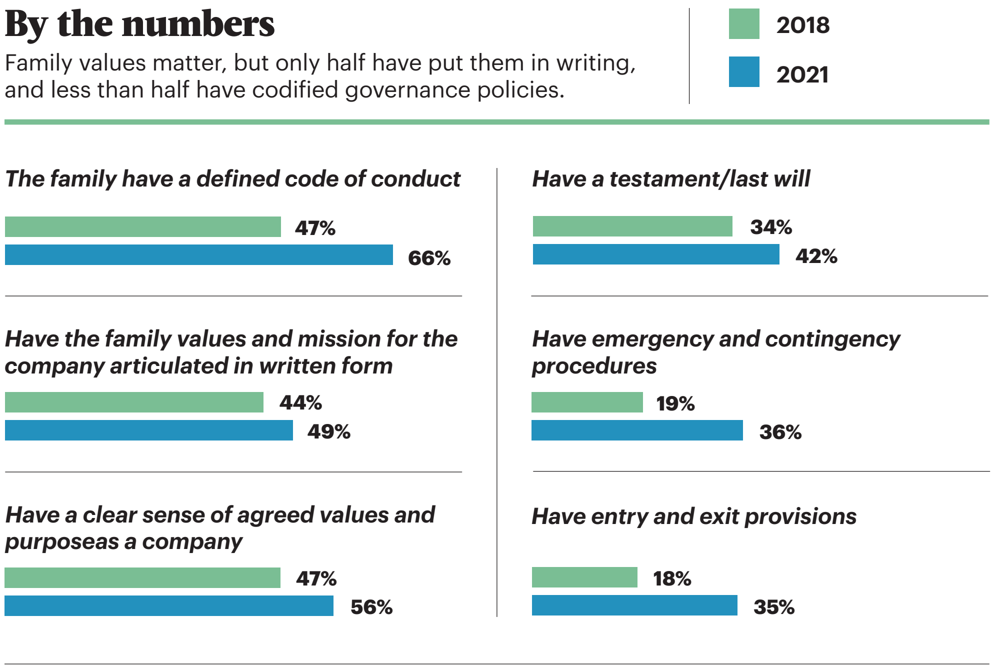

was equal in value but was not necessarily fair to all parties long-term.

The family could have easily achieved their goals by using life insurance as a planning tool. Cash provided upon death can equalize inheritances. In addition, life insurance is often used to pay estate taxes instead of having to sell a business to come up with cash.

▲ SOURCE: PWC FAMILY BUSINESS SURVEY 2021

Start Now. Speak Often.
A recent study by the Conway Center for Family Business shows nearly 70% of owners want to pass their family business to the next generation. However, only 30% succeed. Perhaps it's because only 30% of companies have a plan in place, according to a 2021 study by PwC.

It takes roughly five to seven years to build and implement a transition plan. A longer planning horizon allows time to better prepare the next-generation leader, build a management team and retain customers who will get to know new leadership.

It's also important to give yourself time to factor in:

Family Interest: The human element of planning is complex and emotional in any transition. Be honest about your family member's qualifications and realistic about how long it will take to develop them. Consider holding family meetings to discuss critical questions, including who does or does not want to run the business.

Business Health: The end goal is to pass on a thriving business. What's needed to prepare the balance sheet and profit and loss statement? Have you accumulated enough cash? Have you cut expenses? Who else needs to be hired or fired? Answers to these questions could take years to answer and implement.

No Two Plans are Alike.
Families are all different, and so are their plans. Your advisers will help you build an integrated plan and adjust it often. Commonly, the first attempt to develop a successor doesn't work. Don't get discouraged. Starting early benefits all involved.

Keeping the family business in the family with a smooth and equitable transition is possible, even with complex family dynamics, economic fluctuations and ever-changing tax laws. Start with plenty of time, communicate openly and often and leverage your team of advisers to integrate your personal, business and estate plans. You'll be confident that when you pass the baton, you're leaving your legacy the way you planned it.

State of aging and long-term care in Washington

Financially preparing for your own or a loved one's long-term care event has touched most of us. According to the U.S. Census Bureau, every day until 2030, 10,000 baby boomers will turn 65 years old. Regardless of age, many have contributed either financially or physically to the care of parents or grandparents. Others have added long-term care (LTC) insurance as a cornerstone of their retirement protection. Most recently, for those who live and work in Washington state, we, with little exception, are now participants in a fledgling LTC program sponsored by the state.

Connie Carroll, principal with Pillar International Insurance Advisors in Seattle

Karen Dacek, principal with Pillar International Insurance Advisors in Seattle

But first, what is LTC? It's the care you may need if you are unable to perform daily activities on your own. That means things like eating, bathing, dressing, transferring and using the bathroom along with nonmedical or custodial care. The goal of LTC is to help you maintain your lifestyle as you age. Medicare, Medicare supplement insurance, and the health insurance you may have at work rarely pay for LTC.

Washington gets into the LTC game

In 2019 the Washington "Trust Act" was quietly passed, later establishing the WA Cares Fund. The program would be funded by a $.58 per $100 of earnings payroll tax, with no cap. The Act included an exemption for sole proprietors or individuals who owned private LTC insurance dated prior to the effective date of the Act.

In early 2021, state lawmakers opened a small window for individuals to

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obtain private insurance to avoid the tax and individualize their own plans. The spring and summer of 2021 brought an avalanche of applicants for LTC policies – plans that typically take months to underwrite. National insurance carriers were paralyzed by the onslaught of business, and many bowed out from taking new applications from Washingtonians in the summer of 2022.

If you obtained a policy by Nov. 1, 2021, you did the hard part. The state's exemption process only required a couple of clicks in your Secure Access Washington account attesting to the fact that you had obtained the appropriate LTC product. Applicants were given until Dec. 31, 2022, to opt out. Despite many rumors, the law is still active and the first payroll deduction was delayed from January 2023 to July 2023.

After the WA Cares Fund was established, the Legislature created the Long-Term Services and Supports Trust Commission, consisting of legislators, administering agencies and stakeholder representatives. The Trust Commission's purpose is to develop recommendations to update and improve the WA Cares Fund, including a potential recertification requirement for individuals who received an exemption due to private coverage. The WA Cares Fund oversight body uses a risk management framework that requires the Office of the State Actuary and the Trust Commission to continuously monitor the program's finances.

What now?

Employers are now required to obtain a copy of an employee's opt-out letter or apply a payroll tax beginning July 1, 2023. Starting in July 2026, Washingtonians who have paid into the WA Cares Fund may begin accessing the limited benefit if they are certified with qualifying conditions.

In an updated study by actuarial research firm Milliman, findings show the fund will be fully funded through June 30, 2098, under most scenarios evaluated. The program's current premium rate, 0.58% of earnings, is projected to keep the fund fully solvent for 75 years, the full period evaluated in the report. Of course, projections will vary.

With the growing numbers of Americans over age 65 and the rising cost of LTC, challenges continue for businesses, families and individuals nationwide. According to the U.S. Department of Health and Human Services, seven out of 10 people will require LTC in their lifetimes so addressing this need is essential.

Following in Washington's footsteps, more than 15 state legislatures are exploring options for state-financed LTC plans. Businesses may want to incorporate voluntary programs to provide access to LTC benefits or as a retention strategy for valuable employees.

Using a charitable remainder trust to sell a business

For Washington business owners looking to sell, the possibility of paying an additional 7% capital gains tax is concerning. For owners that sold in 2022, their payments are due on April 18, while the Washington state Supreme Court considers the constitutionality of the new tax.

The 7% Washington tax is in addition to the federal capital gains tax of 20% and net investment income tax of 3.8%. The total tax a Washington business owner could owe could easily be 30.8%.

One strategy to reduce the payment of tax is to use a charitable remainder trust. CRTs are irrevocable trusts that let a taxpayer donate assets to charity and draw annual income for life or for a specific time period.

Matt Wiese, chair, estate planning practice group, Carney Badley Spellman, PS

Using a CRT to sell a business means that before a sale, the owner transfers all or a portion of the equity interest (C corporation stock or LLC interests) or assets to an irrevocable trust with the right to receive a specified payout for lifetime or term of years. Because the CRT is the selling party and because the CRT is a charity for income tax purposes, there is no capital gains tax on the sale. In addition, the owner gets a charitable deduction based on the value of the company less the retained interest. After the sale, the proceeds remain in the CRT and are paid out annually to the owner for the specified term. At the end of the term, the remaining amount is paid to the charity or charities designated in the CRT. The charity can be the owner's private foundation or donor advised fund.

To illustrate this, consider the following comparison of a company worth $10 million. The original owner has zero tax basis in the company's stock and dies 20 years after the sale. Assume there is no

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> **_"With a CRT, the owner pays zero taxes at time of sale and at death and also receives a charitable tax deduction, although the payments to owner during the term are taxed as distributions of the trust's income and gains."_**

available exemption from estate tax.

The straight sale results in the owner netting $6,920,000 after payment of federal and Washington tax ($10 million less 30.8%). If the net sale proceeds grow at 8% a year while taking out 5% to spend, after 20 years the owner will have received $9,156,687 and have $12,139,254 left that will be subject to federal and Washington estate tax (combined rate of 52%). When you apply the estate tax hit at death, the owner's total benefit is $14,983,429 ($9,156,587 received during life plus $5,826,842 net amount left to family at death).

By using a CRT, the owner starts out with all $10 million of sale proceeds because the CRT pays no federal or Washington tax. The owner also gets an immediate tax deduction of $3,704,210 to use in the year the business was sold and carryover for another five years. The CRT then invests the $10 million that grows at 8%, while paying out to the owner 5% each year for 20 years. At the end of 20 years, the owner will have received $13,232,062 and the CRT will now own assets of $17,542,275, which will not be subject to estate tax because it all goes to the owner's charity.

The straight sale results in the owner receiving an overall benefit of $14,983,429 while the CRT results in the owner receiving a direct benefit of $14,743,379 (distributions of $13,232,062 plus dollar value of charitable deduction of $1,511,317 for owner in 37% tax bracket) and an indirect benefit to owner's charity of $17,542,275. Another way to look at it is through the amount of taxes paid. In the straight sale, the owner pays total income and estate taxes of $8.9 million. With a CRT, the owner pays zero taxes at time of sale and at death and also receives a charitable tax deduction, although the payments to owner during the term are taxed as distributions of the trust's income and gains. At end of the term, the owner's charity has assets of more than $17 million that can be used for any charitable purposes the owner favors.

For those who prefer charitable giving to paying taxes, using a CRT to sell a business may become more relevant, especially if the 7% Washington capital gains tax is ruled constitutional.

Roth 401(k) vs. Roth IRA: What's the difference?

While you may have heard of a Roth IRA, there is another option available in most 401(k) plans called a Roth 401(k). Roth accounts can be a great way to protect your future savings against tax rate increases and avoid a higher tax bracket in retirement. Both can also be good options for transferring wealth to your heirs.

If you are unfamiliar, Roth tax rules are the exact opposite of how traditional Individual Retirement Account (IRA) and tax-deferred 401(k) contributions work. Your tax-deferred contributions in IRAs and 401(k)s may reduce your current year's taxes, but may increase your taxes when funds are withdrawn in retirement.

With Roth, you use after-tax money to contribute, and then pay no taxes when funds are withdrawn in retirement, including all the earnings that have accumulated over time. Some call this retiring tax-free. Another benefit of Roth accounts is that they are not subject to required minimum distributions (RMDs), unlike traditional retirement accounts.

Advantages of a Roth 401(k) are significant

A Roth 401(k) has distinct advantages over a Roth IRA. First, you can contribute a lot more to a Roth 401(k). As of 2023, you can put up to $22,500 in a Roth 401(k), but only $6,500 in a Roth IRA. If you are age 50 or older, you can put up to $30,000 in a Roth 401(k) versus $7,500 in a Roth IRA. Second, there is no income restriction for contributing to a Roth 401(k), unlike a Roth IRA (see comparison chart).

Roths compared

ROTH 401(K)

2023 contribution limit: $22,500

Age 50+ catch-up limit: $6,500

Roth income limit: none

ROTH IRA

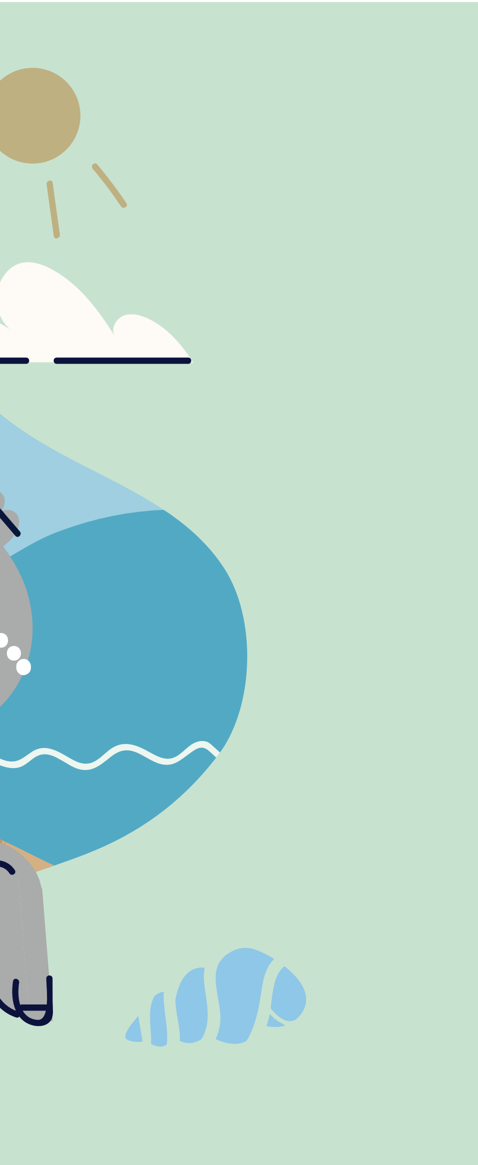
2023 contribution limit: $6,500

Age 50+ catch-up limit: $1,000

Roth income limit: $138,000*

*Beginning at $138,000, the amount you are allowed to contribute to a Roth IRA begins to decrease, hitting $0 at $153,000 for single filers. Limits for couples filing jointly ranges from $218,000 to $228,000).

SOURCE: IRS



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Stuart Robertson is chairman and CEO of ShareBuilder 401k.

Tax hedging your nest egg

It's anyone's guess what tax rates will be 10 to 20 years from now, let alone which tax bracket you will be in. Many believe tax rates are likely headed up.

If you are in the early or middle stages of your career, it's likely you'll graduate to higher tax rates by the time you retire.

A smart strategy can be to divide your contributions between tax-deferred and after-tax accounts. This allows you to hedge your savings, create more flexibility with your money, and gain more control over your taxes in retirement.

After you have retired, you can take money out of your Roth during years when you need to spend more and can avoid jumping to a higher tax bracket. During years when your spending needs are lower, you can opt to rely on distributions from your traditional 401(k).

Avoid estate taxes

Roth accounts are one of the most effective tools to minimize your heirs' tax bills.

As mentioned, Roth accounts are not subject to RMDs, so you can let your money continue to grow tax-free. It's typically best to roll your Roth 401(k) balances into a Roth IRA in retirement to ease management of transferring monies.

Maybe even more beneficial, your Roth account will not be included in your estate probate process if you have a properly designated beneficiary. The entire amount saved in your Roth funds, including earnings, can all transfer directly to your beneficiary.

Designated beneficiaries do not need to be mentioned in your will, as the designation to transfer takes precedence over anything stated in your will.

These two benefits make Roth IRAs a great vehicle for transferring wealth.

If your spouse inherits your Roth IRA, he or she can become the account holder without changes. This is known as a spousal transfer. No taxes will be owed on account withdrawals and no RMD is required.

If your spouse transfers these assets to an inherited Roth IRA in their own name, they can spread it out over their life expectancy or choose to just do withdrawals over five years. These monies remain tax-free.

If you have non-spousal heirs, the rules are a little different.

These heirs must withdraw money from the Roth account over a 10-year period. The withdrawals will be tax-free and there is no set RMD in a single year, but all must be withdrawn by year 10. Exempt non-spousal heirs include minors and those with disabilities. Discuss this with your tax adviser.

As you can see, Roth accounts can be a powerful tool for tax management and estate planning.

What to know about Washington's estate tax

Just like in years past, 2023 brings changes to taxes on high net worth estates. This is especially important in Washington state, one of only 17 states with a state estate or inheritance tax, and in the Puget Sound area, where many individuals have accumulated wealth through high-paying jobs and appreciation of the real estate they own.

Sherry Bosse Lueders is an of counsel attorney with the law firm Stacey L. Romberg, Attorney at Law

Washington state estate tax basics

Washington has an estate tax that is imposed on the value of an individual's estate based on the language in state law RCW 83.100. Gifts to charitable organizations reduce the value of an individual's Washington taxable estate. Additionally, because Washington does not have a gift tax, lifetime gifts to individuals are not included in calculating the value of an estate for Washington estate tax purposes.

The Washington estate tax applies to the estates of Washington residents at the time of death and to the estates of individuals who are not Washington residents but who own property in Washington. For nonresidents and Washington residents who own property outside the state, state law offers a formula to calculate the amount of Washington estate tax owed.

The estates of Washington residents and nonresidents who owe estate tax will pay 10 percent to 20 percent, depending on the value of their taxable estate. The estate taxes collected by the Washington Department of Revenue are designated for education and directed to the state's Education Legacy Trust Fund, which is used to support common schools, expand access to higher education through funding for new enrollments and financial aid, early learning and child care programs, and other educational improvement efforts.

The Washington state estate tax exclusion amount for 2023 remains at $2.193 million per individual, the same that it has been since 2018. The exclusion amount increased steadily each year between 2013 and 2018. Then, in 2018, these increases stopped.

Why is the Washington estate tax exclusion amount frozen?

The answer resides in the definitions found in the state law that define the "applicable exclusion amount" for Washington's estate tax to be adjusted annually based on the consumer price index. That all seems well and good. The problem is that the law (RCW 83.100.020(1)(b)) defines "consumer price index" as "the consumer price index for all urban consumers, all items, for the Seattle-Tacoma-Bremerton metropolitan area as calculated by the United States bureau of labor statistics."

In 2018, the U.S. Bureau of Labor Statistics eliminated the consumer price index for the Seattle-Tacoma-Bremerton area and instead shifted to calculating the consumer price index for the Seattle-Tacoma-Bellevue area.

The result is that the applicable exclusion amount for Washington taxable estates is frozen at $2.193 million, unless new legislation updates the state law. As of this writing, no such legislation has been enacted.

Washington residents with asset levels above the state estate tax exclusion amount should consult with an estate planning attorney regarding their estate tax planning options, which may include gifting, a testamentary trust funded on the death of a spouse, a combination of the two, or other options. In addition, it is important to regularly review any existing estate plan to account for changes in the law or one's personal situation.

For analysis of changes in federal estate tax law see ***Page 6***

How women can navigate the ‘Great Wealth Transfer’

BY SYMONE GRAHAM
The Charlotte Business Journal

What’s being called the “Great Wealth Transfer” is underway, and women may emerge as the biggest beneficiaries of the shift. Jennifer Green, PNC Private Bank’s Western Carolina managing director, said the bank is ready to prepare women for the change.

“It’s an opportunity for women who are, over time, now taking more control of their finances. Women are going to be able to make a real impact,” Green said. “And instead of waiting until, let’s say they pass away and they leave money to their children or to their school, etc., women now are taking charge of their philanthropy, in their purpose by making change in the community and finding something that they’re passionate about.”

By 2030, it’s estimated that about $30 trillion in wealth is set to change hands nationwide as baby boomers pass their assets to the next generation. According to research by McKinsey & Co. published in 2020, women are set to inherit more than two-thirds of the share.

How women can navigate the ‘Great Wealth Transfer’

Women are now more likely to be family breadwinners, which means they have greater wealth to invest, Green said. An analysis released by the Center for American Progress in 2019 revealed that about 64% of mothers were primary, sole or co-breadwinners for their family.

Yet, Green said, women are more cautious investors than men, who are typically more confident in their financial decisions and open to risky investments.

“They’re focused on life events,” she said. “Like, ‘I want to plan for my retirement. I want to plan for my health care, so I have enough to cover all the healthcare costs as I grow older.’ Women want a personal relationship with their financial advisers.”

Because women are more likely to seek guidance during the wealth transfer, Green said the best tips are for them to continue making money and to explore financial help while the economy is volatile.

“They’re reaching out to firms like ours to be a partner and to know them and to listen to them and help them through these really challenging times,” she added.

About 75% of relationship managers at PNC Private Bank are women, Green said. She said personally, she’s found a niche where she’s comfortable.

“I always felt that supporting women and empowering them, that always felt like the right thing to me,” Green said. “So it’s just one of my personal passions. I want to make a difference in people’s lives and this is a way that I feel like I can help other women.”

Pittsburgh-based PNC is one of the largest banks in the country. It’s looking to continue growing its presence in the Seattle area after establishing a foothold here in 2020 with corporate and institutional banking services. PNC Private Bank does not currently have offices in the Puget Sound region.

“You always want to find your niche, and obviously where you’re comfortable. And I always felt that supporting women and empowering them, that always felt like the right thing to me.”

JENNIFER GREEN,
PNC Private Bank’s Western Carolina regional managing director

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Estate Planning Essential Tips

1. Talk to your beneficiaries.
2. Be careful when titling joint property and accounts.
3. Revisit and confirm beneficiary designations on retirement accounts and life insurance policies.
4. Consider whether you want to make charitable gifts in your estate plan.
5. Make sure to sign all legal documents.

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