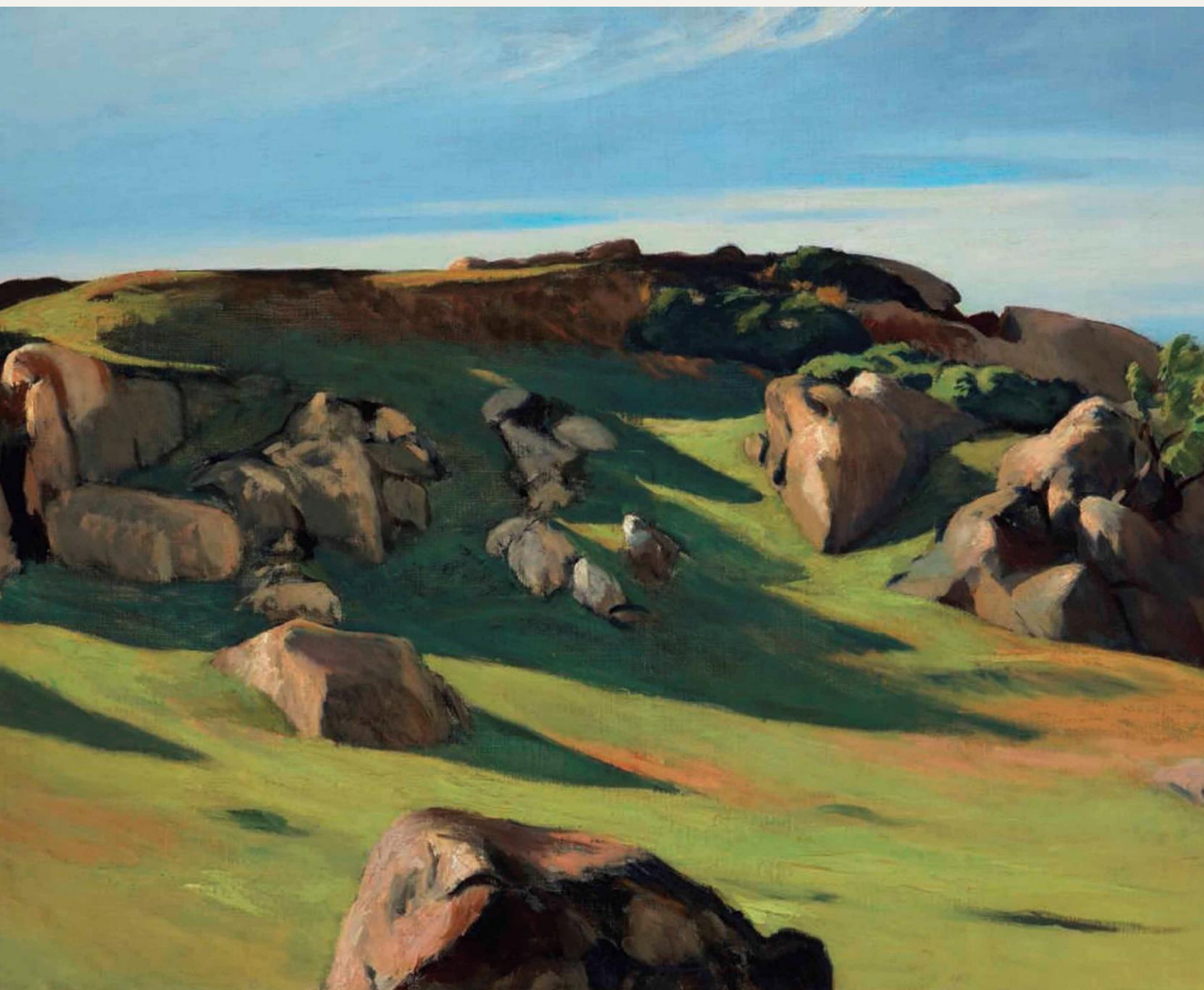




Finding the Silver Lining: Planning During Volatility

Rockefeller Insights

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As we move into the 2nd quarter of 2025, investors have been exposed to a challenging equity market stemming from our current geopolitical environment. Following last Wednesday's "Liberation Day" announcement where President Trump introduced a plan to impose widespread tariffs, global markets have fallen sharply.

At this point, it may be difficult to predict whether global financial markets will continue to struggle and take more losses or begin to rebound. Nevertheless, investment portfolios have been negatively affected by the recent volatility, giving up substantial parts of recent years' gains.

Today's market challenges do, however, present unique opportunities for individuals and families to implement thoughtful and effective planning strategies geared toward income and estate tax savings. The current environment also in many cases may necessitate a renewed focus on component parts of financial plans potentially impacted by the sell-off.

The following Rockefeller Insight provides details on a selection of those planning strategies and considerations.

Those searching for a "silver lining" in the recent market sell offs may very well find one through opportunistic tax planning.



Opportunistic Income Tax Strategies

Roth Conversions at Depressed Values

A Roth IRA conversion occurs when a taxpayer takes all, or a portion, of an existing Traditional IRA, 401(k) or other qualified plan account and transfers it to a Roth account. By making the conversion, the taxpayer can take advantage of beneficial tax characteristics of Roth IRAs; most notably, and differentiated from traditional accounts, is that future distributions from the Roth are not taxable and Roth's are not subject to the Required Minimum Distribution regime.

The balance transferred to the Roth account is taxable for federal, and potentially, state income tax purposes in the year the conversion occurs. Even if the conversion occurs prior to the taxpayer turning 59 ½, the transfer is not subject to the 10% penalty on early distributions, nor is it subject to the Roth IRA contribution limits.

Importantly, especially given the current macro environment, the taxable income generated from the conversion is tied to the fair market value of the assets at the time of conversion. This means that the “tax cost” of a full or partial conversion is decreased when asset values are depressed. Those who have completed or considered Roth conversions in the past should treat the current market downturn as a great opportunity to revisit the strategy and look to capitalize on temporarily reduced values in their traditional IRAs and other tax deferred accounts.

Whether a Roth conversion is an attractive planning strategy is entirely dependent on a taxpayer's unique financial landscape and impacted by factors including, but not limited to, present and expected future income tax rates, the ability to pay the associated income tax with non-IRA assets, and the intended use and investment horizon for the IRA assets.

That said, if after careful consideration a Roth conversion is the right strategy, the recent challenges in financial markets present a great opportunity to execute at a reduced-up front tax cost, while capturing increased long-term income tax benefits.

For more information on Roth IRAs and planning through conversions, refer to the August 2024 Rockefeller Insight: [“Planning with Roth IRAs”](#) .



Tax Loss Harvesting and Wash Sale

Tax loss harvesting during a down market is another opportunity to turn lemons into lemonade. Tax loss harvesting is the process of selling underperforming investments at a loss and using those capital losses to offset taxable capital gains elsewhere in the taxpayer's portfolio. In a year when a taxpayer's capital losses outweigh their gains, the IRS will generally allow the taxpayer to apply up to \$3,000 in net capital losses against ordinary income. Any unused capital losses can be carried forward to be used in future tax years.

When implementing a tax loss harvesting strategy investors must always be aware of the "wash sale" rules. A "wash sale" is the sale of stock or a security at a loss where the taxpayer acquires a "substantially identical" share or security within 30 days before or after the date of the sale, leaving the taxpayer's investment position substantially unaltered. If a wash sale occurs, the taxpayer will not be able to currently deduct the loss on the applicable sale and instead the loss is generally deferred until the replacement security is sold.

While the "wash sale" rules may limit a tax loss harvesting strategy if a client ultimately wants to retain a particular stock or security, the same is not true for any cryptocurrency in a client's portfolio. Under current law, the IRS views cryptocurrency as "property" for tax purposes and the "wash sale" rules do not currently apply to cryptocurrency transactions as a result of this classification. As such, investors with cryptocurrency in their holdings can currently be very strategic with a tax loss harvesting strategy.

Opportunistic Estate Tax Strategies

Grantor Retained Annuity Trusts

While Roth conversions and tax loss harvesting present great opportunities to capture income tax efficiency when financial assets are at temporarily depressed values, Grantor Retained Annuity Trusts (GRATs) allow individuals and families to take advantage of temporarily reduced asset values through potential estate and gift tax savings.

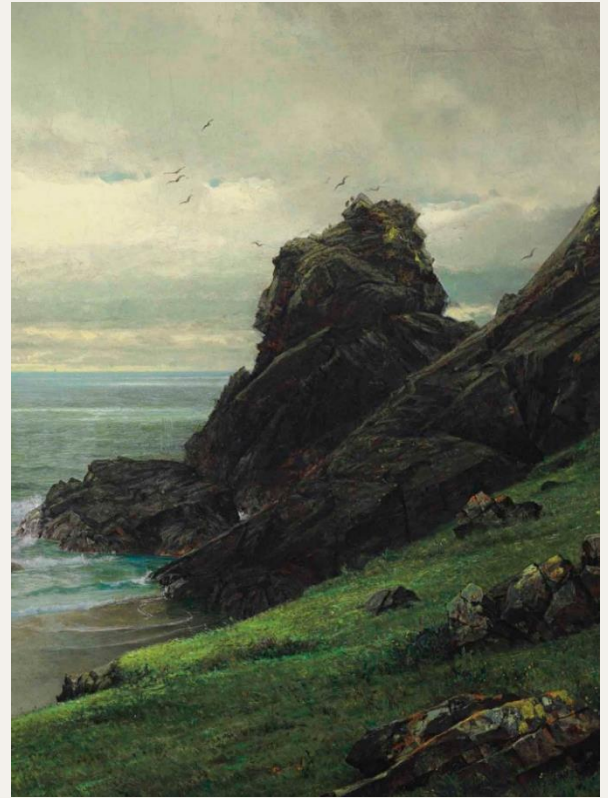
A GRAT is a well-established estate planning technique that allows a taxpayer to remove substantial asset income and appreciation from his or her taxable estate without making a more than nominal taxable gift. In a GRAT structure, a grantor contributes property to a trust in exchange for a set of annuity payments over a set period of time. The annuity stream is valued using an interest rate established by the Internal Revenue Service (the "7520 Rate") and when structured correctly the annuity value retained by the grantor is essentially equal to the fair market value of the property on the date of contribution.

As a result, a GRAT is often referred to as a "freeze" technique in that it allows an individual to freeze the value of an asset at a specific point in time for estate and gift tax purposes. Any appreciation and income over and above the IRS prescribed interest rate passes gift and estate tax free to the trust beneficiaries.

Grantor Retained Annuity Trusts (continued)

It is the “freeze” concept that makes GRATs particularly attractive during market downturns as they provide taxpayers with the ability to identify assets that have currently depressed values and lock those values in from an estate tax perspective. Thought being that the identified assets have the potential to recover and experience substantial growth in the short to medium term and that growth will occur outside of the taxpayer’s taxable estate.

Many individuals find GRATs attractive due to limited downside of the strategy. If the assets contributed to a GRAT do not appreciate enough to outpace the set interest rate, whatever is left in the trust at the end of the GRAT term simply flows back to the individual’s estate as if no trust was ever established. In essence, even if a GRAT is unsuccessful the taxpayer will not be worse off (other than the cost of setting up and administering the GRAT) than had they not implemented the strategy creating a set of outcomes that could be described as “heads you win, tails we tie.”



Making Gifts & Utilizing Lifetime Gifting Exemption

Similar to the use of GRATs in a down-market cycle, traditional gifting strategies can be more effective during a market downturn when employed opportunistically.

For tax year 2025, the lifetime gift exemption, the amount individual taxpayers can gift during their lifetimes without having to incur and pay a gift tax, is \$13,990,000 (\$27,980,000 for married taxpayers). Without legislative action¹ in the meantime, the current gift tax exemption will revert to approximately \$7,000,000 per taxpayer on January 1, 2026, which presents a potentially limited window for taxpayers to max out their current gifting capacity.

When a taxpayer makes a gift, it is essential to note a few concepts: (1) the value of a gifted asset for gift tax purposes is the fair market value of the asset on the date of the gift², (2) not only is the fair market value of the gifted asset on the date of gift not included in the donor’s estate at death, but all the appreciation on the gifted asset after the date of the gift is also not included in the donor’s estate, and (3) the recipient of a gifted asset takes the asset with same income tax basis as the donor had in the asset (“carryover basis”).

With those fundamental tenets in mind, the ideal asset to gift using traditional gifting strategies has the following characteristics: (1) a depressed fair market value, (2) likely to significantly appreciate and (3) a relatively high-income tax basis. As such, it is easy to see while the current down market may be the ideal and most effective time to make strategic gifts of marketable securities.

Combine this with the scheduled reduction of the temporarily increased gift tax exemption at the end of this year and now just might be the most opportune time to make significant gifts of marketable securities.

¹ President Trump and Republicans in Congress have expressed a desire to extend and/or make permanent many provisions of the 2017 Tax Cuts and Jobs Act (“TCJA”), including the current high exemption levels. Given Republicans’ slim majorities in the House and Senate, any plan to extend provisions in the TCJA will likely need to be done through the Budget Reconciliation process expected to progress in coming weeks and months.

² For gift tax calculation purposes, the fair market value of a marketable security is equal to the mean between the highest and lowest quoted selling prices of the security on the date of the gift.

Revisiting Components of Your Financial Plan

Down Markets and the Health of Permanent Life Insurance

Down market cycles and potentially reduced expected growth rates can affect multiple areas of a planning process beyond just investment portfolios. Many individuals and families have instituted the use of life insurance for a multitude of reasons, including, estate planning liquidity needs. Insurance illustrations are usually built using assumed static growth rates. If an individual is using variable life insurance in their planning process, the longer the real investment returns underperform the assumed growth rate of the policy, the less likely the illustration will reflect the potential true outcome of the policy. In challenging markets, it can become very important to request current in-force illustrations using the reduced policy values to assess the potential impact on the policy.

Debt Securitized by Investment Portfolios

Investors have also used their investment portfolios to effectuate other parts of the planning process. Some have financed homes or other assets using loans secured by the value of their portfolio. Margin has been used to create further investing. With portfolio values having decreased, investors may also be in a position where further collateral could be required to keep the loans in place. Given the market volatility, investors with debt securitized by investment portfolios should take a moment to take stock of their financial plans and ensure their leverage is still appropriate and effective.

Takeaways

While market downturns, like what we are currently experiencing, undoubtedly have negative impacts on the value of many investors' portfolios, they offer an opportune time to focus on planning strategies.

The potential impact of wealth transfer strategies to facilitate efficient estate tax planning can be enhanced by acting in a down-market cycle. Additionally, the current environment presents individuals with the opportunity to deploy strategies aimed at planning around income taxes such as Roth IRA conversions and tax-loss harvesting. It is also a time when individuals and families should be re-examining their financial plans more broadly to ensure they are appropriately constructed given current market conditions.

As we know, financial planning is not a "set it and forget it" exercise and encompasses far more than just the performance of investment accounts. The importance of continuous monitoring and seizing opportunities to implement effective planning strategies is rarely more evident than in periods of challenging market conditions.

For many individuals and families that act opportunistically, the "silver lining" they will have found amidst this market downturn will result in outsized income and estate tax benefits. Do not hesitate to reach out your Private Advisor to further the discussion and explore the strategies covered in this Rockefeller Insight.



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