax Trap
 2. 10 Year Rule
4. Planning Strategies
 1. Roth Conversions
 2. Separate pre-tax and post-tax contributions inside a traditional IRA or 401(k)
 3. To Conduit or not to Conduit
 4. CRT's to create an artificial stretch

SECURE ACT – DECEMBER 20, 2019

DEATH OF THE STRETCH IRA

PRE-SECURE ACT

- Designated Beneficiaries
 - Must be an individual (no estates but exception for conduit trusts)
 - Stretch applies
- Non-Designated Beneficiaries
 - any beneficiary that is not a designated beneficiary
 - 5-year Rule

POST SECURE ACT

- Eligible Designated Beneficiaries
 - Stretch still applies
 - Only 5 classes of beneficiaries qualify
 - Spouse
 - Minor children (18)
 - Disabled
 - Chronically ill
 - Any other individual that is not more than 10 years younger than the deceased IRA owner
- Designated Beneficiaries
 - Must withdraw 100% of inherited accounts within 10 years
 - Any designated beneficiary that does not qualify as an eligible designated beneficiary
- Non-designated beneficiaries
 - Treated the same as pre-secure act

2022 TAX RATES

CURRENT LAW

ORDINARY INCOME

<u>TAX RATE</u>	<u>FOR SINGLE FILERS</u>	<u>FOR MARRIED INDIVIDUALS FILING JOINT RETURNS</u>	<u>FOR HEADS OF HOUSEHOLDS</u>
10%	\$0 to \$10,275	\$0 to \$20,550	\$0 to \$14,650
12%	\$10,275 to \$41,775	\$20,550 to \$83,550	\$14,650 to \$55,900
22%	\$41,775 to \$89,075	\$83,550 to \$178,150	\$55,900 to \$89,050
24%	\$89,075 to \$170,050	\$178,150 to \$340,100	\$89,050 to \$170,050
32%	\$170,050 to \$215,950	\$340,100 to \$431,900	\$170,050 to \$215,950
35%	\$215,950 to \$539,900	\$431,900 to \$647,850	\$215,950 to \$539,900
37%	\$539,900 or more	\$647,850 or more	\$539,900 or more

CAPITAL GAINS

0%	\$0 to \$41,675	\$0 to \$83,350	\$0 to \$55,800
15%	\$41,675 to \$459,750	\$83,350 to \$517,200	\$55,800 to \$488,500
20%	\$459,750 or more	\$517,200 or more	\$488,500 or more

SEPTEMBER DRAFT OF BBB

CHANGES TO ORDINARY INCOME BRACKETS

TAX RATE	CURRENT LAW		BUILD BACK BETTER PROPOSAL	
	<u>FOR SINGLE FILERS</u>	<u>FOR MARRIED INDIVIDUALS FILING JOINT RETURNS</u>	<u>FOR SINGLE FILERS</u>	<u>FOR MARRIED INDIVIDUALS FILING JOINT RETURNS</u>
10%	\$0 to \$10,275	\$0 to \$20,550	\$0 to \$10,275	\$0 to \$20,550
12%	\$10,275 to \$41,775	\$20,550 to \$83,550	\$10,275 to \$41,775	\$20,550 to \$83,550
22%	\$41,775 to \$89,075	\$83,550 to \$178,150	\$41,775 to \$89,075	\$83,550 to \$178,150
24%	\$89,075 to \$170,050	\$178,150 to \$340,100	\$89,075 to \$170,050	\$178,150 to \$340,100
32%	\$170,050 to \$215,950	\$340,100 to \$431,900	\$170,050 to \$215,950	\$340,100 to \$431,900
35%	\$215,950 to \$539,900	\$431,900 to \$647,850	\$215,950 to \$400,000*	\$431,900 to \$450,000*
37%	\$539,900 or more	\$647,850 or more		
39.6%			\$400,000 or more	\$450,000 or more

* \$400k and \$450k upper limit on bracket has not been adjusted for inflation

SEPTEMBER DRAFT OF BBB

CHANGES TO CAPITAL GAINS BRACKETS

TAX RATE	CURRENT LAW		BUILD BACK BETTER PROPOSAL	
	<u>FOR SINGLE FILERS</u>	<u>FOR MARRIED INDIVIDUALS FILING JOINT RETURNS</u>	<u>FOR SINGLE FILERS</u>	<u>FOR MARRIED INDIVIDUALS FILING JOINT RETURNS</u>
0%	\$0 to \$41,675	\$0 to \$83,350	\$0 to \$41,675	\$0 to \$83,350
15%	\$41,675 to \$459,750	\$83,350 to \$517,200	\$41,675 to \$400,000*	\$83,350 to \$450,000*
20%	\$459,750 or more	\$517,200 or more		
25%			\$400,000* or more	\$450,000* or more

* \$400k and \$450k upper limit on bracket has not been adjusted for inflation

SEPTEMBER DRAFT OF BBB

CHANGES TO HIGH EARNERS

- Specified Net Investment Income - 3.8% NIIT on S-corps when income thresholds are exceeded
 - Phase In Range
 - \$400k - \$500k Single
 - \$500k - \$600k MFJ
 - Once range is exceeded, 100% of S-corp distributions are potentially subject to NIIT
- 3% Surcharge on Ultra-High-Income Taxpayers
 - \$5mm threshold for single and joint filers
 - \$100k threshold for trusts
- QBI Limitation
 - \$500k MFJ
 - \$400k Single
 - \$250k MFS
 - \$10k Trusts and Estates

SEPTEMBER DRAFT OF BBB

CHANGES FOR ROTH CONVERSION PLANNING

- Conversion of after-tax dollars in pre-tax accounts prohibited
 - Kills back-door roth and mega-back door roth contributions
 - Established a 12/31 deadline to separate pre-tax and post-tax contributions
- Beginning in 2032, roth conversions are prohibited for high income taxpayers
 - Only applies taxpayers with **Adjusted Taxable Income** in excess of:
 - \$400k Single
 - \$450k Joint
 - Adjusted Taxable Income = Taxable Income + IRA Deduction – RMD due to high income/
total funds rule (Not regular RMD's)
- Lifetime exclusion drops to \$5mm (adjusted for inflation)

SEPTEMBER DRAFT OF BBB

NEW RMD ON LARGE RETIREMENT ACCOUNTS

- Applies regardless of age
- Requires both
 - high income (measured by Adjusted Taxable Income) and
 - \$400k Single
 - \$450k MFJ
 - retirement accounts in excess of \$10mm
- 50% RMD
 - Applies to accounts over \$10mm but less than \$20mm
 - Account value - \$10mm X 50% = RMD
- 100% RMD for Roth IRA's
 - If your retirement accounts exceed \$20mm, distribute the lesser of:
 - All Roth accounts; or
 - The amount necessary to reduce total retirement accounts to \$20mm
 - Performed before completing 50% RMD above

OCTOBER DRAFT OF BBB

WHAT REMAINS?

- Specified Net Investment Income (Sec 138201)
- Surcharge on high income individuals (*Amended*) (Sec 138203)
 - 5% surcharge on income over \$10mm (\$200k for trusts)
 - 3% surcharge on income over \$25mm (\$500k for trusts)

NOVEMBER DRAFT OF BBB

WHIPLASH – SEPTEMBER PROVISIONS REINTRODUCED

- Specified Net Investment Income (Sec 138201)
- Surcharge on high income individuals (*Amended*) (Sec 138203)
 - 5% surcharge on income over \$10mm (\$200k for trusts)
 - 3% surcharge on income over \$25mm (\$500k for trusts)
- 50% and 100% RMD on large retirement accounts (Sec 138302)
- Conversion of after-tax dollars in pre-tax accounts prohibited (Sec 138311)
- Beginning in 2032, roth conversions are prohibited for high income taxpayers

NOVEMBER DRAFT OF BBB

NEW PROVISIONS

- SALT Deduction increased to \$80k - **Applicable to 2021**

NOVEMBER DRAFT OF BBB

PROVISIONS THAT WERE DROPPED

- Tax Rate Changes
- Grantor Trust Rules
- QBI Limitation

SAMPLE CLIENT – ROTH CONVERSION

NET WORTH

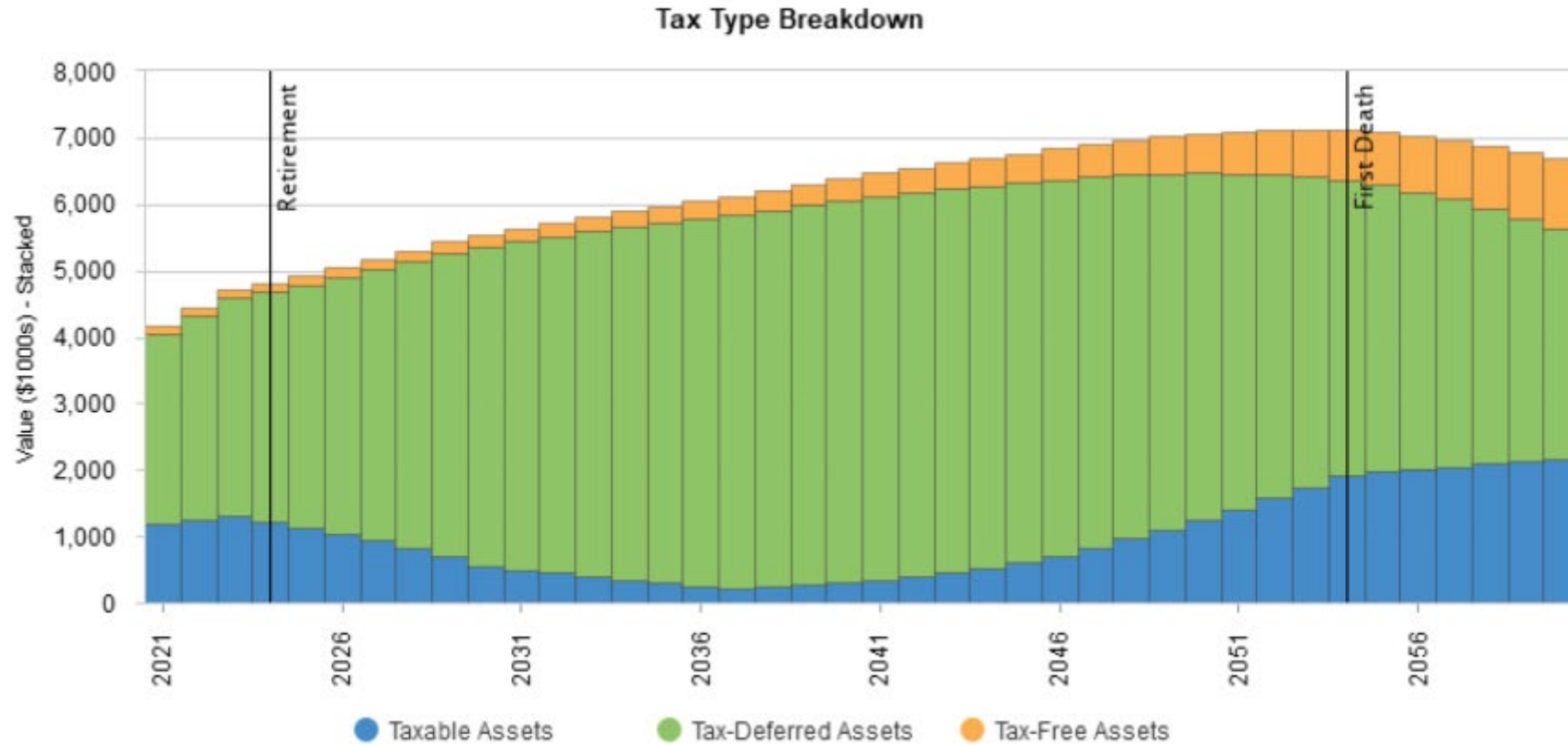
ASSETS:	Frank	Joanna	Joint	Total
NON-QUALIFIED ASSETS:				
<i>Cash Alternatives:</i>				
Cash / Emergency Fund	--	--	\$25,000	\$25,000
<i>Taxable Investments:</i>				
Frank and Joanna Joint Investments	--	--	\$1,111,026	\$1,111,026
Total: Non-Qualified Assets	--	--	\$1,136,026	\$1,136,026
RETIREMENT ASSETS:				
<i>Qualified Retirement:</i>				
Frank's 401(k)	\$2,041,826	--	--	\$2,041,826
Joanna's 403B	--	\$632,589	--	\$632,589
<i>Roth IRAs:</i>				
Joanna's Roth IRA (converted)	--	\$103,431	--	\$103,431
Total: Retirement Assets	\$2,041,826	\$736,020	--	\$2,777,846
TOTAL LIQUID ASSETS	\$2,041,826	\$736,020	\$1,136,026	\$3,913,872
REAL ESTATE ASSETS:				
Home	--	--	\$850,000	\$850,000
Total: Real Estate Assets	--	--	\$850,000	\$850,000
PERSONAL ASSETS:				
Cars	--	--	\$60,000	\$60,000
Jewelry	--	\$35,000	--	\$35,000
Total: Personal Assets	--	\$35,000	\$60,000	\$95,000
TOTAL ASSETS	\$2,041,826	\$771,020	\$2,046,026	\$4,858,872

LIABILITIES:	Frank	Joanna	Joint	Total
LONG TERM LIABILITIES:				
Credit Card	(\$3,643)	--	--	(\$3,643)
Mortgage on Home	--	--	(\$426,385)	(\$426,385)
Total: Long Term Liabilities	(\$3,643)	\$0	(\$426,385)	(\$430,028)
TOTAL LIABILITIES	(\$3,643)	\$0	(\$426,385)	(\$430,028)
NET WORTH	\$2,038,183	\$771,020	\$1,619,641	\$4,428,844

TOTAL NET WORTH: \$4,428,844

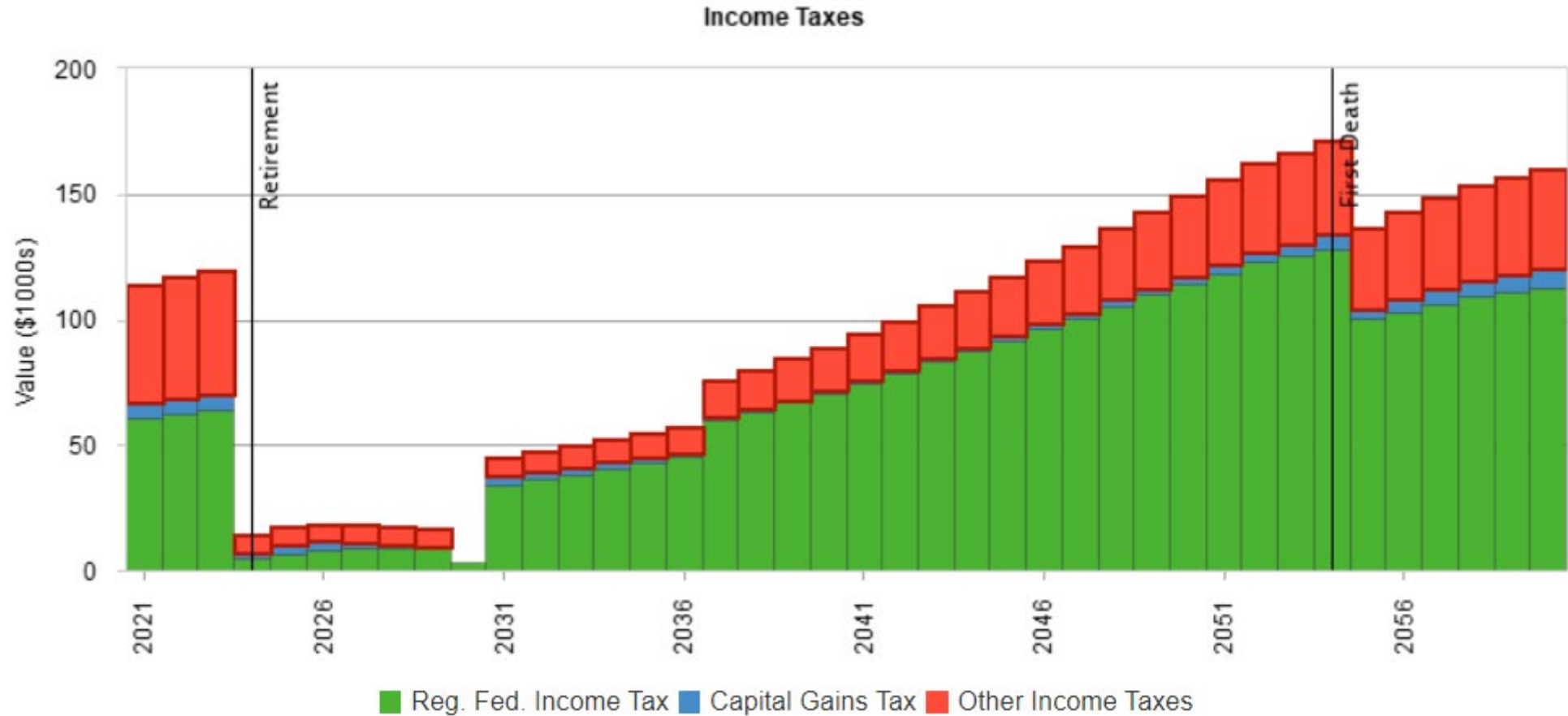
SAMPLE CLIENT – ROTH CONVERSION

ASSETS BY TAX CATEGORY



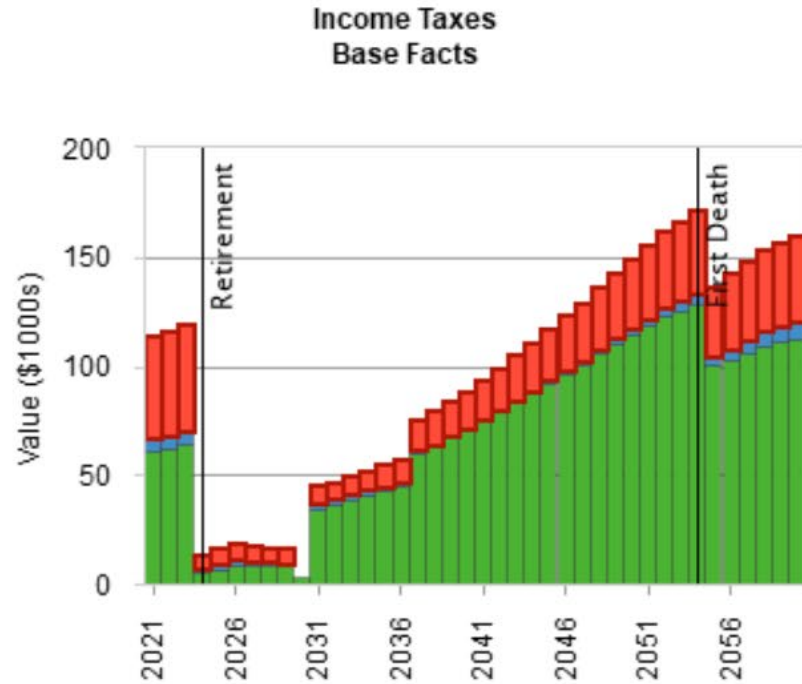
SAMPLE CLIENT – ROTH CONVERSION

INCOME TAX

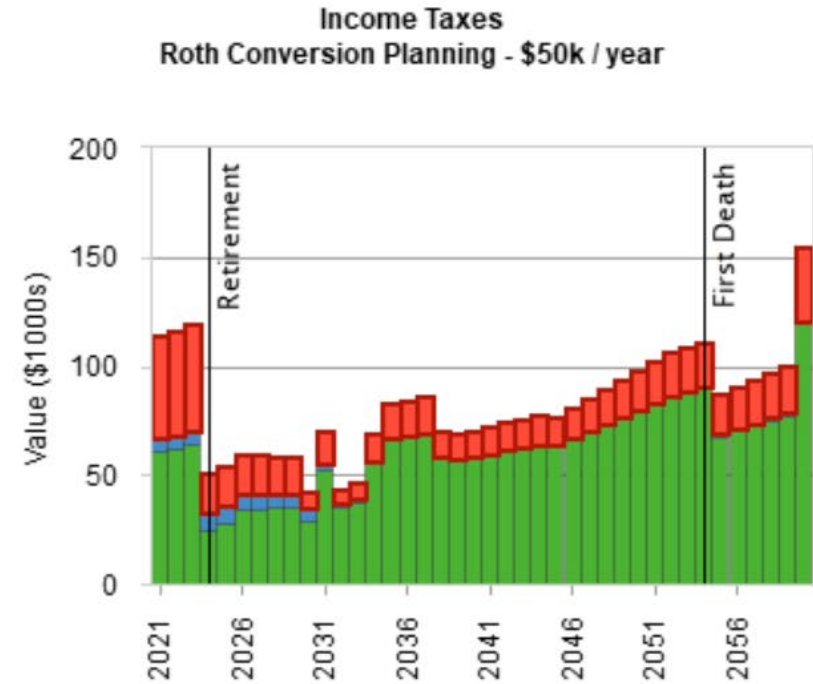


SAMPLE CLIENT – ROTH CONVERSION

TAX COMPARISON



- Reg. Fed. Income Tax
- Capital Gains Tax
- Other Income Taxes

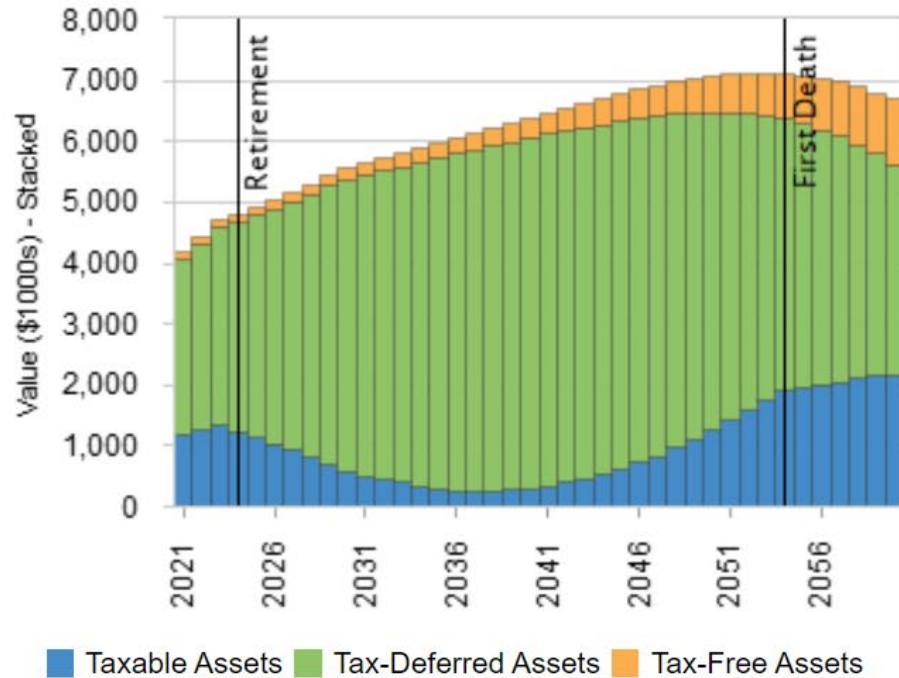


- Reg. Fed. Income Tax
- Capital Gains Tax
- Other Income Taxes

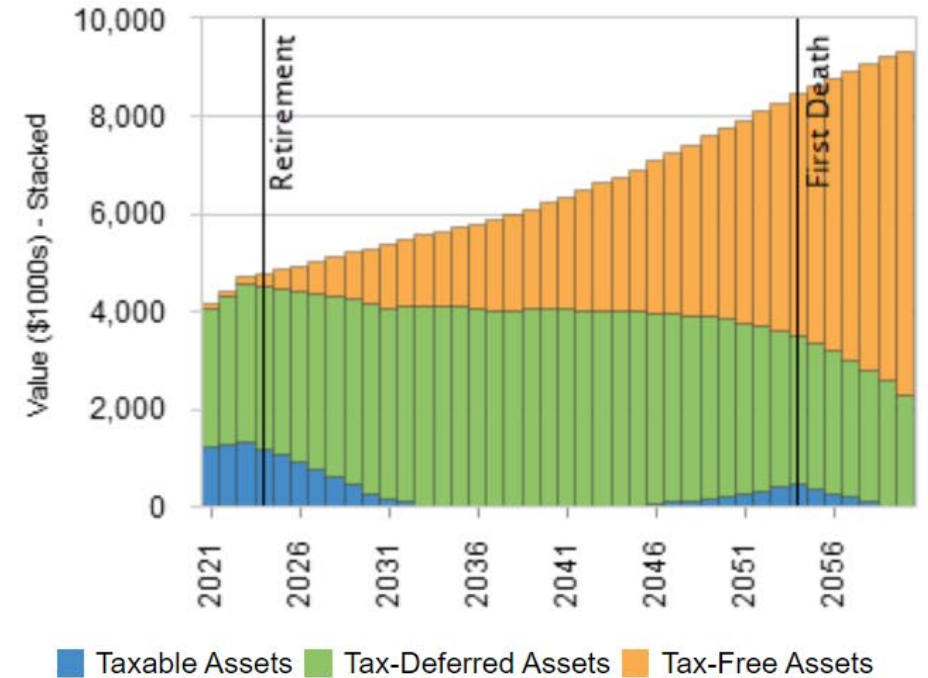
SAMPLE CLIENT – ROTH CONVERSION

COMPARISON OF ASSET GROWTH

Tax Type Breakdown
Base Facts



Tax Type Breakdown
Roth Conversion Planning - \$50k / year



CHARITABLE REMAINDER TRUST (CRT)

HIGH EARNER - ASSUMPTIONS

Charitable Deduction Calculation Inputs

Assets Contributed	5,000,000
Date of Contribution	1/1/2023
7520 Rate	0.80%
Term (< 20 years)	20
Distribution Rate (> 5%)	11.090000%
Annuity Payment	
Charitable Deduction (>10%)	\$500,000.00

Distribution Tax Characteristics Inputs

FMV of property	5,000,000
Cost Basis of Property	-
Accumulated Depreciation on Real Estate (taxed at 25% recapture rate)	1
Ordinary Income and Accumulated Depreciation on Non Real Estate Assets	5,000,000
Capital Gain on Sale	-
Estimated Growth of Portfolio including interest, dividends and capital gains	6.00%
% of growth attributable to short-term capital gains, interest and ordinary dividends	50%
% of growth attributable to long-term capital gains and qualified dividends	50%
Tax rate for depreciation recapture	25%

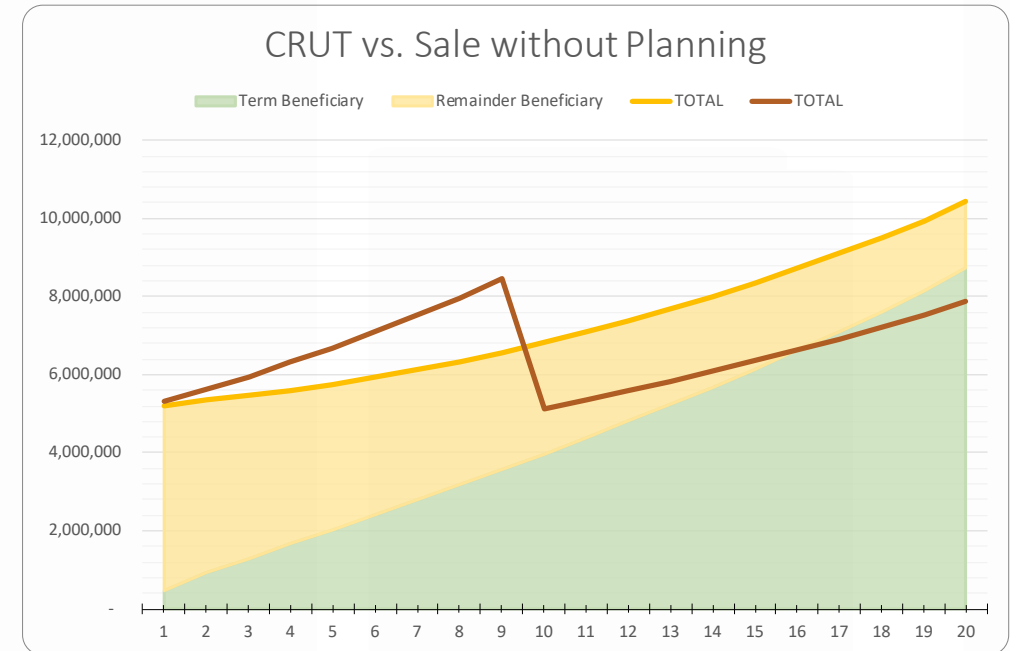
Distribution Tax Characteristics Inputs

Taxable Income of Term Beneficiary before distributions factored in	500,000
Annual Living Expenses	-
Inflation Adjustment to Living Expenses	3%
Attorney Fees to Draft CRT	7,000
CPA Tax Prep Fees	1,500

CHARITABLE REMAINDER TRUST (CRT)

HIGH EARNER - DISTRIBUTION IN YEAR 10

	CRUT		No CRT		Difference		
	Term	Remainder	TOTAL	TOTAL	Bene vs. Owner	Amount to Charity	TOTAL
1	480,110	4,712,230	5,192,340	5,300,000	-	-	-
2	915,120	4,441,022	5,356,142	5,618,000	-	-	-
3	1,284,201	4,185,424	5,469,625	5,955,080	-	-	-
4	1,653,831	3,944,536	5,598,367	6,312,385	-	-	-
5	2,025,109	3,717,512	5,742,621	6,691,128	-	-	-
6	2,399,126	3,528,291	5,927,417	7,092,596	-	-	-
7	2,778,774	3,348,701	6,127,475	7,518,151	-	-	-
8	3,165,045	3,178,252	6,343,297	7,969,240	-	-	-
9	3,558,946	3,016,479	6,575,425	8,447,395	-	-	-
10	3,961,504	2,862,940	6,824,444	8,969,240	-	-	-
11	4,373,767	2,717,216	7,090,983	9,539,725	-	-	-
12	4,796,805	2,578,910	7,375,715	10,178,151	-	-	-
13	5,231,717	2,447,644	7,679,360	10,891,297	-	-	-
14	5,679,630	2,323,058	8,002,689	11,689,240	-	-	-
15	6,141,706	2,204,815	8,346,521	12,578,151	-	-	-
16	6,619,139	2,092,590	8,711,728	13,569,240	-	-	-
17	7,113,164	1,986,077	9,099,240	14,678,151	-	-	-
18	7,625,057	1,884,986	9,510,042	15,912,385	-	-	-
19	8,156,139	1,789,040	9,945,179	17,289,240	-	-	-
20	8,724,771	1,697,978	10,422,748	18,839,240	-	-	-
					849,370	1,697,978	2,547,348
					16.99%	33.96%	50.95%
					10.79%	21.56%	32.35%



CHARITABLE REMAINDER TRUST (CRT)

REGULAR EARNER - ASSUMPTIONS

Charitable Deduction Calculation Inputs

Assets Contributed	5,000,000
Date of Contribution	1/1/2023
7520 Rate	0.80%
Term (< 20 years)	20
Distribution Rate (> 5%)	11.090000%
Annuity Payment	
Charitable Deduction (>10%)	\$500,000.00

Distribution Tax Characteristics Inputs

FMV of property	5,000,000
Cost Basis of Property	-
Accumulated Depreciation on Real Estate (taxed at 25% recapture rate)	1
Ordinary Income and Accumulated Depreciation on Non Real Estate Assets	5,000,000
Capital Gain on Sale	-
Estimated Growth of Portfolio including interest, dividends and capital gains	6.00%
% of growth attributable to short-term capital gains, interest and ordinary dividends	50%
% of growth attributable to long-term capital gains and qualified dividends	50%
Tax rate for depreciation recapture	25%

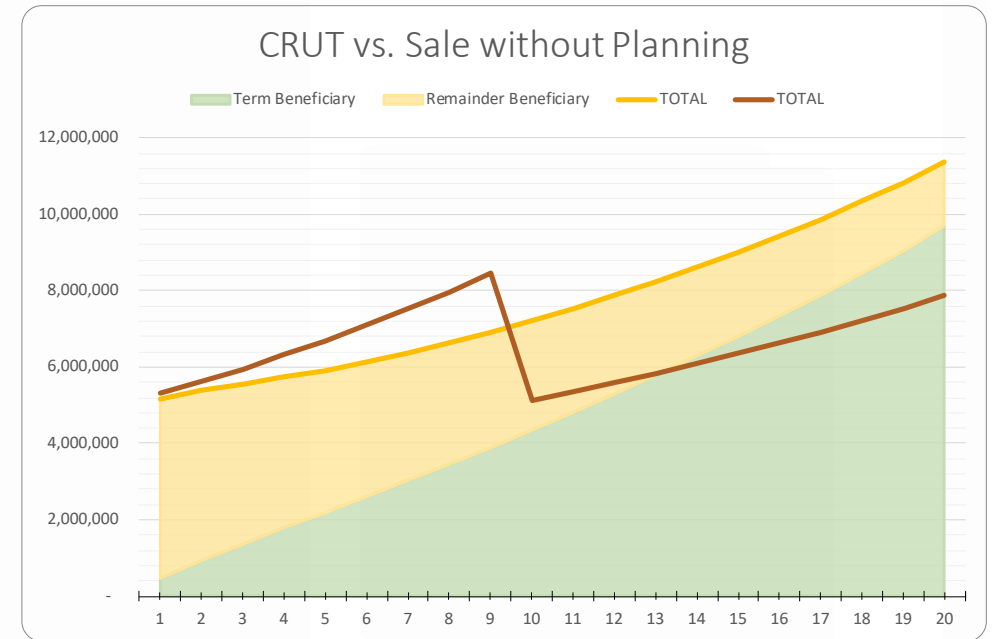
Distribution Tax Characteristics Inputs

Taxable Income of Term Beneficiary before distributions factored in	100,000
Annual Living Expenses	-
Inflation Adjustment to Living Expenses	3%
Attorney Fees to Draft CRT	7,000
CPA Tax Prep Fees	1,500

CHARITABLE REMAINDER TRUST (CRT)

REGULAR EARNER – DISTRIBUTION IN YEAR 10

	CRUT			No CRT TOTAL	Difference		
	Term	Remainder	TOTAL		Bene vs. Owner	Amount to Charity	TOTAL
1	463,201	4,712,230	5,175,431	5,300,000	-	-	-
2	938,775	4,441,022	5,379,798	5,618,000	-	-	-
3	1,376,038	4,185,424	5,561,461	5,955,080	-	-	-
4	1,782,092	3,944,536	5,726,628	6,312,385	-	-	-
5	2,191,687	3,717,512	5,909,199	6,691,128	-	-	-
6	2,606,014	3,528,291	6,134,305	7,092,596	-	-	-
7	3,028,068	3,348,701	6,376,769	7,518,151	-	-	-
8	3,458,951	3,178,252	6,637,202	7,969,240	-	-	-
9	3,898,944	3,016,479	6,915,423	8,447,395	-	-	-
10	4,349,166	2,862,940	7,212,106	5,114,091	-	-	-
11	4,810,787	2,717,216	7,528,003	5,339,725	-	-	-
12	5,284,699	2,578,910	7,863,610	5,575,314	-	-	-
13	5,772,119	2,447,644	8,219,763	5,821,297	-	-	-
14	6,274,310	2,323,058	8,597,368	6,078,132	-	-	-
15	6,792,573	2,204,815	8,997,388	6,346,300	-	-	-
16	7,328,250	2,092,590	9,420,840	6,626,298	-	-	-
17	7,882,726	1,986,077	9,868,803	6,918,651	-	-	-
18	8,457,435	1,884,986	10,342,420	7,223,901	-	-	-
19	9,053,859	1,789,040	10,842,899	7,542,620	-	-	-
20	9,683,726	1,697,978	11,381,703	7,875,400	1,808,325	1,697,978	3,506,303
			% Increase from Sale Price		36.17%	33.96%	70.13%
			% Increase from Final No CRT Amount		22.96%	21.56%	44.52%



HOW TO CONNECT WITH US

START THE
CONVERSATION



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