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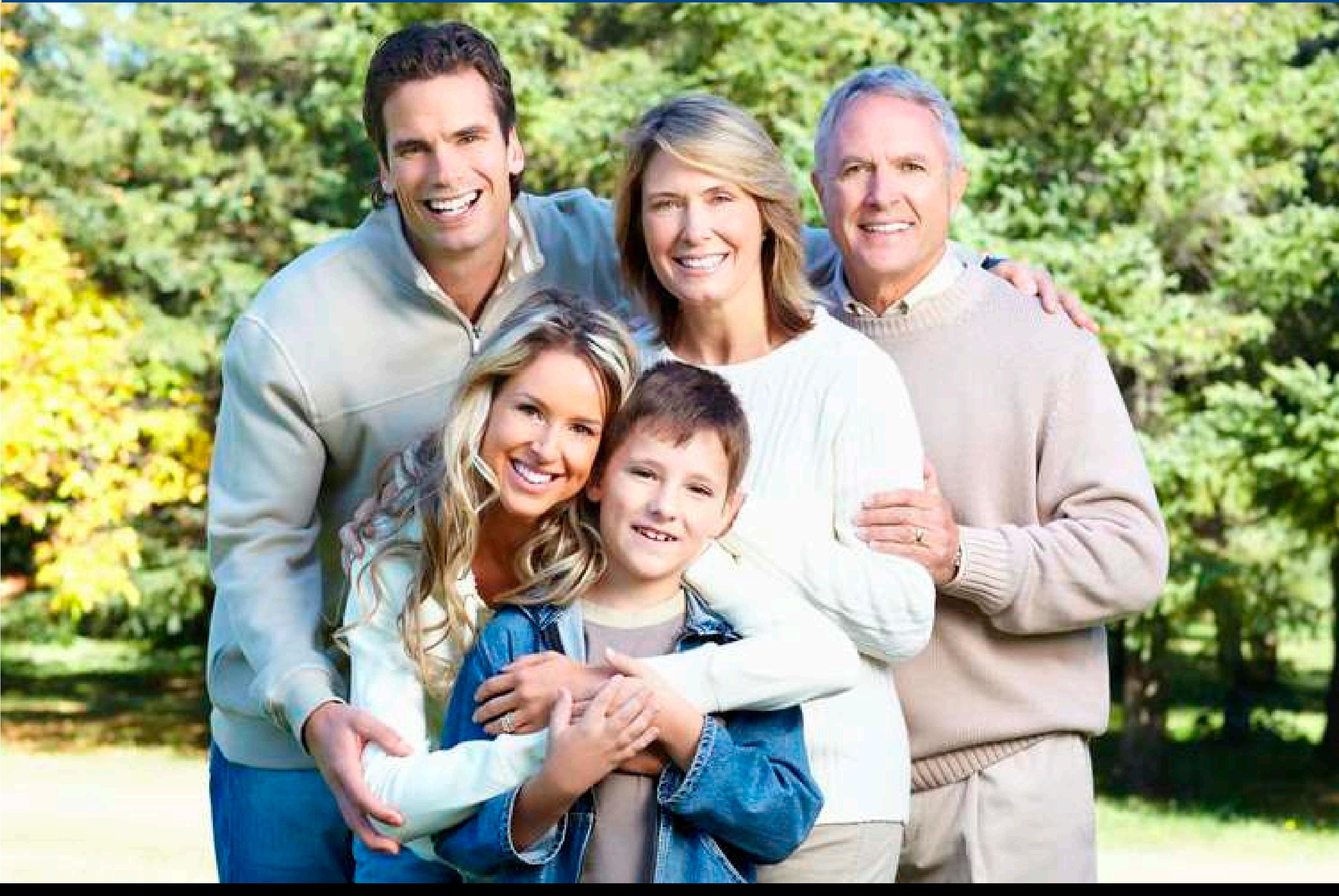
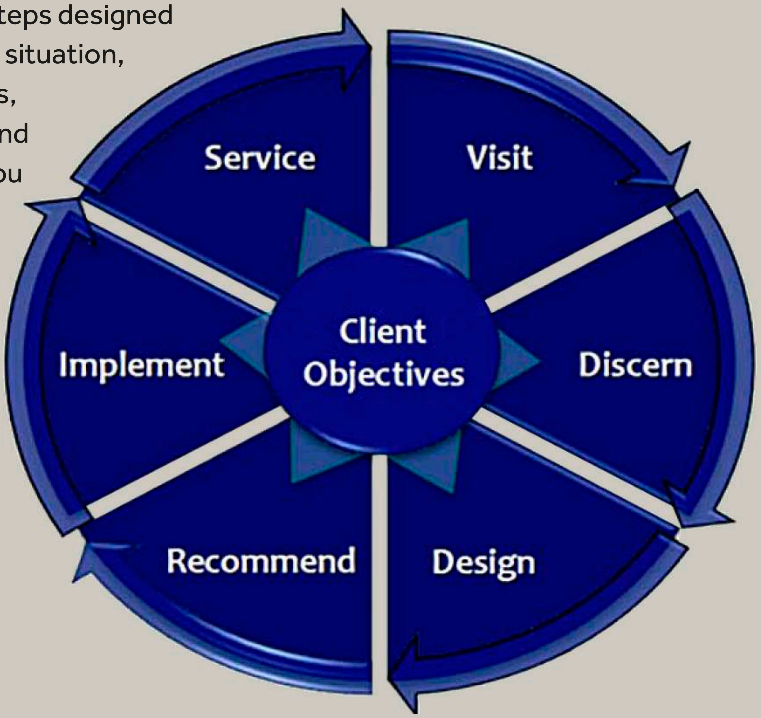


OUR PROCESS

We are different because we take the planning process beyond the numbers to focus on our clients' unique mission, values and goals. There are myriad things that keep them up at night; things like a desire for lifetime economic security, asset protection, transferring their core values to the next generation and more.

Our customized approach is comprised of six steps designed to collect information relevant to your financial situation, crystallizes your important goals and objectives, uncovers any gaps affecting these objectives and provides strategies that can be taken to help you reach your financial goals and help ensure you have created the legacy you envisioned.



Retirement Planning

Revised RMD tables enhance tax-deferral opportunities in retirement savings plans.

By Randolph Buchanan, JD, CPA, LL.M.

The release of the highly anticipated revised required minimum distribution (RMD) tables, combined with the recent passage of the original SECURE Act and the likely passage of "SECURE 2.0," has raised many questions on how the revised tables work in the context of the new retirement planning legislation. Understanding these changes can highlight new planning opportunities for additional tax deferral strategies.

RMD Age Limits May Increase to 75

Most taxpayers generally cannot keep funds in their individual retirement accounts indefinitely* and have to start taking RMDs from their IRAs or retirement plans when they reach age 70½ or 72. Under the SECURE Act passed in 2019, if an individual turned age 70½ before January 1, 2020, then his RMDs started immediately after turning that age; if the same individual turned age 70½ after December 31, 2019, then no withdrawals are required until he reaches age 72.

If a follow-up bill, the Securing a Strong Retirement Act of 2022 (nicknamed SECURE 2.0), is approved by Congress, the RMD age would gradually be increased to 75, providing individuals with several additional years of enhanced tax deferral on their retirement savings. SECURE 2.0 was approved by the US House of Representatives in early 2022 and is currently pending in the Senate.

New RMD Tables Factor Life Expectancy to 120

Adding to the opportunities for additional tax deferral on retirement savings, the IRS released revised RMD tables earlier this year. Among other things, these highly anticipated revised tables now reflect longer life expectancies and include life expectancy factors through age 120.

* Unless it is a Roth IRA which does not require withdrawals until after the death of the account holder.

The two most commonly used RMD tables are:

- The Uniform Lifetime Table, which is used by all single IRA owners calculating their own withdrawals and married IRA owners whose spouses are not more than 10 years younger and are not the sole beneficiaries of their IRAs; and
- The Single Life Expectancy Table, which is only used by non-spouse beneficiaries of the IRA owner.

If an individual does not fall within those two categories, then he or she would use the Joint Life Table, which should be used by IRA owners whose spouses are more than 10 years younger and are the IRA's sole beneficiaries. (Find current copies of all the RMD tables on www.IRS.gov.)

Calculating RMDs

Calculating required minimum distributions after an account owner dies depends on whether the beneficiary is designated or not. A designated beneficiary is one that is either named on the beneficiary form by the account owner or is named in the IRA or plan document.

Under the 2019 SECURE Act, a designated beneficiary may also be considered an "eligible designated beneficiary" which provides additional tax deferral opportunities. For individuals and employees with retirement accounts who die before January 1, 2020, designated beneficiaries of IRAs and retirement accounts calculate their RMDs using the Single Life Table, which provides a life expectancy factor based on the beneficiary's age. The beneficiary uses the life expectancy factor based on their age in the year after the IRA owner's death. The account balance is divided by the life expectancy factor to determine the first RMD. The life expectancy factor is then reduced by "1" to calculate the individual's RMDs for all subsequent

Single Life Expectancy Table

Age of IRA or Plan Beneficiary	Life Expectancy (in years)	Age of IRA or Plan Beneficiary	Life Expectancy (in years)	Age of IRA or Plan Beneficiary	Life Expectancy (in years)
0	84.6	40	45.7	80	11.2
1	83.7	41	44.8	81	10.5
2	82.8	42	43.8	82	9.9
3	81.8	43	42.9	83	9.3
4	80.8	44	41.9	84	8.7
5	79.8	45	41.0	85	8.1
6	78.8	46	40.0	86	7.6
7	77.9	47	39.0	87	7.1
8	76.9	48	38.1	88	6.6
9	75.9	49	37.1	89	6.1
10	74.9	50	36.2	90	5.7
11	73.9	51	35.3	91	5.3
12	72.9	52	34.3	92	4.9
13	71.9	53	33.4	93	4.6
14	70.9	54	32.5	94	4.3
15	69.9	55	31.6	95	4.0
16	69.0	56	30.6	96	3.7
17	68.0	57	29.8	97	3.4
18	67.0	58	28.9	98	3.2
19	66.0	59	28.0	99	3.0
20	65.0	60	27.1	100	2.8
21	64.1	61	26.2	101	2.6
22	63.1	62	25.4	102	2.5
23	62.1	63	24.5	103	2.3
24	61.1	64	23.7	104	2.2
25	60.2	65	22.9	105	2.1
26	59.2	66	22.0	106	2.1
27	58.2	67	21.2	107	2.1
28	57.3	68	20.4	108	2.0
29	56.3	69	19.6	109	2.0
30	55.3	70	18.8	110	2.0
31	54.4	71	18.0	111	2.0
32	53.4	72	17.2	112	2.0
33	52.5	73	16.4	113	1.9
34	51.5	74	15.6	114	1.9
35	50.5	75	14.8	115	1.8
36	49.6	76	14.1	116	1.8
37	48.6	77	13.3	117	1.6
38	47.7	78	12.6	118	1.4
39	46.7	79	11.9	119	1.1
				120+	1.0

tax years. Spousal beneficiaries who do not elect to roll over the IRA or treat it as their own also use the Single Life Table, but they can look up their age each year.

However, for individuals and employees with retirement accounts who die after December 31, 2019, the SECURE Act eliminated the ability of a designated beneficiary to stretch RMDs over the life expectancy of the beneficiary of an inherited IRA unless the beneficiary is considered an "Eligible Designated Beneficiary." Eligible designated beneficiaries include surviving spouses, disabled or chronically ill individuals, individuals that are less than 10 years younger than the IRA owner, and minor children of the IRA owner (but only until the minor child reaches the age of majority, at which point the ten-year rule becomes applicable). Moreover, certain trusts that are created for the exclusive benefit of disabled or chronically ill beneficiaries would also be included as an eligible designated beneficiary. And a surviving spouse beneficiary may delay the start of their distributions until the later of the year that the employee or IRA owner would have reached age 72 or the surviving spouse's required beginning date.

If there is an eligible designated beneficiary, the stretch rules are still applicable, which means that the life expectancy of the beneficiary of the inherited IRA may be used for purposes of calculating the beneficiary's RMD, which usually provides greater tax deferral opportunities. For all other beneficiaries, the ten-year rule is

EXAMPLE: *The daughter (age 46) of an IRA owner who died last year (age 77) is the sole designated beneficiary of an IRA with a value of $1,000,000. Since the daughter would be considered a non-spouse beneficiary, she would use the Single Life Table (as shown above) to calculate her RMD. According to the table, her life expectancy factor that will be used to calculate her initial RMD payout would be 40, so the IRA balance she inherited will be paid out or distributed to her over 40 years and will have a value of zero at the end of that period. However, under the pending new rules, she would no longer be considered an eligible designated beneficiary – which means she can no longer stretch her distributions over her life expectancy of 40 years. Rather, she must withdraw and pay taxes on the entire balance of $1,000,000 over 10 years, which dramatically decreases her opportunities for tax deferral related to these distributions ($100,000 vs $25,000).*

applicable, which means that the beneficiary must withdraw the entire account balance by December 31st of the year containing the tenth anniversary of the IRA owner's death.

The example above illustrates how the provisions of the pending SECURE 2.0 bill dramatically differ from the current rules under the 2019 act, affecting how quickly an individual would have to pay taxes on the distributions from an inherited IRA.

While the provisions of the SECURE Act would also apply to RMDs calculated using the Uniform Tables, such as single IRA owners trying to determine their own withdrawals, different rules would apply to the calculation of these individual's RMDs.

In Summary

The revised RMD tables combined with the bipartisan support of the pending bill that would expand the original SECURE Act's provisions designed to bolster retirement savings presents a timely reminder of the importance of conducting periodic reviews and making strategic updates to your estate plan. To explore these new planning opportunities for additional tax deferral and to determine which table is most applicable to your personal tax situation, talk with your financial professional or local tax counsel.

Randolph J. Buchanan, JD, CPA, LL.M., joined the Nautilus Group in 2021 as a case consultant. Prior to that, he worked in private practice drafting various estate planning and corporate formation documents. Randolph also has worked at the IRS Office of Chief Counsel, where he drafted numerous tax court litigation documents, and at two public accounting firms, where he assisted clients with various tax compliance issues. Randolph graduated cum laude with a BBA and a master's degree in professional accounting from the University of Texas at Austin. He earned his JD from Southern Methodist University and his LL.M. in taxation from New York University.

Business Planning

Business owners may be eligible for tax-free gains on the sale of qualifying small business stock under IRC §1202.

By Eva Stark, JD, LL.M.

Selling a small or closely held business can be a stressful endeavor and tax considerations are typically far from top of mind. However, Internal Revenue Code Section 1202, a potentially overlooked tax provision, may allow certain taxpayers who sell stock in a "qualifying small business" to exclude from taxation a percentage—50%, 75%, or even 100%—of the gains realized on the sale of stock issued after August 10, 1993. Therefore, it could be beneficial in many circumstances to structure affairs in a manner that ensures that requirements for this potentially advantageous, non-elective tax provision are met. The following explores some of the general issues to be considered.

Qualifying Small Business

The definition of a "qualifying small business" or "QSB" may be very different from what would generally be thought of as a "small business." A QSB is a domestic C corporation (or possibly an LLC taxed as a C corporation) whose aggregate gross assets do not exceed $50 million. Aggregate gross assets are cash and the aggregate adjusted bases of other property held by the corporation.

Potential Tax Benefit

Business owners are usually aware that the federal income tax rate on long-term capital gain is generally 20% (0% or 15% for more moderate-income taxpayers), and that these long-term capital gains are subject to an additional 3.8% tax on net investment income. Where §1202 fully excludes gains on the sale of QSB stock, these taxes would be eliminated.

If §1202 gain is only partially excludible (see table below), the portion of §1202 gain that is not excludible but for the percentage limitations is treated as 28% rate gain (a characterization also used for gain on collectibles), plus net investment income tax. The table below illustrates how triggering §1202 may result in significant tax savings, especially for taxpayers in the highest capital gains tax bracket.

Stock is issued	% Gain that may be excludible under §1202	Maximum Federal Rate Without §1202	Federal Rate with §1202	Explanation of Calculation of Tax Rate with §1202
On or before August 10, 1993	Not applicable	23.8%	Not applicable	Not applicable
After August 10, 1993, and on or before February 17, 2009	50%	23.8%	15.9%	50% x (28%+3.8)
After February 17, 2009, and on or before September 27, 2010	75%	23.8%	7.95%	25% x (28%+3.8%)
After September 27, 2010	100%	23.8%	0%	0%
Figures ignore any state, local, or alternative minimum tax considerations.				

Active Business

To qualify for the §1202 exclusion, the C corporation whose stock is sold must be an active business. While guidance is lacking regarding the definition of an active business, the code states that this requirement is met for any holding period if during such period at least 80% (by value) of the assets of the corporation are used by such corporation in the active conduct of one or more qualified trades or businesses.

Qualified Trade or Business

The C corporation also must be engaged in a "qualified trade or business." While the definition of qualified trade or business is murky, the code does provide a long list of trades or businesses that DO NOT qualify:

- Any trade or business that performs services in health, law, engineering, architecture, accounting, actuarial science, performing arts, consulting, athletics, financial services, brokerage services, or any other trade where the principal asset of the trade or business is the reputation or skill of its employees;
- Any banking, insurance, financing, leasing, investing, or similar business;
- Any farming business (including raising or harvesting trees);
- Any business involving production or extraction of products with respect to which a deduction under Section 613 or 613A is allowed (relating to depletion); or
- Any business operating a hotel, motel, restaurant, or similar business.

Disqualifying Redemptions

Certain redemptions of stock from the taxpayer or a related person, or significant corporate redemptions with respect to any shareholder, within relevant periods specified in §1202, may also disqualify stock from being QBS stock eligible for gain exclusion. A significant redemption is generally a redemption exceeding 5% of the aggregate value of the corporation's stock.

Non-corporate Shareholder

To take advantage of the §1202 exclusion upon the sale of QSB stock, the taxpayer must be a non-corporate shareholder, such as an individual, trust, or estate. Subject to additional requirements and limitations, certain pass-through entity shareholders, including S corporations and partnerships, may pass through the benefits of the §1202 gain exclusion to their respective owners who are otherwise eligible.

Original Issue Stock

Generally, the taxpayer must have acquired the stock at original issuance in exchange for money, property (not including stock), or compensation for services to the corporation. In some circumstances, where stock that meets the original issue requirement is transferred, the transferee will be treated as having acquired the stock in the same manner as the transferor, and this requirement will continue to be satisfied. Examples of these types of transfers include transfers by gift, transfers at death, certain types of transfers from a partnership to a partner, or certain conversions of stock in the corporation.

Five-Year Holding Period

The §1202 exclusion can apply to the sale or exchange of QSB stock held for more than five years. In some cases, a taxpayer may add or "tack" the holding period of the transferor from whom the taxpayer acquired the stock. Examples of circumstances where holding periods may tack include situations where stock is gifted, inherited, converted from other stock in the corporation, part of a tax-free exchange under Section 1045, and other circumstances.

Greater of $10 Million or 10x Basis Limitation

The amount of gain per C corporation shareholder that may be eligible for exclusion is limited. If a taxpayer has eligible gain, the amount of gain which may be taken into account may not exceed the greater of (i) $10 million or (ii) 10 times the aggregate adjusted bases of QSB stock issued by the corporation and disposed by the taxpayer during the taxable year (with adjusted basis determined without regard to any addition to basis after the date on which such stock was originally issued).

Calculating the amount of this limitation is a complex endeavor subject to many special—and often unexpected—rules. For example, where a taxpayer contributes property to a corporation in exchange for stock, the basis of such property for purposes of the 10 times basis limitation will generally be no less than the fair market value of the property exchanged for the stock when the stock was acquired. With advanced techniques, a shareholder may be able to capture greater tax savings than this limitation may seemingly impose at first look.

Conclusion

The recent reduction of the corporate tax rate from 35% to 21% made it relatively more attractive for businesses to operate as C corporations. As a result, the availability and use of IRC Section 1202 may become more prevalent in the future. It should be noted that the requirements of §1202 are nuanced and not as clear cut as the above discussion, or any other general educational discussion on the topic, may suggest.

Taxpayers should discuss with their tax and other professional advisors whether they might or might not benefit from triggering this often-overlooked tax provision, to help ensure their business affairs are structured with maximum tax benefits in mind.

Eva Stark, JD, LL.M., joined The Nautilus Group in 2014 to assist with the development of estate and business plans. She also performs advanced tax research. Eva graduated summa cum laude with a BS in economics and finance from The University of Texas at Dallas. She earned her JD, with honors, from Southern Methodist University, where she served as a student attorney and chief counsel at the SMU Federal Taxpayers Clinic. She received her LL.M. in taxation from Georgetown University Law Center. Prior to joining Nautilus, Eva worked in private practice in tax controversy, business law, and litigation.

Life Insurance Planning

Life insurance is a valuable generational wealth-transfer tool.

By R. Matthew Pate, JD, LL.M.

Many people may be familiar with the *rags-to-riches-to-rags* wealth phenomenon. The first generation builds it, the second manages it, and the third squanders it. Fear of this phenomenon motivates many families to develop a generational wealth plan that maximizes incentives for productivity and prudent stewardship of wealth. While today's wealthy seniors are likely to die with far more assets than they'll ever need, this inheritance may be a necessary source of income for their children and grandchildren, especially considering the ever-increasing costs of fundamental expenses like higher education, homeownership, and health care. Coupled with increased spending, decreased saving, and greater longevity, scant wealth may remain to leave a legacy for future generations.

Enter Life Insurance

Well-known as a tool for financial security and future income replacement, life insurance is often perceived as unnecessary once one's children are grown. For this reason, term insurance is frequently used by growing families to ensure that they don't suffer a catastrophic loss of income should a breadwinner die.

However, a wide variety of customizable permanent insurance products are often preferred because they provide both income replacement during one's working years (through a cash value that accumulates over time) and a means for guaranteeing long-term family wealth (through its potential for lifetime coverage).

You may consider using permanent life insurance for generational wealth planning for three primary benefits: leverage, guarantees, and simplicity.

Benefit 1: Leverage

With life insurance, you pay a premium in exchange for what will likely be larger payout in the event of death. This leverage of premium dollars is intended to provide a "positive return" on outlays for the benefit of designated beneficiaries.

The expected performance of a life insurance policy should be viewed in light of desired family wealth goals and can be a complement to other investments in a financial portfolio. Fees, taxes, and risks associated with any financial products should of course always be considered.

EXAMPLE: *Brian and Sofia have saved $2 million to provide them with income in retirement. They are comfortably budgeted but concerned about preserving a meaningful portion of their nest egg to provide for the education of their many grandchildren (a sum that could approach $1 million). If they include permanent life insurance in their budget, they can ensure that the money will be available to help pay for their grandchildren's education and other family needs after they've died—regardless of their longevity.*

This may even provide them greater flexibility to spend in retirement and enjoy their golden years as they desire.

Benefit 2: Guarantees

Guarantees are key benefits of permanent life insurance. Depending on the type of insurance, guaranteed annual premiums and guaranteed death benefits can provide certainty regarding the availability and cost of coverage. And while life insurance is largely viewed as a commodity, guarantees are backed by the financial strength of the issuing carrier.

For this reason, financial stability and reputation are important to consider when choosing a life insurance provider.

EXAMPLE: *Alessandro and Melissa have decided to purchase a $500,000 life insurance policy to ensure that they could provide for their grandchildren's education. Their main goal is finding a solution where the premium will be paid in full, will never change, and the death benefit will be guaranteed. A whole life policy from a well-known and highly stable insurance company may make the most sense.*

In addition to the guaranteed return on their premiums, with a whole life policy, they also benefit from the potential of accruing dividends, which further increases the return on their premiums.

Benefit 3: Simplicity

Life insurance can offer tremendous simplicity in an otherwise complex and often confusing planning environment impacted by taxes, probate, and creditor risks.

Tax benefits

A life insurance death benefit is generally received free of any income tax by the beneficiary. Contrast this with the income tax on accumulated savings that would otherwise be left to heirs.

While life insurance proceeds are included in a taxable estate,

EXAMPLE: *John and Carrie settle on a $500,000 whole life product they can comfortably afford. They designate their three children as equal beneficiaries of the policy, with the direction to them that funds are to be used for educational costs as needed. They like the idea that they can modify the beneficiary designation in the future and that all proceeds will be paid free of income taxes and also protected from their potential creditors, depending on their state.*

They may consider using a trust in the future depending on changes in tax laws in consultation with their estate planning attorney.

the current federal estate tax exemptions ($12 million per person in 2022) effectively eliminate the vast majority of people from federal estate taxation. Note that some states impose a state level estate tax at lower thresholds, but trust arrangements can be employed to address this issue.

Probate avoidance

Life insurance proceeds are paid directly to the designated beneficiary of the policy, avoiding probate delays and additional legal expenses. Funds are generally paid after a simple claim form is completed and the death certificate is presented. Beneficiaries can be easily changed to reflect the insured's changing wishes.

Contrast this with the difficulty in updating and properly executing a codicil to a will or other estate planning document.

Asset protection

Depending on state exemption laws, the death benefit received from an insurance policy may be exempt from potential creditor claims against the policyholder, and sometimes outstanding claims against the beneficiaries as well.

Where enhanced protection is desired for long-term wealth management, a trust established during one's life or under one's will can likewise be named as a beneficiary of a policy.

On a Final Note

Life insurance has attributes that make it a uniquely effective way to create wealth for the next generation. More fundamentally, though, permanent life insurance is a purchase one makes because even if the future cannot be known, you can ensure that family legacy goals are insulated from risks such as taxes, market fluctuations, and changes in personal health.

By providing a very predicable amount in an otherwise unpredictable world, individuals have more freedom to enjoy their wealth, liberated from concerns about the adequacy of support for loved ones.

R. Matthew Pate, JD, LL.M. is the head of Nautilus Plus at The Nautilus Group®, a service of New York Life Insurance Company serving the complex planning needs of New York Life's top select agents and their high net worth clients. Matt has extensive experience in sophisticated estate planning, business succession, closely held businesses, life insurance, asset protection, and charitable planning techniques. He has authored numerous legislative publications and newsletters, including New York Life's "Eye on Washington." Matt received his undergraduate degree from Georgetown University, his JD from the University of Texas School of Law, and his LL.M. from Southern Methodist University.

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WEALTH STRATEGIES & INSURANCE SOLUTIONS, INC.

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Financial Adviser

Michael J. Flynn, Jr
Financial Adviser

Step One: Getting to know you

This is where we visit and listen to your story. Through thoughtful questions and active listening, we gather all the hard and soft facts from your current personal, business and estate plans. We then take these facts and produce a clear, understandable picture of your current situation.

Step Two: Crystallizing your objectives

People have three kinds of plans: the plan they think they have, want to have and the one they really have. Once we have analyzed your current situation, we review it with you exactly as it is in that moment. Nearly 100% of the time, our clients discover their current plans do not reflect their true intentions. To ensure your plan is the one you want, we continue to further discern your intentions as they relate to your wealth management and estate planning needs and wants.

Step Three and Four: Building your customized plan

With your personal goals and objectives as our benchmark, we begin to design and recommend strategies built specifically to fulfill your desired objectives and ultimately help you achieve the legacy you want.

Step Five: Taking action

In the previous steps, we have discovered what is needed to overcome the obstacles preventing you from achieving your goals and objectives. We are now ready to work together to implement your selected strategies Additionally, we will coordinate the implementation of these strategies with your tax and legal advisors.

Step Six: Keeping on target

We desire to not only provide you with value, but to be valuable to you. We are committed to providing you with ongoing service in an effort to make sure that the plan you want is always the plan you have. We will work with you to help keep your plan on track with your changing needs, goals and desires. In an ever changing tax and regulatory environment, this is an extremely important and valuable part of our process.

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