



# 2022 Year End Planning Guide



Financial Planning for Medical Professionals



# YEAR END PLANNING

The holiday season is upon us which means the calendar will soon read "2023". There is no better time to look back at the financial decisions you made during 2022 and to map out the direction of your financial future in 2023 and beyond.

At Capstone Financial we believe that each person's plan is unique to them. We hope that the information on the following pages will give you not only valuable information but will trigger a few thoughts as to how you want your financial future to look. Please do not hesitate to contact your Capstone Financial Professional with any questions or thoughts.

We wish you and yours a wonderful end to 2022 and a healthy, happy 2023 and beyond.

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## 2023 Important Qualified Plan and IRA Numbers

The 2022 and 2023 inflation-adjusted numbers for qualified plans and Individual Retirement Accounts (IRAs) are shown below.

### QUALIFIED PLAN BENEFIT, CONTRIBUTION, AND COMPENSATION LIMITS

Type of Limit	2023	2022
Defined benefit plan maximum annual benefit	\$265,000	\$245,000
Maximum annual addition to defined contribution plans	\$66,000	\$61,000
Covered compensation limit	\$330,000	\$305,000
Minimum compensation amount for SEP plan participation	\$750	\$650
Compensation level for highly compensated employees (HCEs other than 5% owners)	\$150,000	\$135,000
Compensation level for key employees other than 5% owners	\$215,000 (Officers) \$150,000* (1% Owner)	\$200,000 (Officers) \$150,000* (1% Owner)

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## 2023 Important Gift, Estate, and Generation-Skipping Transfer Tax Numbers

The 2022 and 2023 inflation-adjusted numbers for gift, estate, and generation-skipping transfer tax limits are shown below.

	2023	2022
Annual gift exclusion per recipient	\$17,000	\$16,000
Gift, estate, and generation-skipping transfer tax (GSTT) exemption amount — individual	\$12,920,000	\$12,060,000
Gift, estate, and generation-skipping transfer tax (GSTT) exemption amount — married couple	\$25,840,000	\$24,120,000
Noncitizen spouse annual gift tax exclusion	\$ 175,000	\$ 164,000
Special use valuation: Maximum decrease in value of qualified property	\$ 1,310,000	\$ 1,230,000
Section 6166 election: Estate tax attributed to qualifying business interest qualifying for 2% interest rate	\$ 1,750,000	\$ 1,640,000

These increased exclusion amounts may help you with your planning needs. It should also be noted that there may be state estate or gift taxes associated with the use of these increased limits. Contact your financial professional for additional information regarding your situation.

# Give and You Shall Receive\*

## Charitable Giving

Giving by individuals totaled an estimated \$309.66 billion, rising 4.7% in 2019 (an increase of 2.8%, adjusted for inflation). Giving by individuals achieved the second-highest total dollar amount on record, adjusted for inflation, and was less than 70% of total giving for only the second time ever.<sup>1</sup> With planning, you can maximize your impact to your favorite charity.

1 Giving USA 2020: The Annual Report on Philanthropy for the Year 2019, a publication of Giving USA Foundation, 2020, researched and written by the Indiana University Lilly Family School of Philanthropy. Available online at [www.givingusa.org](http://www.givingusa.org).

## WHY WE GIVE

Everyone has their own motives for making charitable gifts. It could be generosity, religious belief, gratitude or to benefit your alma mater. Regardless of the cause, the true meaning of your gift is to make the lives of others better. Benefiting your favorite cause can offer more than just self-fulfillment and aid to others; by carefully crafting your charitable giving plan to include life insurance, you can protect those who depend on you and achieve your philanthropic goal.

## WHAT ARE MY OPTIONS?

You can use life insurance and annuities to shape your charitable gifts and to ensure your generosity does not have an adverse effect on your family's resources. By working with a Massachusetts Mutual Life Insurance Company (MassMutual) financial professional, you can develop and manage a plan to maximize your charitable gift while simultaneously providing advantages to you and your heirs. It starts by choosing a plan of charitable giving that best fits your vision and financial circumstances. There are many options when crafting a charitable giving plan, including the following:

1. Designate a charity as beneficiary of life insurance or annuities
2. Gift a life insurance policy to charity
3. Establish a charitable gift annuity
4. Establish a charitable remainder trust

### Designate a charitable beneficiary

A simple method of using life insurance or annuities for charitable giving is to designate a charity as the beneficiary of the life insurance policy or annuity contract. By naming the charity as beneficiary, you remain the contract owner with the ability to change the amount that is passed on to the charity at any time. Using this method, you also have access to any cash value<sup>2</sup> available. You will not receive an income tax deduction because you can still use the cash values and change the beneficiary arrangement. However, you can provide a potentially larger gift to charity by creating a legacy with the death benefit proceeds.

<sup>2</sup> Distributions under the policy (including cash dividends and partial/full surrenders) are not subject to taxation up to the amount paid into the policy (cost basis). If the policy is a Modified Endowment Contract, policy loans and/or distributions are taxable to the extent of gain and are subject to a 10% tax penalty. Access to cash values through borrowing or partial surrenders will reduce the policy's cash value and death benefit, increase the chance the policy will lapse, and may result in a tax liability if the policy terminates before the death of the insured.

## GIFT A LIFE INSURANCE POLICY TO CHARITY

You may have life insurance that is no longer needed for family protection. In this instance, you can benefit a charity by making a gift of the policy to that organization. Because the charity receives all of the policy rights, including rights to any cash value, you may receive a current income tax deduction equal to what you have put into the policy.

### Set up a Charitable Gift Annuity

Another option would be to purchase a charitable gift annuity (CGA). In a CGA, you provide cash or property to a charity in exchange for the charity's promise to pay you an annuity or fixed payment for life. To create a CGA, you should work with a charity that already has or is willing to set this type of program up. A CGA is easy to establish, however, you must give up ownership and control of your property. You may receive an income tax deduction equal to the value of the property gifted less the present value of your expected annuity stream.

Life insurance may also be purchased on your life to replace the loss of assets to charity. You may combine the life insurance with a wealth replacement trust (WRT), to achieve estate tax savings.

## Establish a Charitable Remainder Trust

You may wish to set up a charitable remainder trust (CRT) to provide an income stream to you or family members while ultimately benefiting a charity. After creating the CRT, property is gifted to the trust which may be sold without incurring an immediate capital gains tax. The trust will pay income to you or your beneficiaries for life or a specified term. The amount remaining in the trust at the end of that period is paid to the charity. The use of a charitable trust can provide a stream of income to you, similar to a CGA, and will ultimately serve to benefit the charity.

There are two forms of CRTs — annuity trusts and unitrusts. An annuity trust pays a fixed amount to you each year. A unitrust pays a fixed percentage of the value of the trust assets to you each year. The techniques summary chart offers more details on annuity trusts and unitrusts.

As with the CGA, a life insurance policy may also be purchased on your life, to replace the assets that are transferred to charity. You may combine the life insurance with a WRT, discussed in more detail below.

## CHARITABLE GIVING BEGINS WITH A PLAN

Deciding to make a difference through charitable giving is easy; determining a philanthropic plan that is best for you may not be. MassMutual has a network of financial professionals who can help you develop and choose a charitable giving plan that fits your situation and philanthropic goals. Our financial professionals are supported by a highly skilled and experienced team of estate and business planning professionals that are available for them to consult with on your case.

For more information on charitable giving, or any of MassMutual's suite of life insurance products and annuities, please contact your financial professional.

## IMPORTANT TAX FACTS ABOUT CHARITABLE GIVING

### **The charity must be "qualified"**

For tax purposes, your donation must be to a public or private organization that meets the Internal Revenue Code requirements for qualified charities. If your donation is not to a qualified charity, you may not take a tax deduction.

### **The gift must be cash or property**

Only gifts of money or property are deductible. Examples of property include stocks, bonds, mutual funds, real estate and life insurance policies. The value of your personal services and time volunteered to the charity is not tax-deductible.

### **The gift may be exempt from federal gift taxes**

In most cases there are no federal gift taxes due on donations to a qualified charity. Also, gifts to such charities may reduce your federal estate taxes. There is no limit on the amount of the gift or estate tax charitable deduction.

### **The charitable organization pays no taxes on the gift**

In most situations, charitable organizations pay no income tax on the earnings of donated property or the receipt of a lifetime gift or bequests.

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# Estate Planning- A way to help keep the promises you made

We all make promises.

We promise to keep our families safe and secure even after we're gone. We promise to give our children all the benefits of our own success. We promise ourselves that their future will be free from financial worries.

In essence, estate planning can be the single best way to make certain the promises you make are promises you keep.

## A Sound Estate Plan

We all have goals we want to meet during our lifetime. The education of our children, a comfortable and financially secure retirement, and perhaps a new home or a second home.

The first step of estate planning is to help you plan for — and realize — these lifetime goals. It addresses your legal and financial concerns, taking into account your goals and tax considerations. It also takes advantage of existing laws and funding vehicles to help save on taxes and help manage your property in an efficient and profitable way during your lifetime.

Here are some of the more significant ways estate planning can help you make certain your family will get as much of your estate as is legally possible.

### Minimizes Estate Taxes

Depending upon your net worth, the federal government may levy a substantial tax against the value of your estate. In addition, some states impose their own separate tax at death on their residents and on non-residents who own property within the taxing state. Just as important, that tax is due and payable before any property can be transferred to your beneficiaries. With a well-conceived estate plan, some — or even all — of this tax may be avoided.

### Liquidity to Pay Estate Taxes

If your estate consists primarily of real estate, a business, or other non-liquid assets, your heirs could end up cash poor — and be forced to sell assets in order to pay taxes. Estate planning can help by reducing your estate tax liability. Additionally, an estate plan that includes life insurance can help address your estate liquidity needs.

### Protects Your Family's Income

How will the members of your family support themselves after you're gone? A sound estate plan, including life insurance for your beneficiaries' financial protection, can make certain they will be taken care of.

### Provides Professional Asset Management

An estate plan that includes the creation of a trust can be established to arrange for the professional management of your assets on your family's behalf.

### Controls Distribution of Your Estate

Will your assets be distributed the way you want them to? Your estate plan will help make sure your wishes are met.

## Forming an Estate Planning Team

Estate planning is a team effort. It involves the talents and efforts of a number of professionals — people you respect and trust.

### Financial Services Representative

As a result of the unique features and tax advantages of life insurance, your financial services representative is a key member of your estate planning team.

### Attorney

Your attorney will be responsible for making sure that your intentions are carried out in legally enforceable documents.

### Accountant

Your accountant may provide tax advice and will be most familiar with the extent and value of your assets.

### Bank Trust Officer

If you have chosen to use a corporate trustee, you will want to include the trust officer in your planning discussions.

Life insurance plays a critical role in estate planning. It provides cash to pay estate settlement expenses and taxes — and it provides the capital to meet the financial needs of your family. While it gives you the security of a death benefit, life insurance can also be used to help you accumulate savings to supplement your retirement income.

Life insurance coupled with an irrevocable life insurance trust can be even more advantageous for you, particularly if the joint assets of you and your spouse are worth more than two times the applicable exclusion amount. This is the usual cut-off point where your heirs can, through proper estate planning, receive your assets without paying federal estate taxes.

An irrevocable life insurance trust offers several unique advantages:

- The proceeds of the life insurance policy can be insulated from estate taxes.
- Life insurance proceeds can pass income tax free to your beneficiaries.
- The premium may be gifted to the trust and thereby reduce the remaining taxable estate.

Since life insurance is such a vital part of your estate planning needs, you should make sure you work with a company that is among the leaders in the industry, such as Massachusetts Mutual Life Insurance Company (MassMutual). Furthermore, MassMutual's financial professionals can work with the advanced sales team on complex case designs.

# The Current Tax Environment

The size of your estate will determine the extent of your need to plan for the future payment of estate taxes. This piece is intended to examine the federal estate tax rules. It is possible, depending upon state residency at death and where you own property, that an estate exempt from federal estate tax could be subject to state inheritance or estate tax.

Because there is no tax on assets inherited by a surviving spouse, the estate tax exemption amount only works for assets that do not pass to a husband or wife. Therefore, many estate plans commonly transfer the maximum exemption amount in a "bypass" trust that benefits the children or family.

## Exemptions and Rates

Depending upon your net worth, the federal government may levy a substantial tax against the value of your estate. In addition, some states impose their own separate tax at death on their residents and on non-residents who own property within the taxing state. Just as important, that tax is due and payable before any property can be transferred to your beneficiaries. With a well-conceived estate plan, some — or even all — of this tax may be avoided.

## "Portability" of any Unused Estate Tax Exemption

The Deceased Spousal Unused Exclusion Amount (DSUEA) is known as portability. It is the ability for the executor of the deceased spouse's estate to elect, on a timely filed Federal Estate Tax Return (Form 706), that any unused exemption be "ported" over to the surviving spouse.

In the past, trusts — often referred to as bypass trusts or credit shelter trusts — were established to utilize the estate tax exemption of the first spouse of a married couple to die. Assets transferred to these trusts at the death of the first spouse "bypassed" or were "sheltered" from estate taxation at the death of the second spouse.

While this new provision has the potential to help simplify estate tax planning for married couples, it should be noted that there are benefits to using a bypass or credit shelter trust that portability does not offer, including creditor protection and keeping the appreciation or increase in value of trust assets out of the second spouse's taxable estate.

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Calendar Year	Estate and GST Tax Deathtime Transfer Exemption	Highest Estate and Gift Tax Rates (GST Tax Rate)
2010	N/A (estate and GST tax repealed)	Gift tax remains, equal to top individual income tax rate of 35%
2011	\$ 5,000,000	35%
2012	\$ 5,120,000	35%
2013	\$ 5,250,000	40%
2014	\$ 5,340,000	40%
2015	\$ 5,430,000	40%
2016	\$ 5,450,000	40%
2017	\$ 5,490,000	40%
2018	\$11,180,000	40%
2019	\$11,400,000	40%
2020	\$11,580,000	40%
2021	\$11,700,000	40%
2022	\$12,060,000	40%

The Tax Cuts and Jobs Act of 2017 changed the estate, gift, and generation-skipping transfer exemption amount to \$10,000,000, as indexed for inflation. Under this law, the exemption will revert back to the prior law for years after December 31, 2025. Please see IRS.gov for additional information.