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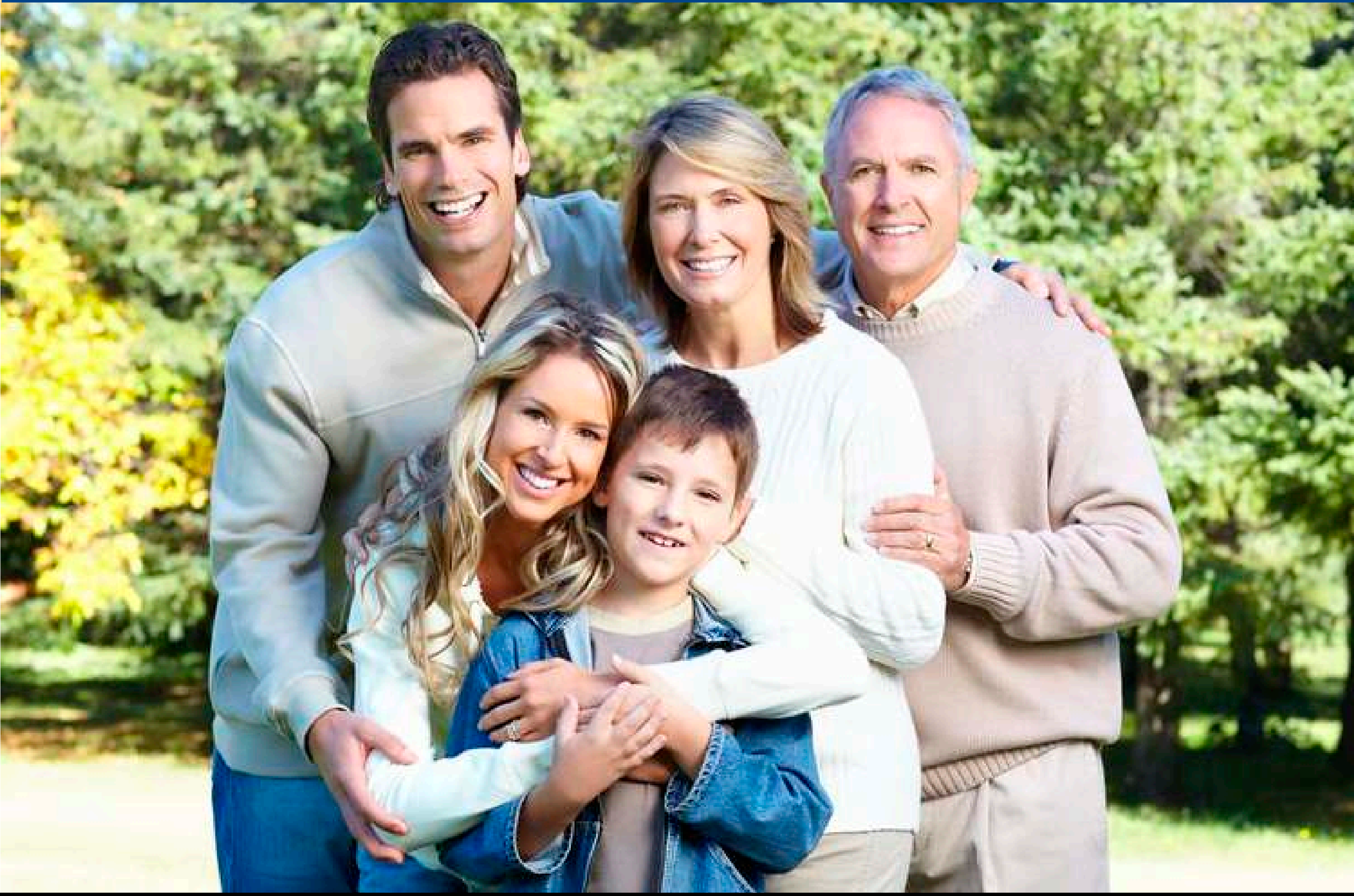
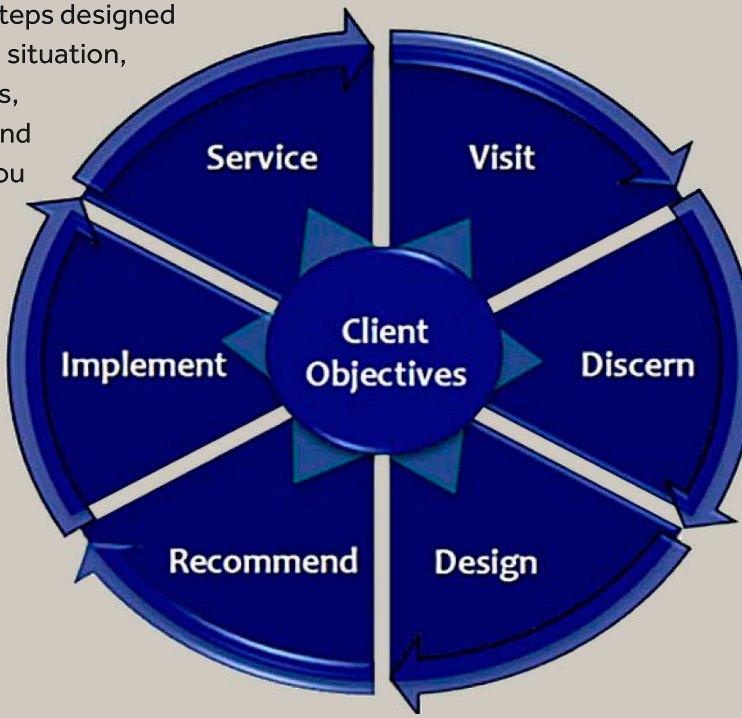
WEALTH STRATEGIES & INSURANCE SOLUTIONS, INC.



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.



Taxation - Income, Estate, and Gift

Tax loss harvesting may reduce the pain of stock market losses.

By Eva Stark, JD, LL.M.

After the longest-running bull market in US history, an increasing number of stock-market investors are seeing significant losses in their taxable brokerage accounts. While losses are painful, taking advantage of tax breaks with respect to these losses can diminish the true economic cost of the loss and potentially improve overall returns. As with any tax strategy, pitfalls and traps such as the wash-sale rule are plentiful, so it is always important to review any contemplated tax strategy with one's tax advisor.

Background on taxation of capital gains

In simplest terms, when a stock is sold, a gain or loss is calculated generally by subtracting from the sales price the cost of the stock. Because a stock is characterized as a "capital asset" under the tax code, gains realized upon the sale of stocks constitute "capital gains" that may enjoy preferential income tax treatment. Capital gains (or losses) are of two distinct types: short-term or long-term. If the stock was held for more than one year prior to its sale, a gain will generally be "long-term" and be taxed at preferential long-term capital gains rates. If the stock was held for less than one year, a gain will generally constitute a short-term gain, which is taxed at less-favorable "ordinary income" tax rates.

Long-Term Capital Gains Rates and Brackets (2022)		
	Single	Married Filing Jointly
0%	$0-41,675	$0-83,350
15%	$41,675-$459,750	$83,351-$517,200
20%	Over $459,750	Over $517,200

Ordinary Income Rates and Brackets (2022)		
	Single	Married Filing Jointly
10%	$0-10,275	$0-$20,550
12%	$10,275-$41,775	$20,550-$83,550
22%	$41,775-$89,075	$83,550-178,150
24%	$89,075-$170,050	$178,150-$340,100
32%	$170,050-$215,950	$340,100-$431,900
35%	$215,950-$539,900	$431,900-$647,850
37%	Over $539,900	Over $647,850

Capital gains may additionally be subject to a 3.8% net investment income tax above an income threshold of $200,000 for single filers and $250,000 for married filing jointly.

Tax treatment of losses

While losses are never desirable, if a stock is sold at a loss, the loss may produce an immediate tax benefit. As a general rule, capital losses offset capital gains and may even be deductible against ordinary income up to certain limitations.

If the taxpayer has capital gains in addition to the losses, losses will first offset gains of the same type. Long-term capital losses first offset long-term capital gains and short-term capital losses first offset short-term capital gains. For this reason, realizing short-term losses can be very valuable if the taxpayer has short-term gains that would otherwise be taxed at higher ordinary income rates.

To the extent that a taxpayer's losses exceed gains of the same type, the loss will next offset gains of the other type (long-term losses will offset a short-term gains or short-term losses will offset a long-term gains). If short-term losses would offset long-term gains, the tax benefit is generally not as valuable and advisors often recommend against such outcome. However, individual circumstances vary and realizing such a loss may still make sense in some cases.

If the taxpayer's capital losses exceed both long-term and short-term gains, the loss can generally be deducted against ordinary income, up to $3,000 per year. Any unused loss carries over to subsequent tax years.

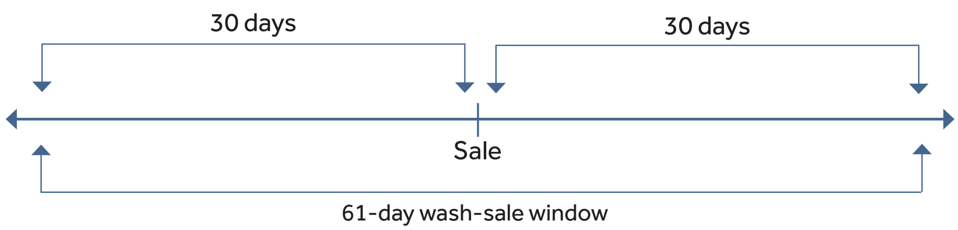
Wash-sale rule

The wash-sale rule is designed to prevent a taxpayer from benefitting from a tax loss if the taxpayer quickly reinvests into the same or "substantially identical" security. The rule is designed to prevent taxpayers from generating and benefitting from "paper losses" while maintaining the same or substantially similar investment position.

Under the rule, if a taxpayer sells a "stock or security" at a loss and purchases the same or a "substantially identical" stock or security within the 30 days before or after the sale, the taxpayer is prevented from recognizing the loss incurred. Instead, the basis and holding period of the newly acquired stock is adjusted to reflect the loss, which generally eliminates the immediate tax benefit that would otherwise result from the sale of a security at a loss. (*See example below.*)

Wash-sale rule considerations

- **"Stock or securities."** The wash-sale rule applies to sales of "stocks or securities." These generally include stocks, bonds, mutual funds, exchange traded funds, as well as contracts or options to purchase securities.
- **"Substantially identical."** The code or regulations do not define what "substantially identical" means for purposes of the wash-sale rule. It is generally accepted that the stock of a corporation is ordinarily not substantially identical to the stock of another corporation, even if both corporations are operating in the same industry. Ordinarily, bonds or preferred stock of a corporation are not substantially identical to the common stock of



EXAMPLE:

Tammy Taxpayer sells a share of stock in ABC corporation that had a basis of $100 for $70 on July 26th at a $30 loss. On August 3rd, she purchases a share of stock in ABC corporation for $80. Because she owns a share before and after the transaction, she arguably maintained the same position and the $30 loss is not a true loss. She is prevented from recognizing the loss by the wash-sale rule. Instead of immediately benefitting from the $30 loss, Tammy must adjust her basis in the new stock to $110, her total investment. If the new share had cost $65, the basis of the new share would be adjusted to $95. The holding period of the original share is also tacked onto the holding period of the new share. Her losses are deferred into the future by operation of the wash-sale rule, a generally undesirable outcome.

the same corporation. However, exceptions to these general rules exist. The question of what may or may not be substantially identical is even murkier when it comes to mutual funds or exchange traded funds. The issue of whether two securities may be substantially identical should be reviewed by the client's tax advisor.

- **Method for determining cost-basis.** The tax code and brokerage firms provide different methods for determining cost-basis where multiple lots of the same security are purchased. The actual cost method—which enables the taxpayer to designate the higher cost shares to be sold—is generally more advantageous for tax loss harvesting.
- **Other transactions.** Other transactions involving substantially identical securities by the taxpayer or certain related parties—such as purchases by a spouse, purchases inside a tax-deferred retirement account, vesting of restricted stock, or the exercise of options inside an employee stock purchase plan—during the wash-sale period could unexpectedly cause the taxpayer to run afoul of the wash-sale rule. Therefore, other transactions involving substantially identical securities should also be reviewed by the client's tax advisor.
- **Harvesting tax losses typically only makes sense in a taxable account.** Accounts such as 401(k)s or IRAs are tax-deferred so "gains" or "losses" upon the sale of securities inside such accounts generally do not factor into income tax liability. Instead, these balances typically constitute ordinary income as they are withdrawn from the accounts.

It's not only about taxes

Strategic harvesting of losses for tax purposes can be very beneficial and may improve overall returns in some circumstances. However, it is important to emphasize that while taxes are an important consideration, planning and investment decisions should not be driven by tax-savings objectives alone.

Utilizing complex tax strategies can also increase the risk of falling into pitfalls and traps so professional advice is paramount. The potential advisability as well as the correct implementation of these strategies should be reviewed by the client's tax, investment, and other advisors.

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.

Planning for the sudden death of family business founder or key executive.

By Patricia M. Annino, Esquire

A few years ago, a client who owned a family business died in race car accident. Four women (and their parents) each sent a heart shaped bouquet of flowers to the funeral home. Each of the women was engaged to him and thought she was the only one.

Needless to say, his business affairs were in the same state as his personal life—confused and disorganized. While alive he hid it well. He charmed many people, made a tremendous amount of money, spent a great deal of money, and covered a lot of missteps.

Sudden death brings surprises, grief, heartache, loss, confusion, fear, financial stress, and legal hassles.

So why is it that so many family businesses do not make planning for the sudden death of a founder or key executive a priority, or at least a question to be answered?

It is human nature to put off what seems less important today, because we can always "do it tomorrow." Yet we all know the best time to plan is when there is no need to do so.

Some people keep their plans a secret. According to a June 2021 *New York Times* article by Katherine Rosman and Elizabeth Harris[1], M. Richard Robinson, Jr., the 84-year-old Chairman and CEO of Scholastic Books (the son of the founder), died suddenly while taking a walk with his sons and former wife on Martha's Vineyard. Scholastic Book's general counsel called Iole Lucchese, an employee who had worked in the company for 30 years and a senior executive, to tell her that Mr. Robinson had left the Class A voting shares (the controlling interest of the company, all held in trust) to her in his will, bypassing his sons.

Board members were shocked. David Wallack, a portfolio manager for T. Rowe Price, Scholastic's largest investor (after the family), was not aware of the succession plan, and when he had asked Mr. Robinson if

1 Rosman, K., & Harris, E.A. (2021, October 25). Inside the Real-Life Succession Battle at Scholastic. *The New York Times.*

there was one, he replied that there was an envelope in the safe and when opened, it would show his wishes. Mr. Wallack had never met Ms. Lucchese, who put a new management team in place. Mr. Robinson's sister is reported as saying that the company is in good hands.

In contrast, a client of mine who founded an import-export business was given a dire health projection and knew he only had 4-6 weeks to live. He called me, told me, and asked me to set up a meeting with him, his wife, and his adult children. One of his sons was his heir apparent in management.

At that meeting he told all of us that he knew he would not live much longer, and he knew that he did not have time to teach his son all he would need to continue to run the business the way he ran it. He explained to all of them that because of the planning he had done (putting a $10 million life insurance policy in place for his wife and the family's benefit) his wife (their mother)'s financial future would not depend on the success of the business.

He then told his son in front of the family that with that in mind he wanted his son to know that he should not fight any ghost discussions they had had along the way. Rather it was his son's decision—to run the business, to sell the business, or to shrink the business. And if his son tried and did not succeed, neither the son nor any family members should consider it to be a failure.

Everyone in the room cried. He died a month later and his son ran (and continues to run) a contracted version of the business.

That was one of the most poignant meetings of my career, and it is still with me today. That discussion took wisdom, courage, strength, and love.

Sudden death can strike at any time - COVID, plane accidents, suicide, heart attacks, cancer, stroke, brain injury, and brief illnesses such as pneumonia or surgery complications. And when that happens, years and decades of work can go up in flames in an instant.

Planning matters

The process of planning matters. The sudden death of a founder has legal, financial, tax, business operation, and psychological ramifications for all stakeholders. The consequences of a sudden death are not transitory: they will last for years. The grieving process takes time. The decision process will be impaired. Failure to plan has consequences. Banks and financial institutions may become spooked. The business may be sold at less than an advantageous price. Conflict may take place among owners as to future plans and goals (sell for security versus risk).

Family business advisors should do all they can to motivate the family business to put a proper succession plan in place and monitor it on an ongoing basis.

Key components of an effective plan

1. A clear operational succession plan. This should include an understanding of which candidates are the best suited to fill the leadership void. In all likelihood, this will include internal and external candidates. Since this will constantly change, the succession plan should be reviewed and revised at least annually.

2. A short-term plan and a long-term plan. A short-term plan should include how to handle the announcement of the death (media management) and an understanding of the immediate pressure points (bank loans, financing, debt management, cash flow issues, and check signing authority).

It may be prudent to meet with key customers and investors to inform them of the planning process, so they do not feel excluded.

The long-term plan should include review of the management team and any staffing changes.

3. Proper and up-to-date estate planning, including the basic documents, such as will, trust, disability and life insurance, buy-out agreements, up-to-date valuation of the entities, and an understanding of debt services.

4. A coordination of estate planning with the corporate planning. Frequently there is a disconnect between the two as different advisors with different skill sets are working on the separate pieces of the puzzle. Integration of these pieces, much like a jigsaw puzzle, is what creates a coherent picture, or in the case of business succession, a coherent plan.

5. An understanding of the psychology that goes along with the death. Decision making will slow down. Grief will ensue. Anger is likely. The loss must be digested. Negotiations will take a different tone. When a client of mine's young husband, the CEO of a family business, died very suddenly playing sports, she was named in his will as his executor. He was not the sole owner of the business and negotiations commenced over the next year. She brought an 8" x 11" framed photo of him to every meeting and put it on the conference room table. It was a poignant reminder to his brothers of his presence and importance.

6. A method to establish the financial value of the decedent's interest. This is important from a tax point of view. It is important if the decedent was not the sole owner and his/her estate is obligated to sell the interest. It is also important as part of the overall analysis of whether to maintain, sell, shrink, or split.

7. A focus on the legacy of the decedent and the preparation of a statement (to be used post death) about the values the decedent and the business stand for. This helps with the grieving process, and it also helps with the branding and management of the business. It provides a forum for those connected to the family and the business to come together and remember the underlying importance of the mission.

In summary

Sudden death of a family business founder or key stakeholder will have profound impacts on the family and the business for years to come. A strong and flexible governance structure matters. Open communication matters. Understanding that planning is a process that should be continued and evolutionary is critical.

But families don't have to do this alone. Involving personal and business advisors is key to a successful plan, as it is a responsibility of those advisors to put these issues front and center before the family and the business, and to guide the family to that coherent picture.

Patricia M. Annino, Esquire, is a partner at Rimon, PC, in the Trust and Estates Group. A nationally recognized authority on estate planning and taxation, Patricia has spent more than 30 years in all aspects of private client work, including estate planning, will and trust planning, incapacity planning, pre- and post-nuptial agreements, estate litigation, advising executors, trustees and beneficiaries, and administration of estates and trusts. A leading voice on estate planning matters, Patricia has been quoted extensively in a wide variety of local and national publications.

Lifetime gifting can reduce income or estate tax liability.

A lifetime gift is a transfer of assets from one individual to another for less than full and adequate consideration. Many individuals utilize lifetime gifting to facilitate reduced income or estate tax liability. Prior to determining whether lifetime gifting is appropriate, an individual should consider income, gift, and estate tax ramifications, long-term income needs and otherwise available resources, and asset protection planning needs and objectives.

Lifetime gifting and the federal gift tax

Internal Revenue Code (IRC) §2501 provides that gift tax is imposed annually on gifts made by an individual. A gift is a transfer of assets for no consideration or for consideration worth less than the transferred asset's fair market value. The gift tax rate is 40% (in 2022) and gift tax is paid by the donor (as opposed to the donee).

IRC §2503 defines certain transfers that are not to be considered as "taxable gifts" for the purposes of computing gift tax liability.

Annual gift tax exclusion

IRC §2503(b)(2) enables a donor to gift a certain amount of assets to an unlimited number of donees every year without imposition of gift tax. In 2022, the annual gift tax exclusion amount is $16,000 per donee. Married couples can utilize the annual gift tax exclusion to gift $32,000 (in 2022) gift tax free to each donee. The annual gift tax exclusion is often adjusted for inflation in increments of $1,000. For a gift to qualify as an annual exclusion gift, it must be a "present interest" gift, which means the recipient has an unrestricted right to the immediate use and possession of the gifted property. For this reason, if annual exclusion gifts are made to an irrevocable trust, trust beneficiaries must be given withdrawal rights over the gifted amount (often referred to as "Crummey" withdrawal rights).

The annual gift tax exclusion amount can be used to make tax-free gifts to a 529 education savings account since contributions to a 529 account are treated as completed present interest gifts from the donor to the account beneficiary. In fact, a donor can make an election on a U.S. Gift Tax Return Form 709 to have contributions to a 529 account treated as if made ratably over a five-year period. This means that a donor can utilize five years of annual gifting capacity in one year to fund a 529 account. In 2022, a donor could contribute up to $80,000 (or, $160,000 for a married couple) to a 529 account without the imposition of gift tax liability since the contribution will be treated as made over the next five years.

The annual gift tax exclusion amount can generally be utilized to fund Uniform Transfers to Minors Act accounts if the account terminates when the beneficiary attains the age of 21. Similarly, the annual gift tax exclusion amount can be used to fund a "2503(c) trust" if the trust provides that trust assets may be used for a beneficiary prior to attaining age 21 and trust assets will be distributed to the beneficiary at age 21 (or the beneficiary is given the right to withdraw trust assets at age 21, typically, for a reasonable period such as 60 days), and, if the beneficiary dies prior to age 21, trust assets are payable to the beneficiary's estate or as the beneficiary appoints.

Education and medical expenses

IRC §2503(e) provides that a "qualified transfer" to an educational organization or to a provider of medical care will not be treated as a gift for the purposes of computing gift tax liability. This allows an individual to spend an unlimited amount of money on another's education expenses or health care costs without being treated as having made a gift. For education expenses, payments must be made directly to the educational organization to avoid being treated as a gift. Also, payments must be for tuition only and not books, supplies, room and board or meal plans. Payments for medical expenses must be paid directly to the medical provider to avoid being treated as a gift.

All other lifetime gifts will be deemed taxable gifts for the purpose of computing gift tax liability. However, various credits and deductions are allowed when computing gift tax liability.

USING THE EXCLUSION AMOUNT TO OFFSET GIFT TAX LIABILITY. Individuals can utilize the basic exclusion amount to reduce gift tax liability. The exclusion amount shields a defined amount of assets from estate tax upon an individual's death. In 2022, the exclusion amount is $12.06 million. The exclusion amount can be used during lifetime to make tax-free gifts above and beyond the annual gift tax exclusion amount. Of course, any exclusion utilized during lifetime reduces the exclusion amount available at the donor's death.

Note that the Tax Cuts and Jobs Act of 2017 doubled the then effective exclusion to achieve a $12.06 million exclusion in 2022; however, the increased exclusion was not made permanent. Accordingly, the exclusion amount is scheduled to sunset on December 31, 2025, to $5 million, as made permanent under the American Taxpayer Relief Act of 2012, adjusted for inflation. This means that, under the current law, the amount of assets an individual can gift during lifetime without imposition of gift tax will be significantly reduced in 2026. This provides a limited window for high net worth individuals or for individuals who live in a state with state level estate tax but no state level gift tax to utilize lifetime gifting to make use of the temporarily increased exclusion amount to reduce exposure to estate tax liability.

CHARITABLE GIFTS. Certain gifts made to qualified charities can be deducted for the purposes of determining gift tax liability.

TRANSFERS BETWEEN SPOUSES. When an individual makes a gift to his/her U.S. citizen spouse, the gifted amount can be deducted for the purposes of determining gift tax liability.

Even where lifetime gifts will expose the donor to gift tax liability, considerable tax savings still may be achieved since the gift tax is tax exclusive. The gift tax calculation is based on the value of taxable gifts made in any given year. The gift tax calculation does not include the value of assets used by the donor to pay gift tax liability. In contrast, the estate tax is calculated on the value of a deceased's estate, including the value of assets the estate will use to pay estate tax liability.

Advantages of lifetime gifting

- Gifts can reduce the impact of estate tax on an individual's estate since the value of the gifted asset, and its anticipated ongoing appreciation, will be removed from the donor's taxable estate.
- For donors living in a state that imposes a state level estate tax but has no state level gift tax, exposure to state estate tax can be substantially reduced, or even eliminated, by making lifetime gifts.
- Gifting income producing property to beneficiaries in a lower income tax bracket reduces the impact of income tax on the asset's income (subject to the "kiddie tax").

- Gifting assets to an irrevocable trust for the benefit of the donor's beneficiaries can protect the assets from the claims of creditors (both the donor's creditors and the creditors of the trust beneficiaries, assuming no creditor has a claim to the gifted assets at the time of the gift).
- Lifetime gifts can provide greater personal satisfaction than testamentary transfers since the donor can witness the benefit a donee receives from a gift.
- If business interests or other family legacy assets are gifted during lifetime, successor generations can become involved in the management and operation of those assets while the donor is still alive and able to provide guidance.
- If transferred assets are subject to certain restrictions (lack of control and lack of marketability), gifted assets can be transferred at a discounted gift tax cost.

Disadvantages of lifetime gifting

- Generally, most (but not all) assets owned by an individual receive a basis step-up to fair market value upon the owner's death. The basis step-up reduces the amount of income tax liability due if assets are later sold. However, if an individual gifts assets during his or her lifetime, the donee receives a carry-over basis in the gifted assets (the donee's basis will equal the donor's basis, plus increases for improvements). As such, lifetime gifts eliminate the basis increase that may otherwise occur if the donor retained the gifted assets until death.
- If gifted assets decline in value, any exclusion used to facilitate the gift could be wasted.
- A donor's circumstances could change after a lifetime gift is made, resulting in insufficient assets (post gift) to support the donor's needs. In such an event, the donor has no right to reclaim possession of the gifted assets.
- Where a donor may wish to apply for certain government benefit programs, a lifetime gift of assets could trigger a "look-back" period during which the donor will remain ineligible.

Michael J. Flynn, MSFS
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.

Flynn Wealth Strategies & Insurance Solutions, Inc.
2121 41st Avenue, Suite 208
Capitola, CA 95010
Phone: (831) 475-0800
Fax: (831) 477-1438

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