



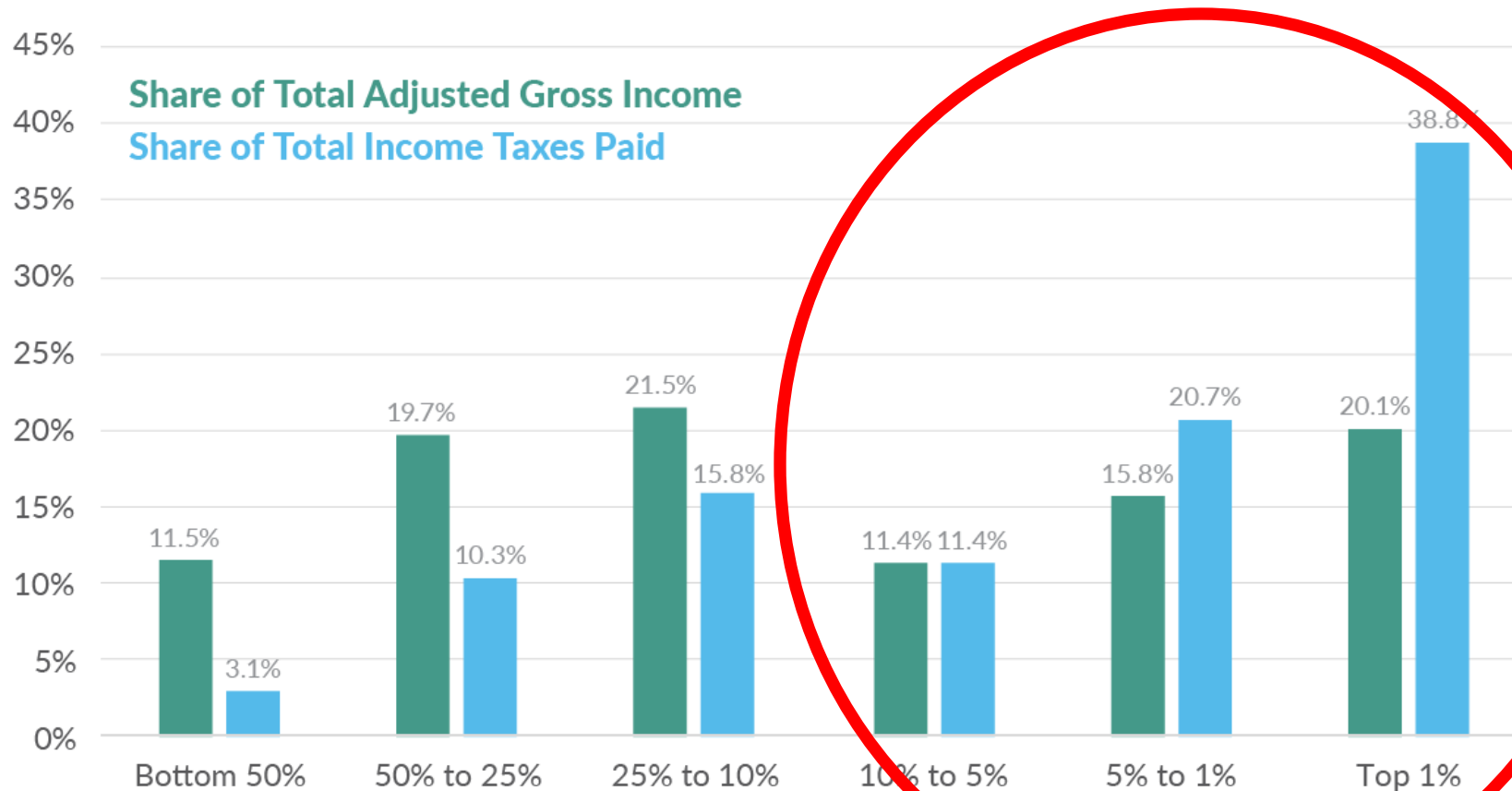
# Tax Planning for 2023

## *Opportunities for Advisors*

**Disclosures** These disclosures highlight some of the issues raised by the creation of a Sterling FundPower Trust and other issues potentially raised in this presentation. Sterling Foundation Management, LLC, (“Management”) and Sterling Donor Advised Fund, Inc. (“Fund”) (collectively, Management and Fund are referred to hereinafter as “Sterling”) provide this disclosure only for your convenience, and the convenience of your legal, tax and investment advisors in considering the creation of a trust. Any such creation would ultimately take place pursuant to the terms of a written trust instrument (“Trust”). References to “you” or “your” refer to the retirement plan owner, the assets of which plan are intended or contemplated to fund a Trust. There are a number of considerations related to the creation of a Trust that you should discuss with your advisors. The value of the financial interest in the Trust may be affected by a number of factors, including but not limited to: your age at death; the age(s) of Trust beneficiary(ies) upon your death; the health of your beneficiary(ies); the payout rate of the Trust; the future returns earned on Trust assets; the tax treatment of your Trust payouts (ordinary income, capital gains, state taxes) and the effective tax rates thereon. We note the following as a way for you to begin to consider along with your team of advisors including tax and legal advisors the suitability of a Trust. Life Expectancy. The Trust is a split interest trust and as such the ultimate financial value of the lead interest may be subject to mortality risk. All such mortality risk will ultimately be borne by the beneficiary(ies) and/or their heirs. Upon the expiration of the term of the Trust, the remaining Trust assets, if any, will pass to Fund. While you or your heirs can nominate a donor advisor, such an advisor by law may have no ability to legally bind the donor advised fund account. Investment Rates of Return. The ultimate cash distributions from the Trust will depend, to a significant extent, on the investment returns earned by the Trust during its term. Such investment returns are inherently uncertain. The past performance of the markets is no guarantee of future performance. All projected investment returns in this presentation are for illustrative purposes only, and are not a prediction or guarantee of future performance, and may not accurately represent the future rates of return and/or the future rates of applicable taxation and/or various fees and/or excise taxes or other governmental or non-governmental fees or costs that might arise or apply in the future. Taxation. The Trust is expected to last for a period of multiple decades. Any illustration involving taxation is made under the assumption that current tax rates and policies continue into the future; however, no representation or warranty of any kind regarding the applicability now or in the future of such assumptions is express or implied. The actual tax impact of a Trust on beneficiaries may vary. You should consult with qualified tax advisors. Additionally, various assumptions, which may or may not be appropriate, have been made about current tax laws, current tax incidence, and likely future rates, laws and incidences. Expenses, Fees and other Charges. A Trust may be subject to certain setup and management or administration fees. Any such fees illustrated herein are believed to be representative of current fee schedules in place, but are not a guarantee or warranty of such current fees or future fees. **NEITHER STERLING NOR YOUR INVESTMENT PROFESSIONAL IS PROVIDING YOU WITH TAX OR LEGAL ADVICE.** Neither Sterling nor the Investment Professional nor the affiliated firm introducing this presentation is providing you any tax or legal advice in connection with any aspects of any proposed creation of a Trust or other disposition or plan with respect to your IRA, 401(k), 403(b), or other qualified or non-qualified plan or other assets. You should consult with your own tax and legal advisory team in connection with the proposed creation of a Trust, and not rely on Sterling, your financial advisor or the financial firm (whether broker/dealer or registered investment advisor) for such advice.

## Top 10% of Income Earners Pay 71% of Taxes

Shares of adjusted gross income and federal income taxes paid by income group in 2019



Source: IRS, *Statistics of Income*, Individual Income Rates and Tax Shares.



# Does Your Client Feel Like This?

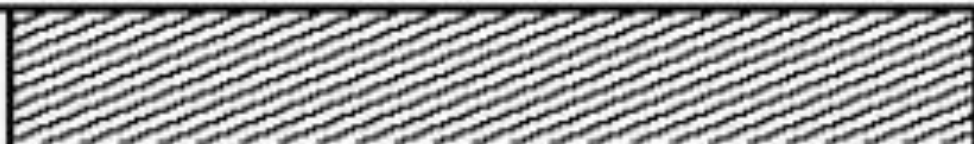
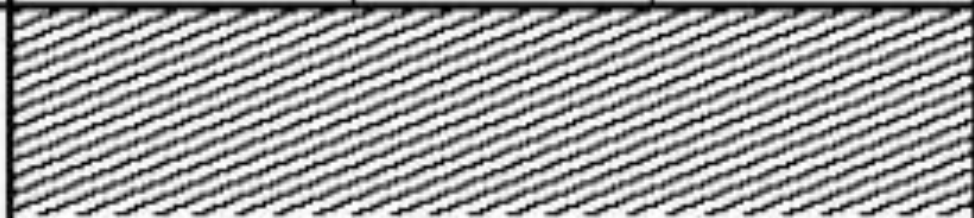



of the Treasury—Internal Revenue Service  
**Individual Income Tax**

initial Last name

Last name

## Form **BH1040** U.S. Individual Income Tax **2022** Return

Taxpayer's name, address and ZIP code	 Your Social Security Number 
Income from all sources  <b>1. How much money did you make last year? .....</b> ▶	
<b>2. Send in this amount ..</b> ▶	 Enter total from line 1.

# Problem: Large 2023 tax bill

## Solutions:

- 642 Income Fund
- 664 Tax Exempt Trust
- Donate to Donor Advised Fund
- Donate to Private Foundation



# No Free Lunch

## Common Tradeoffs

- Access to Principal
- Control
- Liquidity




# Value of a Tax Deduction

**Deductions Go Against Ordinary Income First**

**Limited to 30% of AGI**

**Valid for Federal and State Income Tax**

 Good Planning Can Reduce, not Eliminate, the Pain



# Example

Form **1040** Department of the Treasury—Internal Revenue Service (99) **2021** U.S. Individual Income Tax Return OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.


**Filing Status**  Single  Married filing jointly  Married filing separately (MFS)  Head of household (HOH)  Qualifying widow(er) (QW)  
Check only one box. If you checked the MFS box, enter the dependent's name in the QW box, enter the child's name if the qualifying person is a child but not your dependent ▶

**Federal Rate: 40.8%**

**State: 13.3%**

**Combined: 54.1%**

**Value of \$100 writeoff = \$54.10**

 **When Tax Has Been Incurred, Client No Longer Owns \$100/\$100**

**Standard Deduction**  Someone can claim you as a dependent  You are a dependent  You are a surviving dependent

**Age/Blindness** You:  Were born before January 2, 1957  Are blind Spouse:  Was born before January 2, 1957  Is blind

**Dependents** (see instructions): (2) Social security (3) Relationship (4)  if qualifies for (see instructions):


# Value of Avoiding LT Gain Recognition

**Federal Rate: 23.8%**

**State: 13.3%**

**Combined State + Fed: 37.1%**

**Taxes Saved Per \$100 Gain Avoided = \$37.10**

 Avoiding Tax Recognition is Valuable

# Combined Value

Form **1040** Department of the Treasury—Internal Revenue Service (99) **2021** U.S. Individual Income Tax Return OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

**Filing Status**  Single  Married filing jointly  Married filing separately (MFS)  Head of household (HOH)  Qualifying widow(er) (QW)  
Check only one box. If you checked the MFS box, enter the name of your spouse on a separate return for the same year if the qualifying person is a child but not your dependent ▶

**Value of Deduction: = \$54.1**

**Taxes Saved Per \$100 Gain Avoided = \$37.10**

**Total \$91.20**

**The cost of obtaining this deduction is only \$8.80 per \$100 of gain asset**

 **Avoidance Plus Deduction**

Age/Blindness You:  Were born before January 2, 1957  Are blind Spouse:  Was born before January 2, 1957  Is blind  
Dependents (see instructions): (2) Social security (3) Relationship (4)  if qualifies for (see instructions):

# Even Better

Form **1040** Department of the Treasury—Internal Revenue Service (99) **2021** U.S. Individual Income Tax Return OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

**Filing Status**  Single  Married filing jointly  Married filing separately (MFS)  Head of household (HOH)  Qualifying widow(er) (QW)  
Check only one box.

**What if you could...**

**Dispose of an asset...**

**AND have it cost only \$8.80 per \$100...**

**AND get back a lifetime of income?**

Your first name and middle initial Last name Your social security number  
If joint return, spouse's first name and middle initial Last name Spouse's social security number  
Home address (number and street) City, town, or post office, if you live in a foreign country  
Foreign country name Foreign province/state/county Foreign postal code  
Election Campaign  
Check here if you, or your spouse if filing jointly, want \$3 go to this fund. Checking a box below will not change your tax or refund.  
 You  Spouse

At any time during 2021, did you receive, sell, exchange, or otherwise dispose of any financial interest in any virtual currency?  Yes  No

**Standard Deduction** Someone can claim:  You as a dependent  Your spouse as a dependent  
 Spouse itemizes on a separate return or you were a dual-status alien

**Age/Blindness** You:  Were born before January 2, 1957  Are blind Spouse:  Was born before January 2, 1957  Is blind **12**

**Dependents** (see instructions): (2) Social security (3) Relationship (4)  if qualifies for (see instructions):



Form **1040** Department of the Treasury—Internal Revenue Service (99) **2021** U.S. Individual Income Tax Return OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

**Filing Status**  Single  Married filing jointly  Married filing separately (MFS)  Head of household (HOH)  Qualifying widow(er) (QW)  
Check only one box. If you checked the MFS box, enter the name of your spouse. If you checked the HOH or QW box, enter the child's name if the qualifying person is a child but not your dependent ▶

## Sec 642

## “Lifetime Income Fund”

## Adapted specifically for HNW clients

Your first name and middle initial Last name Your social security number  
If joint return, spouse's first name and middle initial Last name Spouse's social security number  
Home address (number and street, if you have a P.O. box, see instructions). Apt. no. Presidential Election Campaign  
Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund.  
 You  Spouse  
City, town, or post office. If you have a foreign address, also complete spaces below. State ZIP code  
Foreign country name Foreign province/state/county Foreign postal code  
At any time during 2021, did you receive, sell, exchange, or otherwise dispose of any financial interest in any virtual currency?  Yes  No

**Standard Deduction**  Someone can claim you as a dependent  You are a dependent  Your spouse is a dependent  Spouse itemizes  
▶ Sec 642 has been in the code since 1969, and is widely used

**Age/Blindness** You:  Were born before January 2, 1957  Are blind Spouse:  Was born before January 2, 1957  Is blind **13**  
**Dependents** (see instructions): (2) Social security (3) Relationship (4)  if qualifies for (see instructions):

Form **1040**

Department of the Treasury Internal Revenue Service (99)  
**U.S. Individual Income Tax Return** 2021  
OMB No. 1545-0047 SSN: 15-45-0047 Only - Do not write or staple in this space.

# Need at Least \$5 Million

**Could be one client**

**Or several clients with shared goals**

**Filing Status**  Single  Married filing jointly  Married filing separately (MFS)  Head of household (HOH)  Qualifying widow(er) (QW)  
Check only one box.  
If you are MFS, enter the name of the spouse you use. If you checked the HOH or QW box, enter the child's name if the qualifying person is a child but not your dependent ▶

Your first name and middle initial Last name	Your social security number
If joint return, spouse's first name and middle initial Last name	Spouse's social security number

Home address (number and street). If you have a P.O. box, see instructions. Apt. no.	<b>Presidential Election Campaign</b> Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund. <input type="checkbox"/> You <input type="checkbox"/> Spouse
City, town, or post office. If you have a foreign address, also complete spaces below. State ZIP code	
Foreign country name Foreign province/state/county Foreign postal code	

At any time during 2021, did you receive, sell, exchange, or otherwise dispose of any financial interest in any virtual currency?  Yes  No

**Standard Deduction**  Someone can claim you as a dependent  You are a dependent  Your spouse is a dependent  Spouse itemizes

**Fixed Costs Can Make 642 Less Interesting for Small Amounts**

**Age/Blindness** You:  Were born before January 2, 1957  Are blind Spouse:  Was born before January 2, 1957  Is blind

**Dependents** (see instructions): (2) Social security (3) Relationship (4)  if qualifies for (see instructions):

Form **1040** Department of the Treasury—Internal Revenue Service (99) **2021** U.S. Individual Income Tax Return OMB No. 1545-0074 (99) Only—Do not write or staple in this space.

**Filing Status**  Single  Married filing jointly (MFS)  Head of household (HOH)  Qualifying widow(er) (QW)  
Check only one box. If you checked the MFS box, enter the name of your spouse. If you checked the HOH or QW box, enter the child's name if the qualifying person is a child but not your dependent.

**Single client, age 55**

**\$1 million asset**

**\$200,000 basis**

Your first name and middle initial		Your social security number	
If joint return, spouse's first name and middle initial		Spouse's social security number	
Last name			
Home address (number and street). If in a foreign country, use the country name.		Apt. no.	
City, town, or post office. If you have a foreign address, also complete spaces below.		State	
		ZIP code	
Foreign country name		Foreign province/state/county	
		Foreign postal code	
		<input type="checkbox"/> You <input type="checkbox"/> Spouse	

At any time during 2021, did you receive, sell, exchange, or otherwise dispose of any financial interest in any virtual currency?  Yes  No

**Standard Deduction**  Someone can claim you as a dependent  Your spouse as a dependent  Spouse itemizes

Amounts shown are per million dollars

**Age/Blindness** You:  Were born before January 2, 1957  Are blind Spouse:  Was born before January 2, 1957  Is blind

**Dependents** (see instructions): (2) Social security (3) Relationship (4)  if qualifies for (see instructions):

# Contribution to §642 Income Fund

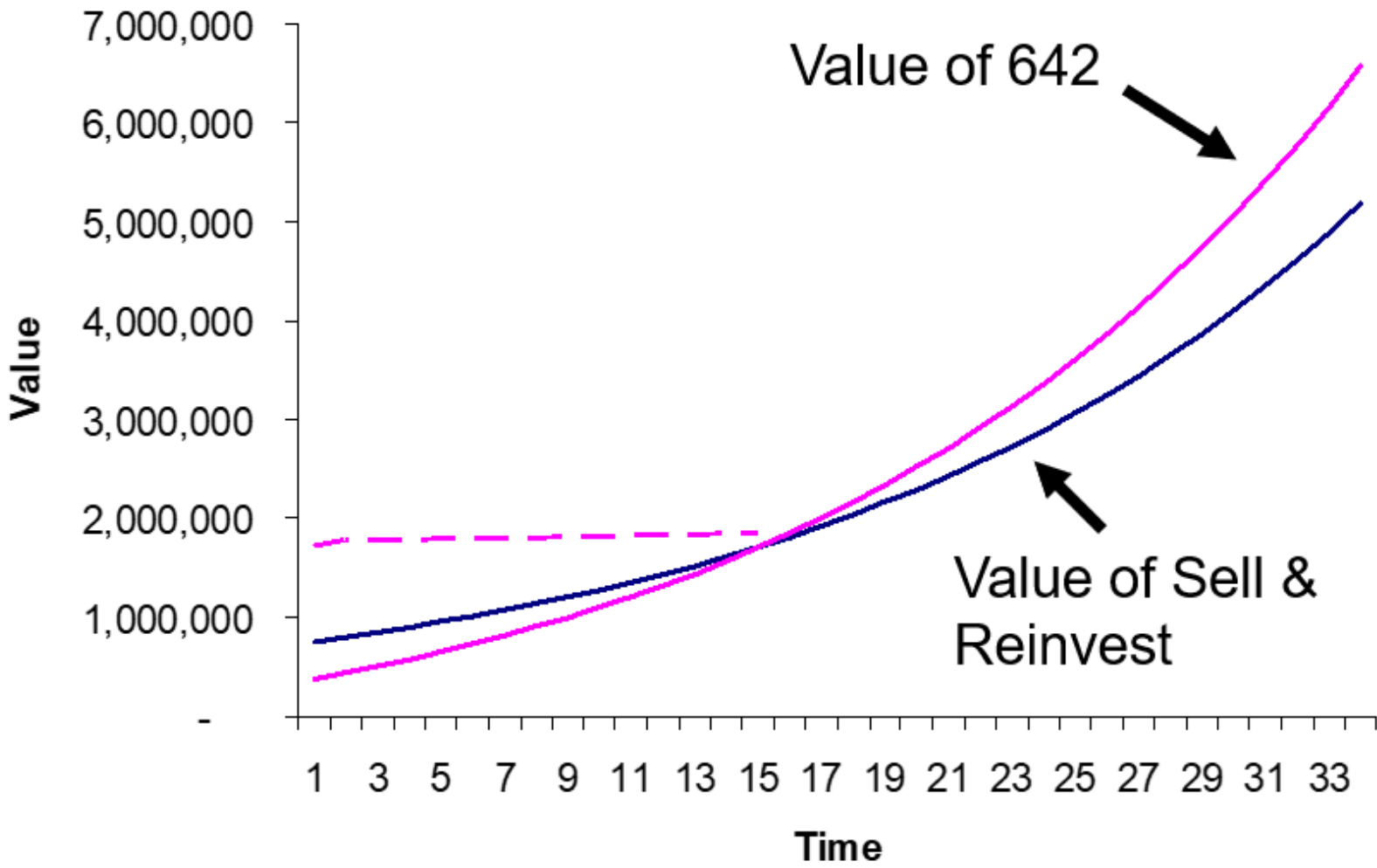
**Capital Gain Tax Avoided: \$242,400**

**Income Tax Deduction: \$675,000**

▶ Low 2023 Interest Rate Makes 642 Attractive



## §642 Income Fund



Assumptions: Return: 6.0%, FMV of Asset: \$1,000,000, Basis: \$200,000, Cap Gain Tax Rate: 30.3%, Ordinary Income Rate: 47.3%

Age: 55, Deduction as Percentage of FMV of Asset: 67.5%, Value of Deduction at Ordinary Rate: \$319,275

Cost of Term Life Per Million: \$1,400

**Client/Spouse Age~ 50 to 80**

**Need large income tax deduction**

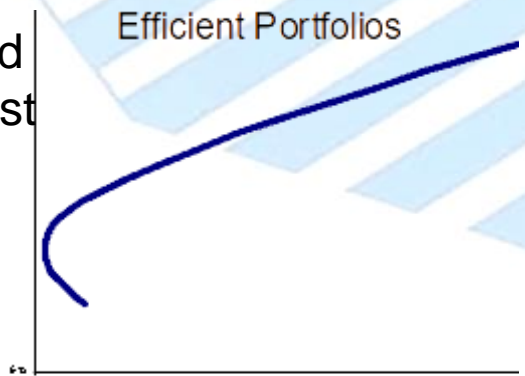
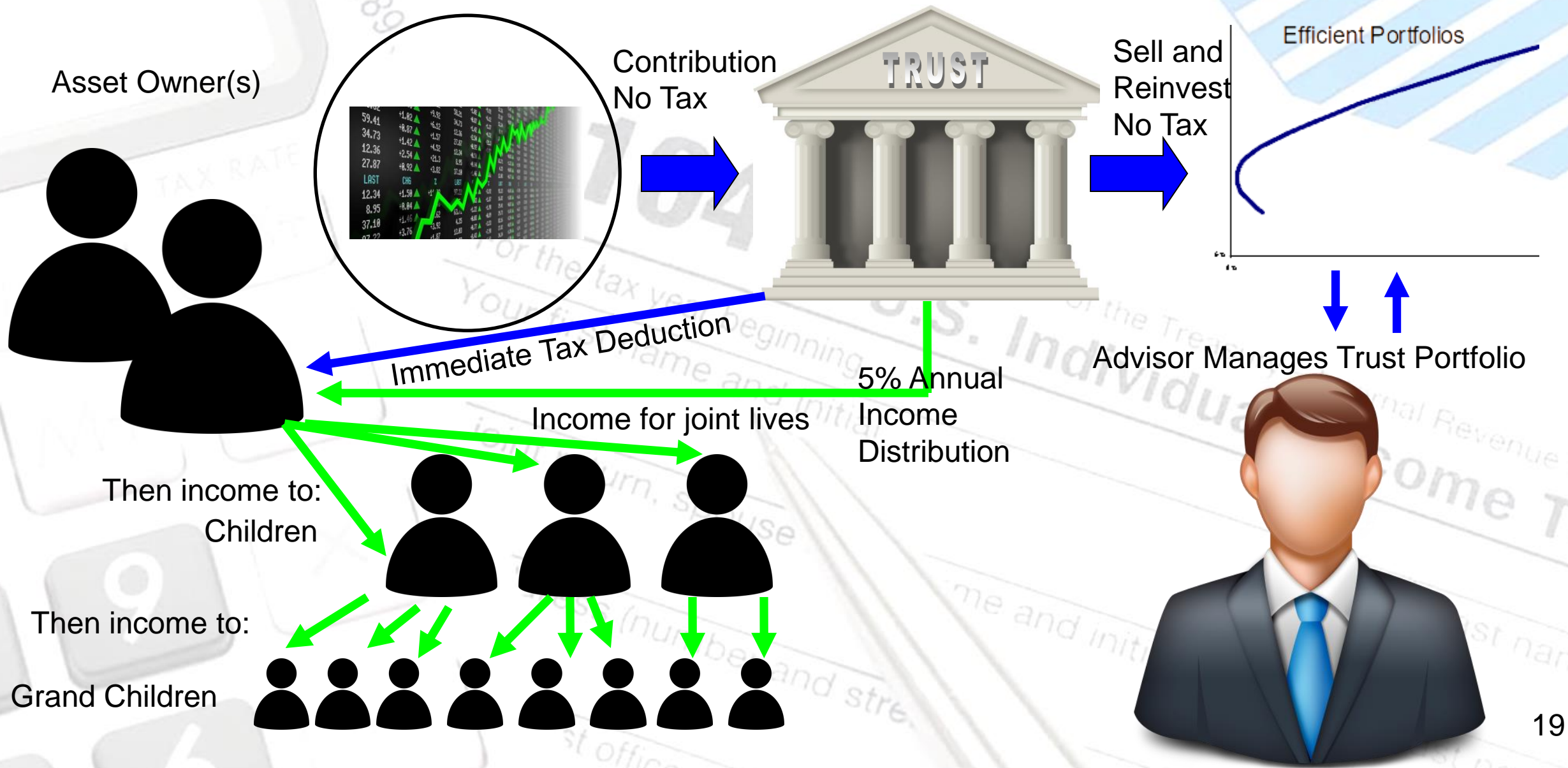
**Own appreciated capital asset**

**Equity in asset(s) > \$5 million**

**Income is desired or acceptable**

642 works well with the right facts

# §664 Tax Exempt Trust



**Client/Spouse Age > mid-30s**

**Own appreciated capital asset**

**Asset value is > \$1/2 million**



**D**onor **A**dvised **F**und

=

**D**eferred **A**ctual Ph(“**F**”)ilanthropy

## Key Features:

Irrevocable gift for charity

Assets can be invested by advisor

Tax deduction for FMV of qualifying assets

Can create a permanent legacy

**No income for client or family**

## Example

Key assumptions: FMV = \$ 1 million; Basis=0

Client is in max. state + fed income tax bracket

Client has large ordinary income year

Net to client if sold: \$629,000

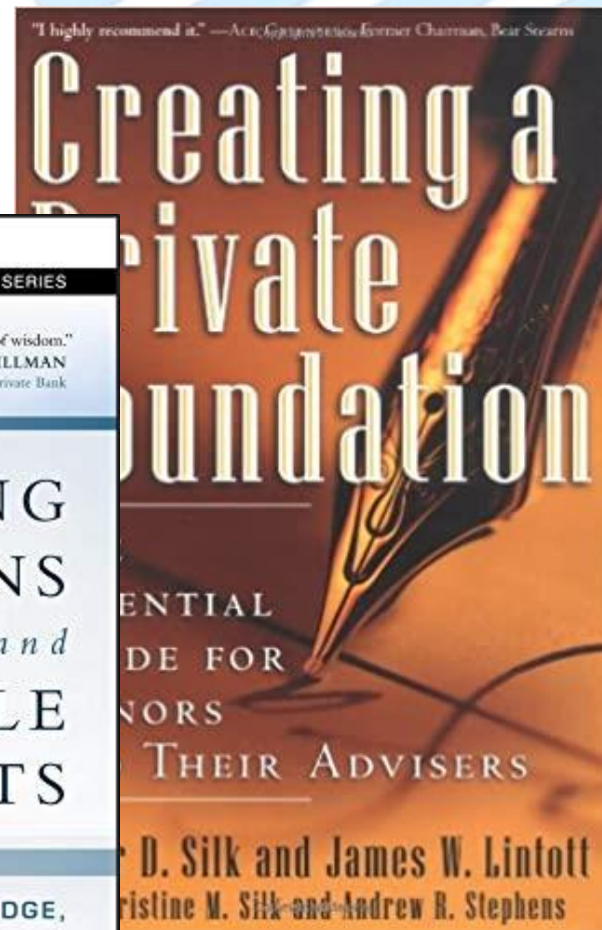
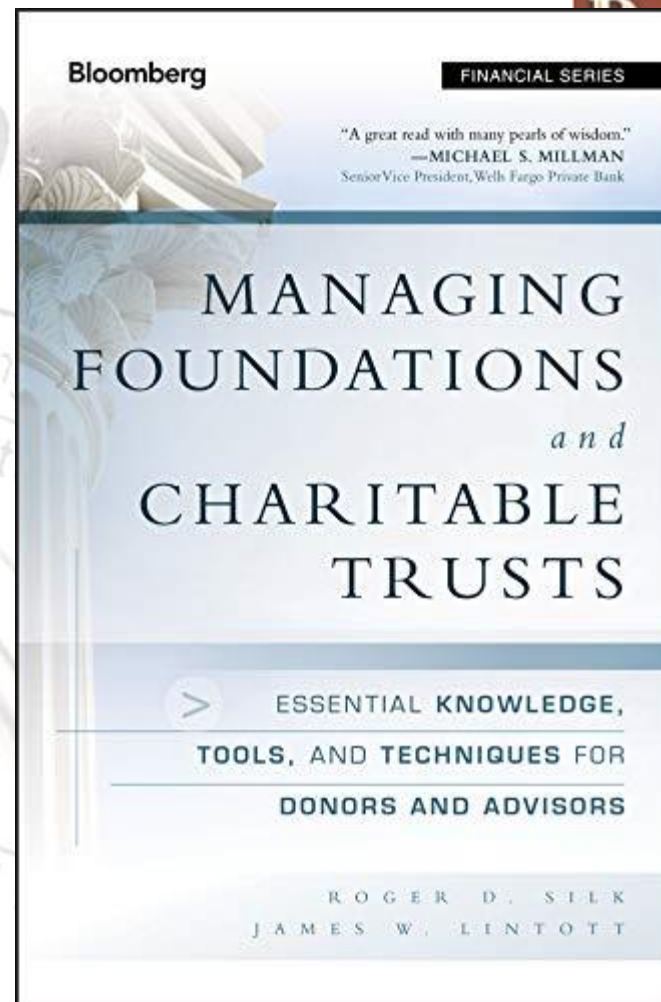
Value of deduction if gifted to DAF: \$540,000

**Net Cost of \$1 million DAF Acct: \$89,000**

## Key Features:

- Irrevocable gift for charity
- Assets can be invested by advisor
- Tax deduction for FMV of qualifying assets
- Can create a permanent legacy
- Minimum size: \$1 million
- Can hire family, but “shouldn’t”

**No income for client or family**





	Private Foundation	Donor Advised Fund
Deduction of Cash Contribution as Percent of AGI	30%	60%
Deduction of Non-cash Asset Contribution as % of AGI	20%	30%
Valuation of Deduction	FMV for publicly traded stock; else basis	Fair Market Value (may require appraisal)
Required Annual Distribution	5%	None
Ability to Preserve Privacy	Limited	Greater
Donor's Degree of Control	Full legal control	No legal control
Net Investment Income Tax	1.39%	None

# Uses of Each Solution

Technique	Best Used When
<i>642 Income Fund</i>	Big income tax bill, and little charitable desire
<i>664 Exempt Trust</i>	Desire to sell appreciated asset w/o tax, and maintain maximum flexibility
<i>Donor Advised Fund</i>	Maximum income tax deduction is needed
<i>Private Foundation</i>	Long term charitable legacy is main driver

Age(s) of Client/Spouse

Client Main Goal

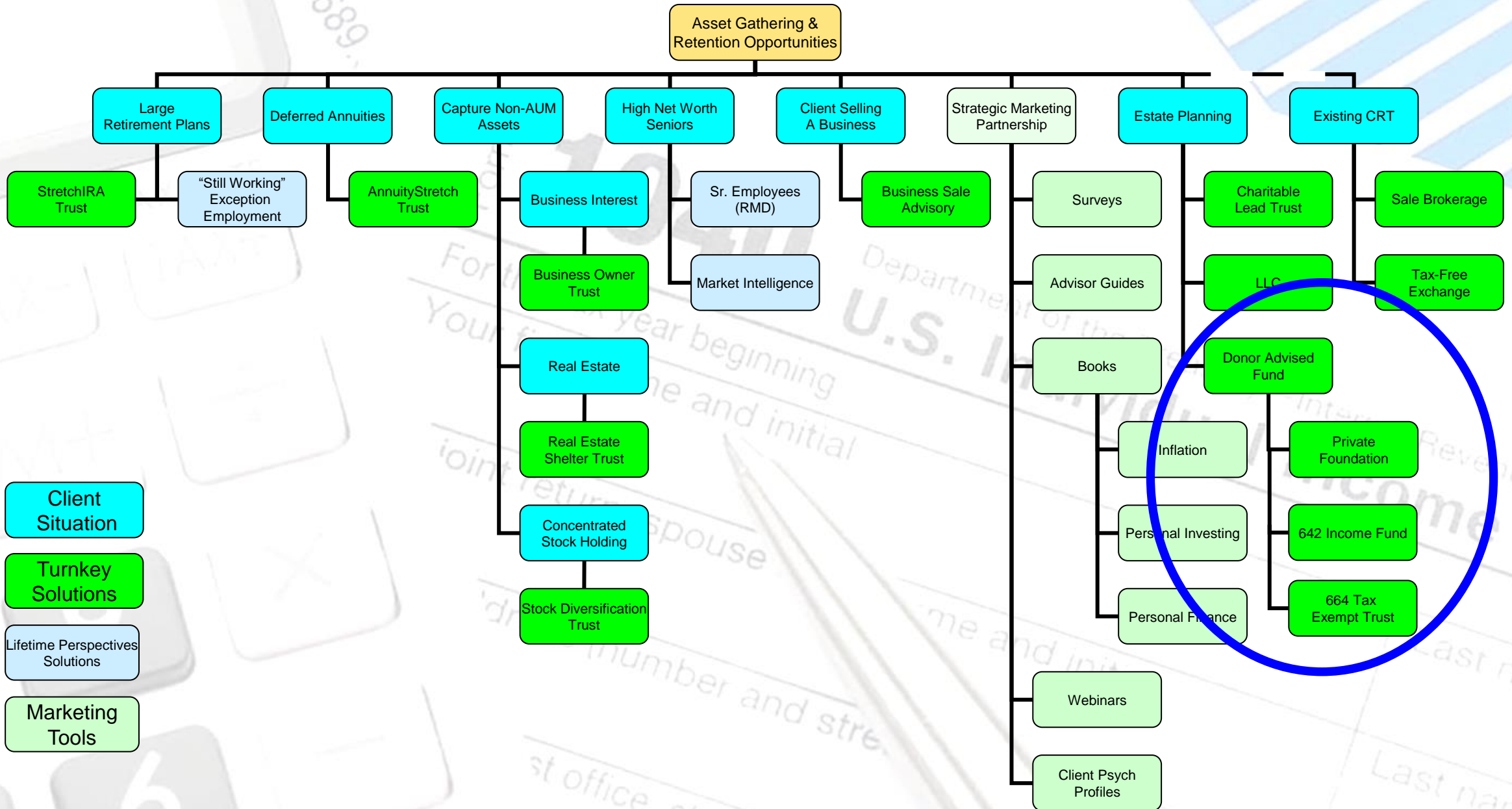
- e.g. save taxes
- diversify appreciated asset
- support charity
- provide for children/family
- generate income

Client's taxable income this year

Client state of residence

For Appreciated asset(s)

- type
- market value
- basis
- debt
- Location, if real estate





## Appreciated Real Estate

A Sterling Advisor Guide

2022



Authored by:  
**Roger Silk Ph.D., C.F.A.**, Chief Executive Officer  
**Ryan Whiting**, Business Analyst  
**Connor Barth**, Business Analyst



## Selling a Business

A Sterling Advisor Guide

2022



Authored by:  
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**Connor Barth**, Business Analyst



## Concentrated Stock Positions

A Sterling Advisor Guide

2022



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**Connor Barth**, Business Analyst



## Large Retirement Plans

A Sterling Advisor Guide

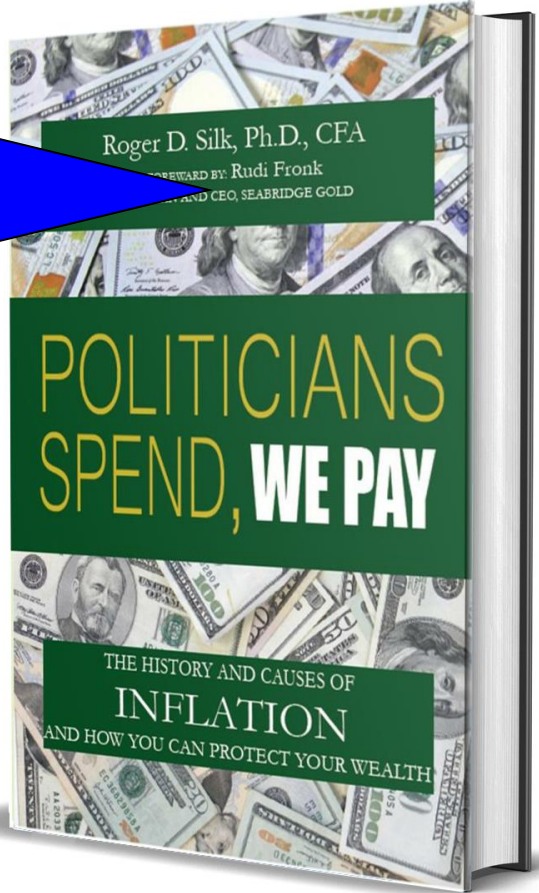
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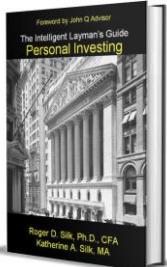


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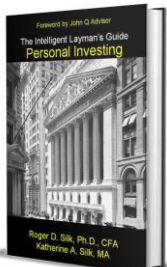


**Forthcoming titles:**

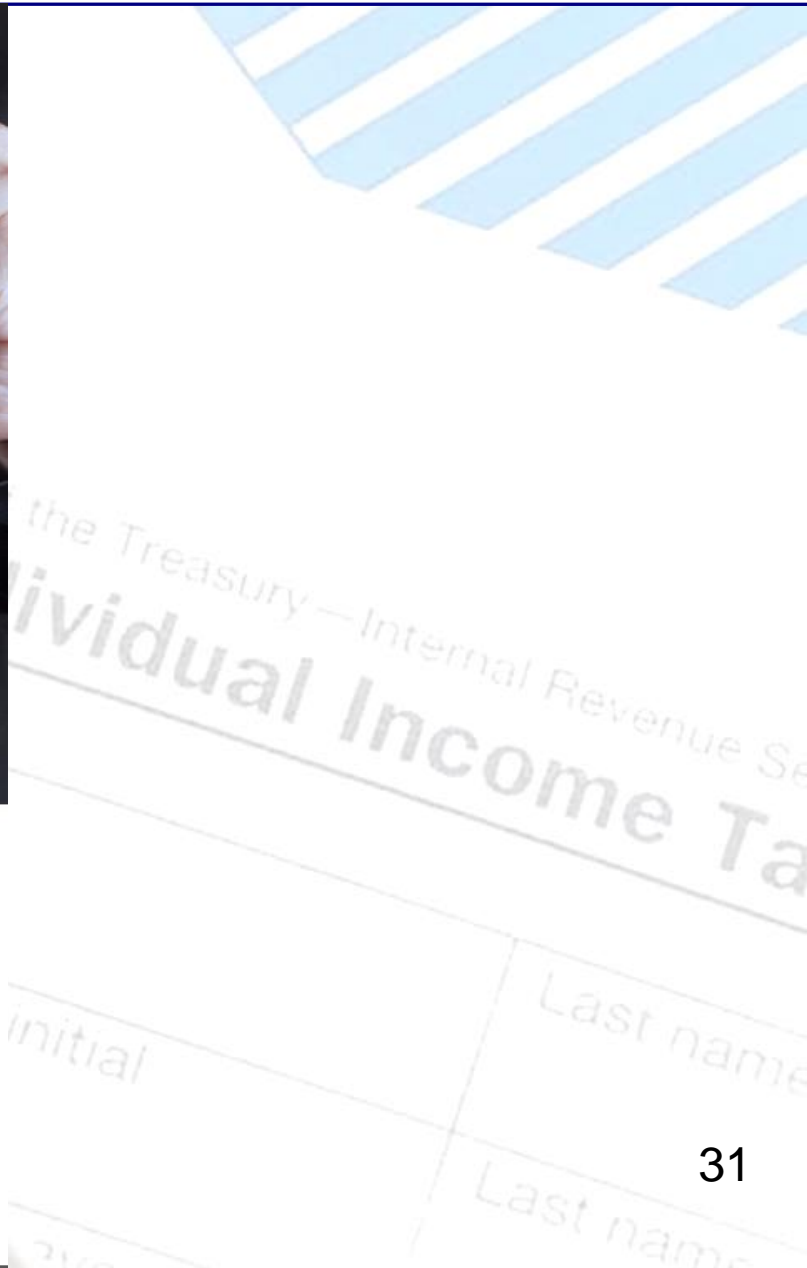
*The Intelligent Layman's Guide to Personal Investing*



*The Intelligent Layman's Guide to Personal Finance*







## Strategic Growth Partnership Program

Sterling Advisor Solutions

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