

# marrick wealth monthly

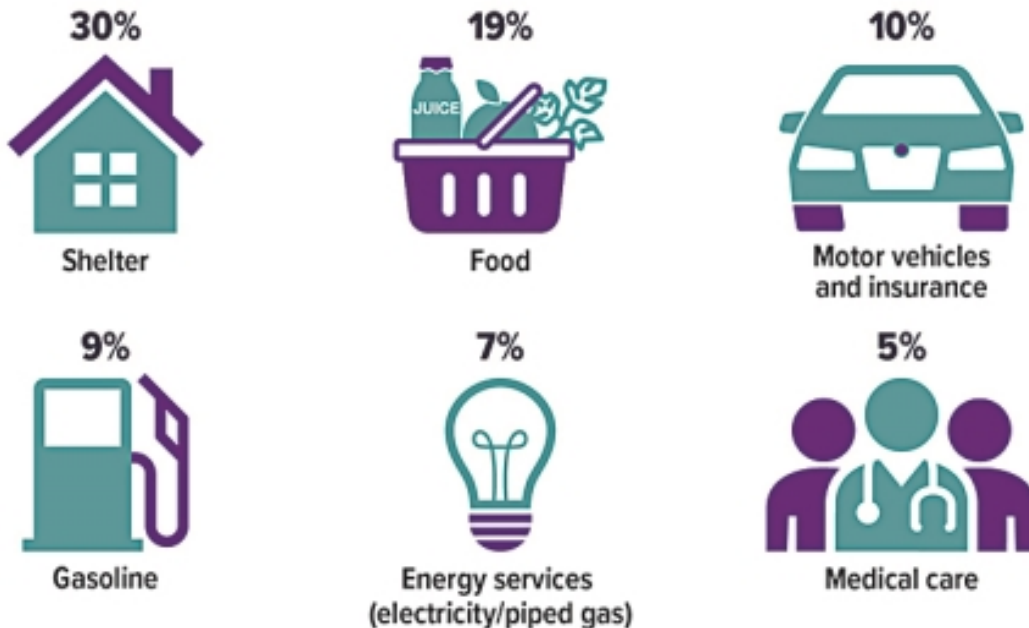


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## The Top Six Inflation Drivers of 2022

In June 2022, the 12-month rise in the Consumer Price Index (CPI) peaked at 9.1%, the fastest pace in 40 years, before dropping to 7.7% in October. This bout of inflation has been driven in large part by steep price hikes for essentials, hitting many U.S. households where it hurts the most. In fact, more than three-fourths of the annual increase in the CPI can be attributed to these six categories.

### Contribution to the 12-month, 7.7% increase in consumer prices, October 2022



Source: U.S. Bureau of Labor Statistics, 2022

# Donor-Advised Funds Combine Charitable Impact with Tax Benefits

A donor-advised fund (DAF) is a charitable account offered by sponsors such as financial institutions, community foundations, universities, and fraternal or religious organizations. Donors who itemize deductions on their federal income tax returns can write off DAF contributions in the year they are made, then gift funds later to the charities they want to support. DAF contributions are irrevocable, which means the donor gives the sponsor legal control while retaining advisory privileges with respect to the distribution of funds and the investment of assets.

Donors can take their time vetting unfamiliar charities and exploring philanthropic opportunities. They can wait to take advantage of matching fund campaigns, have money ready to aid victims when disaster strikes, or build up funds over multiple years to make one large grant for a special purpose. Grants can generally be made to any qualified tax-exempt charitable organization in good standing.

Under current law, there are no rules about how quickly money in DAFs should be granted. However, legislation has been introduced — the Accelerating Charitable Efforts (ACE) Act — that would impose a 15-year limit on the donor's advisory privileges, among other changes. You may want to watch for future developments if you are interested in using donor-advised funds to execute a charitable giving strategy. (Any legislation passed in 2022 likely would not take effect until 2023.)

## Tax-Efficient Timing

Gifts to public charities, including donor-advised funds, are tax deductible up to 60% of adjusted gross income (AGI) for cash contributions and 30% of AGI for non-cash assets (if held for more than one year). Contribution amounts that exceed these limits may be carried over for up to five tax years.

DAF contributions can be timed to make the most of the tax deduction. In an especially high-income year, for example, a larger contribution might keep a taxpayer from climbing into a higher tax bracket or crossing a threshold that would trigger Medicare surcharges or the net investment income tax.

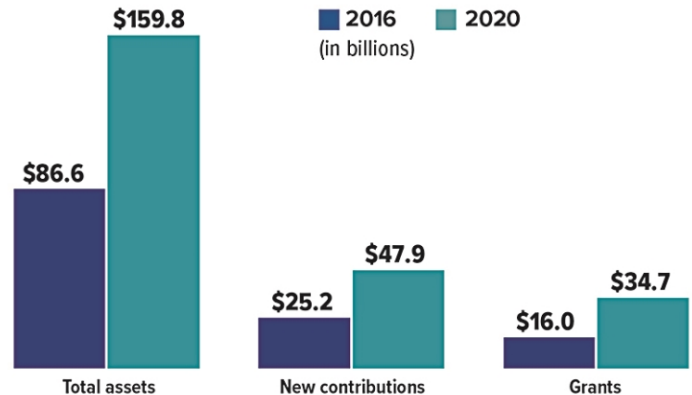
Now that the standard deduction has been expanded (\$12,950 for single filers and \$25,900 for joint filers in 2022), many taxpayers don't benefit from itemizing deductions, including those for charitable donations. But with advance planning, it may be possible to bunch charitable contributions that would normally be donated over several years in a single tax year, ensuring that itemized deductions surpass the standard deduction.

A similar approach may appeal to pre-retirees in their peak earning years. Those who expect to be in a lower tax bracket and/or might claim the standard deduction during retirement might consider making deductible contributions to a donor-advised fund while they are still working.

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## Growth in Donor-Advised Funds

Contributions to DAFs accounted for about 10.1% of total U.S. charitable giving in 2020.



Source: National Philanthropic Trust, 2021

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## Gifting Appreciated Assets

Contributions to a donor-advised fund can be made with cash, publicly traded securities, and more complicated assets such as real estate, valuable art and collectibles, or a stake in a privately held business, offering a convenient way to gift appreciated assets. Fund sponsors typically have experience in evaluating and liquidating donated assets (a qualified appraisal may be needed). This way, a donor can make a single contribution to a DAF that eventually benefits multiple charities, including smaller organizations that are not able to accept direct donations of appreciated assets.

Giving appreciated assets to charity can provide lucrative tax savings. A donor may qualify for a tax deduction based on the current fair market value of the contribution while helping reduce capital gain taxes on the profits from the sale of those assets. This strategy may be helpful when family businesses or shares of privately held companies are sold, or any time a larger tax deduction is needed.

*DAFs have fees and expenses that donors giving directly to a charity would not face. All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.*

# Three Stretch IRA Alternatives

The passage of the SECURE Act in 2019 effectively eliminated the stretch IRA, an estate planning strategy that allowed an inherited IRA to continue growing tax deferred, potentially for decades. Most nonspouse beneficiaries, including children and grandchildren, can no longer stretch distributions over their lifetimes. Moreover, proposed IRS regulations require most designated beneficiaries to take annual required minimum distributions (RMDs) within the 10-year distribution period if the original account owner died on or after his or her required beginning date. This shorter distribution period could result in unanticipated and potentially large tax bills for nonspouse beneficiaries who inherit high-value IRAs.

You may be looking for alternative ways to preserve your wealth and pass it on to your beneficiaries. Here are three options you might consider.

## Roth Conversion

If you are willing to pay income taxes now instead of your beneficiaries paying them later, you could convert your IRA to a Roth IRA. Anyone can convert a traditional IRA to a Roth IRA. However, you generally have to include the amount you convert in your gross income for the year converted. Not only would you have to pay taxes on the amount converted, but the beneficiaries of your Roth IRA will generally have to liquidate the account within 10 years of inheriting it, although they won't pay federal income taxes on the distribution(s).

## Life Insurance

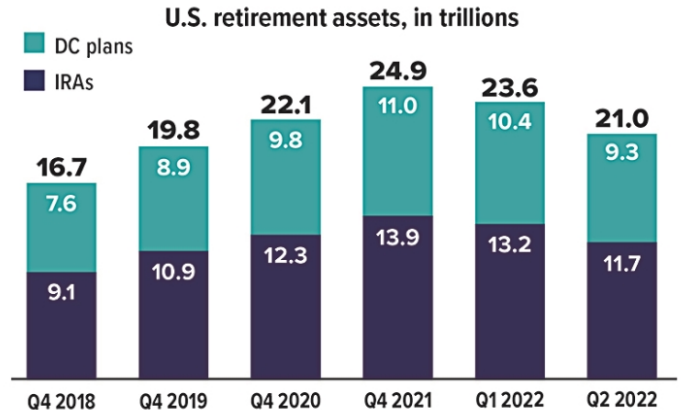
You could take distributions from your IRA and use them to buy life insurance on your life. The beneficiaries you name in the life insurance policy will receive those proceeds tax-free at your death. The policy beneficiaries could use the tax-free proceeds of the life insurance to pay any income taxes they would owe on the balance of the IRA they inherit from you. Or, if you've been able to liquidate or spend down your IRA during your lifetime, the tax-free life insurance death benefit would replace some or all of the taxable IRA that otherwise would have been inherited by the beneficiaries.

## Irrevocable Trust

You could create an irrevocable trust and fund it with non-IRA assets. An irrevocable trust can't be changed or dissolved once it has been created. You generally can't remove assets, change beneficiaries, or rewrite any of the terms of the trust. Often, life insurance is used to fund the irrevocable trust. You can direct how and when the trust beneficiaries are to receive the life insurance proceeds from the trust after your death. In addition, if you have given up control of the property, all of the property in the trust, plus any future appreciation on the property, is removed from your taxable estate.

## Wealth Cache

Assets held in individual retirement accounts (IRAs) and defined-contribution plans such as 401(k)s dipped in the first half of 2022 to \$21 trillion. Even so, that total was up more than 25% from year-end 2018.



Source: Investment Company Institute, 2022

*While trusts offer numerous advantages, they incur upfront costs and often have ongoing administrative fees. The use of trusts involves a complex web of tax rules and regulations. You should consider the counsel of an experienced estate planning professional and your legal and tax professionals before implementing such strategies.*

*As with most financial decisions, there are expenses associated with the purchase of life insurance. Policies commonly have mortality and expense charges. The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased. In addition, if a policy is surrendered prematurely there may be surrender charges and income tax implications. Any guarantees are subject to the financial strength and claims-paying ability of the insurer.*

*To qualify for the tax-free and penalty-free withdrawal of earnings, a Roth IRA must meet the five-year holding requirement, and the distribution must take place after age 59½ or due to the owner's death, disability, or a first-time home purchase (\$10,000 lifetime maximum). Under current tax law, if all conditions are met, the Roth IRA will incur no further income tax liability for the rest of the owner's lifetime or for the lifetimes of the owner's heirs, regardless of how much growth the account experiences.*

# Three Ways to Help Simplify Your Finances

Over time, finances tend to get complicated, especially when you're juggling multiple goals and accounts. Simplifying your finances requires a bit of effort up front, but making just a few changes may help free up more time to focus on your financial priorities.

## Make Saving Automatic

Saving for a goal is simpler when money is set aside automatically. For example, you may be able to regularly and automatically deposit a portion of your paycheck into a retirement account through your employer. Your contribution level may also increase automatically each year, if your plan offers this feature. Employers may also allow you to split your direct deposit into multiple accounts, enabling you to build up a college fund or an emergency fund, or direct money to an investment account.

Another way to make saving for multiple goals easier is to set up recurring transfers between your savings, checking, or other financial accounts. You decide on the frequency and timing of those transfers, and you can quickly make necessary adjustments.

## Consolidate Retirement Funds

If you've had a few jobs, you might have several retirement accounts, such as IRAs and 401(k) or 403(b) plans, with current and past employers. Consolidating them in one place may help make it easier to monitor and manage your retirement savings and distributions, and prevent you (or your

beneficiaries) from forgetting about older or lower-balance accounts. Not all accounts can be combined, and there may be tax consequences, so discuss your options with your financial and/or tax professionals.

## Take a Credit Card Inventory

Credit cards are convenient, but managing multiple credit-card accounts can be time-consuming and costly. Losing track of balances and due dates may lead to increased interest charges or late payments. You could also miss out on some of the rewards and benefits your cards offer. If you've accumulated a few credit cards, review interest rates, terms, credit limits, and benefits that may have changed since you got the cards. Ordering a copy of your credit report can help you quickly see all of your open credit-card accounts — there may be some you've forgotten about. Visit [annualcreditreport.com](https://annualcreditreport.com) to get a free credit report from each of the three major credit reporting agencies (Experian, Equifax, and TransUnion).

Once you know what you have, you can decide which cards to use and put the rest aside. Because it's possible that your credit score might take a temporary hit, it may not always be a good idea to close accounts you're not using unless you have a compelling reason, such as a high annual fee or exposure to fraud.

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## IMPORTANT DISCLOSURES

This publication is not intended to provide investment, tax, or legal advice. The information presented here is not specific to any individual's personal circumstances.

To the extent that this material concerns tax matters, it is not intended or written to be used, and cannot be used, by a taxpayer for the purpose of avoiding penalties that may be imposed by law. Each taxpayer should seek independent advice from a tax professional based on his or her individual circumstances.

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