Diversified Brokerage Services, Inc.

Year-End Planning Opportunities

As the calendar year draws to a close, individuals and businesses have a valuable opportunity to review their financial positions and take strategic steps to minimize tax liabilities. By helping your clients assess their income, expenses, investments, and changes brought about by the recent legislation and rulings, you can help your clients make informed decisions that strengthen their financial outlook in the coming year. Whether your clients are seeking to improve cash flow or align their tax strategy with long-term goals, thoughtful year-end planning offers meaningful benefits. Advisors may want to consider the following as they meet with their clients:

Individual Planning Opportunities	Business Owner Planning Opporutnities
Clients with Inherited IRAs. If you have non-spousal beneficiaries who inherited IRA balances after January 1, 2020, the SECURE Act changed the required distribution rules, eliminating the ability to stretch distributions over the life of a designated beneficiary, to requiring the entire balance of an inherited IRA to be distributed to so called non-eligible designated beneficiary by the end of the 10th year following the original owner's death. The 10-year rule applies regardless of whether the participant dies before, on, or after the required beginning date (RBD). However, while beneficiaries of participants who died before their RBD can delay taking a distribution, beneficiaries of participants who died after their RBD must take annual distributions. Furthermore, following confusion over the changes made by the SECURE Act, the IRS announced that it wouldn't treat a beneficiary of an inherited IRA who failed to take an RMD for 2021 through 2024 as having failed to take the correct RMD. However, starting in 2025 beneficiaries of inherited IRAs must take distributions. Reminding your clients who are beneficiaries of inherited IRAs that they must begin taking distributions this year may lead to a conversation on how they could leverage the after-tax distributions to satisfy other financial goals.	**Businesses with Business Owned Life Insurance:** If you have business clients with business-owned life insurance, you should be reviewing their buy-sell arrangements to determine if your clients will be negatively impacted by the 2024 Supreme Court decision Connelly vs. United States. In Connelly, the court included the life insurance death proceeds received by the business in the business value, thereby increasing the company value for estate tax purposes. The Connelly decision especially impacts business owners who reside in the 16 states and District of Columbia with state estate/inheritance taxes. In addition to the negative estate tax impact of the Connelly decision, a year-end review of business-owned life insurance can help identify any potential IRC §101J income tax issues. IRC §101 provides that the death proceeds on employer-owned life insurance contracts issued after August 17, 2006, are subject to income tax where proper notice, consent, and documentation requirements have not been met. Bringing the Connelly decision and IRC §101J requirements to the attention of a business owner may present you with an opportunity to help your clients steer the complex landscape of estate and business succession planning.

DBS Diversified Brokerage Services, Inc.

High Income Clients Over 50 Making Pre-Tax Catch-Up Contributions to Qualified Plans:

Under SECURE 2.0 Act, beginning in 2026, clients who are 50 or older whose prior wages exceed $145,000 (indexed for inflation) must make catch-up contributions to 401(k), 403(b), or 457(b) on a Roth (after-tax) basis. In other words, the extra amounts can no longer go into a traditional pre-tax bucket. For someone used to reducing taxable income today by making pre-tax catch-up retirement contributions, this is a notable shift.

Consequently, you may have high-income earner clients they may be looking for other ways to defer tax. Also, the amount they may be able to save in company plans may not be adequate to meet their retirement needs. Clients who have maximized their work saving opportunities yet still have assets they want to save for retirement may be interested in other tax-deferred opportunities.

This may lead to a conversation concerning establishing a deferred compensation/SERP arrangement through their employer or how a heavily funded personal permanent life insurance policy can be used to help protect the family in the event of a premature death, while the cash value can be access on a tax-favored basis for supplemental retirement income.

Business Clients Looking to Use Business Dollars for Personal Benefit - Long-Term Care Coverage:

Do you have business owner clients who are looking for tax-efficient ways to use business income for their personal benefit? As owners get closer to "slowing down", their concern about healthcare costs are likely to increase. This can lead to a conversation concerning how the business can pay for a personally owned hybrid life/long-term care policy on a tax-deductible basis to help cover the cost of long-term care.

Today, a few insurance carriers have hybrid products where the long-term care portion of the premium is not charged against the cash value of the policy. For these products, the long-term care portion of the premium paid by the business on a personally owned policy insuring an employee or spouse can be tax-favored.

High-Net-Worth Clients.

If you have high net worth clients, they may be taking advantage of annual exclusion gifts. If they plan to use the $19,000 annual exclusion available for 2025, they have until the end of the year to complete the gift. Gifts made by check must be deposited before year-end to qualify for 2025, annual exclusion. If they have pending life insurance purchases, they should be completed before the end of the year if policy funding involves annual exclusion gifts to an irrevocable trust.

If your high-net-worth clients have large qualified plan balances and are charitably inclined and are over age 70 ½ they may want to explore how qualified charitable distributions (QCDs) can reduce taxable income. For individuals over age 73, QCDs also count towards satisfying annual required distributions. The amount that can be qualified for a charitable deduction is in addition to the new above-the-line charitable deduction of $1,000 for single filers or $2,000 for joint filers for 2026.

Business Owners:

Many business are structured as partnerships, LLCs, S-corporations or sole proprietorships where the owners are currently deducting up to 20 percent of their qualified business income as permitted under IRC §199A. Advisors should be working with tax advisors of pass-through business owners to make sure they are maximizing the 199A deduction within the phase-in ranges.

In addition, all business owners should re-examine their succession/exit plans in light of the enhanced Qualified Small Business Stock (QSBS) exclusion and permanent higher estate/gift exemption.

Taxpayers with estates exceeding the $15 million exemption amount ($30M for a couple) may be open to talking about strategies for transferring wealth tax-efficiently. The irrevocable life insurance trust funded with a second-to-die policy is one of the most frequently used estate planning strategies. Business owners may be interested in premium strategies that can use business dollars to avoid or minimize the use of their gift exemption.

www.dbs-lifemark.com

5501 Excelsior Boulevard | Minneapolis, MN 55416