



A TAX PLANNING GUIDE

for
High-Net-Worth Retirees





TAX PLANNING IS AN ESSENTIAL ASPECT OF FINANCIAL MANAGEMENT

Especially for individuals who have accumulated substantial wealth over their lifetime. High-net-worth (HNW) retirees, in particular, need to pay special attention to their tax planning strategies. Planning for taxes can help them address retirement income and leave a significant legacy for their descendants with decreased concern for tax consequences.

1 ROTH IRA CONVERSIONS

2 TAX EFFICIENT STRATEGIES

3 ESTATE PLANNING & TRUSTS

4 CHARITABLE GIVING

MANAGING TAX LIABILITY

The substantial assets of HNW retirees often mean they bear a heavier tax burden than average retirees. The key to managing their tax liability lies in creating a plan for taxes, utilizing various tax-efficient strategies, and remaining agile in response to changes in tax laws. This tax planning guide provides insights on four areas of tax planning for HNW retirees: Roth IRA conversions, tax-efficient strategies, estate planning and trusts, and charitable giving.



1 ROTH IRA CONVERSIONS

A Roth IRA allows for tax-free growth and distribution, affording retirees a tax-advantageous means of growing and accessing retirement funds. However, pre-tax assets may be converted into a Roth using a Roth conversion, which triggers a tax payable event.

High-Net-Worth retirees may find performing a conversion during lower-income years or market downturns beneficial to help mitigate their tax impact.

ROTH CONVERSIONS ARE AN IMPORTANT CONSIDERATION IN A TAX PLANNING STRATEGY.

WHAT TO KNOW ABOUT ROTH IRA CONVERSIONS:

- A Roth provides the flexibility to withdraw money when needed.
- There is no Required Minimum Distribution (RMD)
- A Roth IRA conversion as part of estate planning may help lessen the impact of estate taxes on an estate.
- You will have to pay taxes on the amount converted into the Roth IRA
- Your adjusted gross income (AGI) may increase



2 TAX EFFICIENT STRATEGIES

Investing for tax efficiency typically involves structuring your investment portfolio to take advantage of long-term capital gains tax rates, often lower than ordinary income tax rates. For example, investing in tax-efficient assets such as index funds, exchange-traded funds (ETFs), or tax-managed funds, which are designed to mitigate the investor's tax liability because they trigger fewer capital gains.



UTILIZING TAX-EFFICIENT STRATEGIES IS CRUCIAL WHEN TAX PLANNING AND LOOKING AT YOUR FINANCIAL 'BIG PICTURE'

TAX EFFICIENT ASSETS INCLUDE:

- **Index funds, exchange-traded funds (ETFs), or tax-managed funds**, which are designed to mitigate the investor's tax liability because they trigger fewer capital gains.
- **Municipal bonds**, the interest income isn't taxed at the federal level and may be tax-exempt at the state and local level.
- **Treasury bonds and Series I bonds**, both of which are tax-exempt from state and local taxes.





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ESTATE PLANNING & TRUSTS



HIGH-NET-WORTH RETIREES MUST UNDERSTAND THAT INHERITANCE REGULATIONS CAN DIFFER SIGNIFICANTLY FROM STATE TO STATE WITHIN THE UNITED STATES

Because estate laws vary from state to state, HNW retirees must work with financial, legal, and tax professionals to help navigate these complex laws. Knowing these laws and preparing your estate to address them may help align the distribution of your estate with your wishes while preserving your legacy.

Trusts, such as bypass or dynasty trusts, may be suitable tools for managing estate tax liability and preserving wealth for future generations. Various types of trusts may be appropriate depending on the needs of the benefactor, heirs, and goals of the trust.

NOT ALL STATES IN THE U.S. IMPOSE AN ESTATE TAX; SOME HAVE NO ESTATE TAXES, WHILE OTHERS MAY LEVY A TAX OF UP TO 20% OF THE ESTATE'S VALUE.

STATES LIKE NEW YORK, MASSACHUSETTS, AND OREGON IMPOSE ESTATE TAXES, WHILE OTHERS LIKE FLORIDA AND NEVADA DON'T.



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ESTATE PLANNING & TRUSTS



HIGH-NET-WORTH RETIREES MUST WORK WITH LEGAL, TAX, AND FINANCIAL PROFESSIONALS TO HELP THEM BETTER UNDERSTAND WHICH TYPE OF TRUST IS APPROPRIATE FOR THEIR SITUATION.

TRUSTS OFTEN USED IN ESTATE PLANNING DUE TO TAX BENEFITS:

- **Irrevocable trust** – the assets move out of your estate, and the trust pays its income tax and files a separate return. Irrevocable trusts may provide HNW retirees and heirs protection from creditors and estate taxes. There are two types of irrevocable trusts:
 - **Living trust**– is originated and funded by an individual during their lifetime
 - **A testamentary trust**– is irrevocable by design because it is created after the death of its creator and is funded from the deceased's estate according to the terms of its will.
- **Charitable remainder trust** – a charitable remainder trust can provide an income stream for the donor while passing the remainder to charity, effectively reducing the estate tax liability.



4 CHARITABLE GIVING

CHARITABLE DONATIONS NOT ONLY SUPPORT WORTHY CAUSES BUT MAY PROVIDE SUBSTANTIAL TAX BENEFITS FOR HIGH-NET-WORTH RETIREES.



TYPES OF TAX-EFFICIENT STRATEGIES OF CHARITABLE GIVING:

- Qualified Charitable Distributions (QCDs)
- Donor-Advised Fund (DAF)
- Establish a foundation

Qualified Charitable Distributions (QCDs) – for HNW retirees who must take an annual Required Minimum Distribution (RMD), a QCD can transfer a portion or all of their RMD directly from their IRA to a qualified charitable organization.

Donor-Advised Fund (DAF) – a Donor-Advised Fund is a philanthropic vehicle that provides an immediate tax benefit to the donor. DAFs allow donors to decide where their funds may make the most impact.

Establish a Foundation – a private foundation allows HNW retirees control over funding by directing funds towards targeted purposes over an extended period, ensuring one's financial contributions provide a sustained effect.

WE RECOMMEND WORKING WITH TAX, LEGAL, AND FINANCIAL PROFESSIONALS WHO UNDERSTAND THE COMPLEXITIES OF CHARITABLE GIVING AS A TAX PLANNING STRATEGY AND THE LATEST TAX LAWS AND REGULATIONS



Important Disclosures

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial professional prior to investing.

This information is not intended to be a substitute for specific individualized tax advice. We suggest that you discuss your specific tax issues with a qualified tax advisor.

Traditional IRA account owners should consider the tax ramifications, age and income restrictions in regards to executing a conversion from a Traditional IRA to a Roth IRA.

Although exchange traded funds are designed to provide investment results that generally correspond to the price and yield performance of their respective underlying indexes, the trusts may not be able to exactly replicate the performance of the indexes because of trust expenses and other factors.

Municipal bonds are subject to availability and change in price. They are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise. Interest income may be subject to the alternative minimum tax. Municipal bonds are federally tax-free but other state and local taxes may apply. If sold prior to maturity, capital gains tax could apply.

Government bonds and Treasury bills are guaranteed by the US government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value.

Series I bonds are guaranteed by the US government as to the timely payment of principal and interest and offer a fixed rate of return and fixed principal value. Minimum term of ownership applies. Early redemption penalties may apply.

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