

Vanguard[®]

The Value of Ownership

Legislative updates and tax-efficient planning strategies



Agenda

1. Overview of tax sunset and SECURE Act
2. Estate and gifting opportunities
3. Action items for advisors

Overview of tax sunset and SECURE Act

Tax sunset

In 2017, the Tax Cuts and Jobs Act (TCJA) was passed. This permanently lowered corporate taxes.

Other individual tax cuts are temporary and scheduled to expire

On January 1, 2026, the following changes will go into effect if no new legislation is passed:

- Individual federal income tax rates will go up
- Standard deductions, itemized deductions, personal exemptions, and much more will revert to pre-TCJA levels
- Lifetime estate and gift tax exemptions will revert to the pre-TCJA level

SECURE Act 1.0

The SECURE Act 1.0 requires most non-spouse beneficiaries who inherit assets on or after January 1, 2020, to withdraw the full balance of the account within 10 years.

SECURE Act 2.0:

Changes to be aware of in 2024

- Increase to the required minimum distribution age
- New option for surviving spouse beneficiaries
- Option to rollover overfunded 529s to Roth IRAs
- Careful planning for future catch-up contributions

Individual federal income tax rates are scheduled to increase for the tax year 2026

Evergreen income tax ambiguity planning

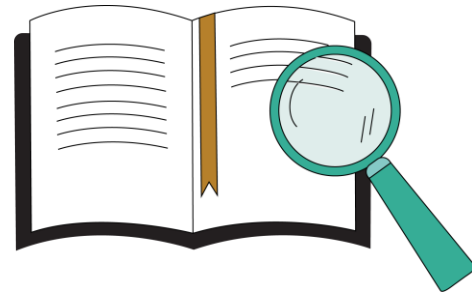
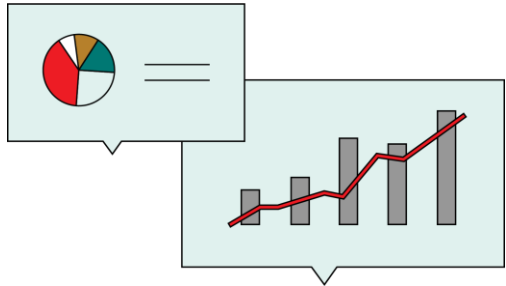
- Use tax-efficient investments like direct indexing and ETFs
- Lower taxable ordinary income with muni bond income
- Review automated annual portfolio transactions for efficiency
- Use threshold planning
- Consider Roth accounts in long-term income planning

2024 federal income tax rates

SINGLE FILING TAXABLE INCOME	MARRIED FILING JOINTLY TAXABLE INCOME	CURRENT TAX BRACKET	AT SUNSET, YOUR TAXES MAY INCREASE TO:	DIFFERENCE
<\$11,600	<\$23,200	10%	10%	—
\$11,601–\$47,150	\$23,201–\$94,300	12%	15%	+3.0%
\$44,151–\$100,525	\$94,301–\$201,050	22%	25%	+3.0%
\$100,526–\$191,950	\$201,051–\$383,900	24%	28%	+4.0%
\$191,951–\$243,725	\$383,901–\$487,450	32%	33%	+1.0%
\$243,726–\$609,350	\$487,451–\$731,200	35%	35%	—
>\$609,351	>\$731,201	37%	39.6%	+2.6%

Source: The Tax Foundation.

Transactional efficiencies



Standard annual transactions

- Rebalancing
- Annual dividends and distributions
- Tax-loss harvesting

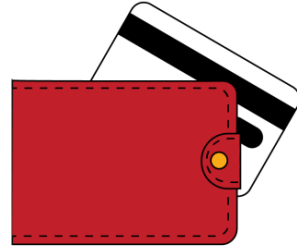
Efficiencies

- Gifting strategies
 - Gift overweight shares in kind
- Use standard transaction proceeds to fund portfolio needs
 - Move to tax efficient investments
 - Fund cash flow needs

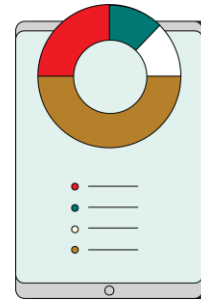
SECURE Act 2.0's impact on Roth



**Creation of SIMPLE
Roth IRAs and
SEP Roth IRAs**



**Employer
contributions
are permitted in
Roth accounts**

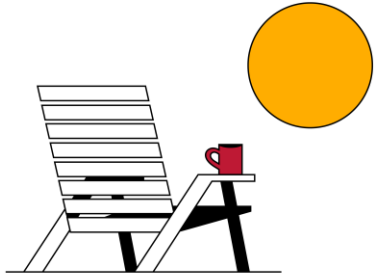


**High wage earners
(over \$145,000 in FICA
wages in the prior year
with the employer
sponsoring the plan)
must allocate catch-up
contributions to Roth
starting in 2026**

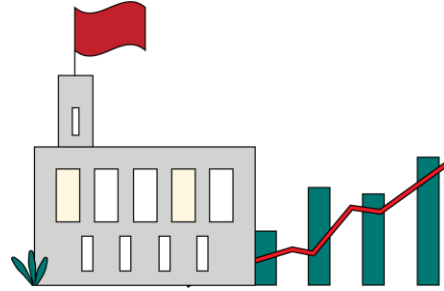


**Elimination of Roth
plan account RMDs
starting in 2024 (pre-
death, does not carry
over to beneficiaries)**

Benefits of Roth accounts



**Allow tax-free
withdrawals
in retirement**



**Provide estate-
planning tax
efficiencies**

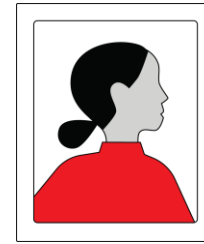


**“Lock-in” current
tax rates**



**Save more on
an after-tax
equivalent basis**

Roth and threshold planning example



Daphne
A single taxpayer

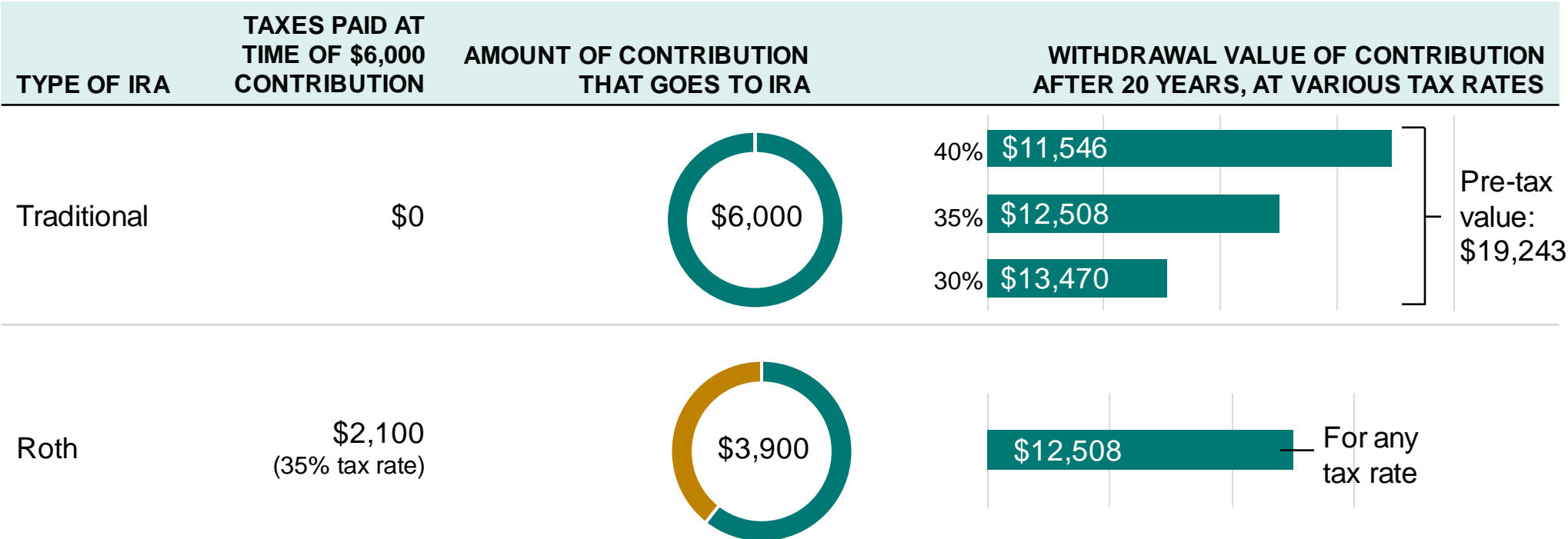
- Current AGI \$150,000 annually
 - Income is anticipated to increase significantly
 - Considering Roth with lower tax rates
-

How it works

- Accelerate income up to the top of her current marginal tax bracket
- 24% bracket ends at \$191,950
- Jumps to 32%—an additional 8% in taxes
- Convert around \$40,000 at current tax rate

Rule of thumb: Roth leads when tax rates increase

Comparing a \$6,000 contribution in traditional and Roth IRAs

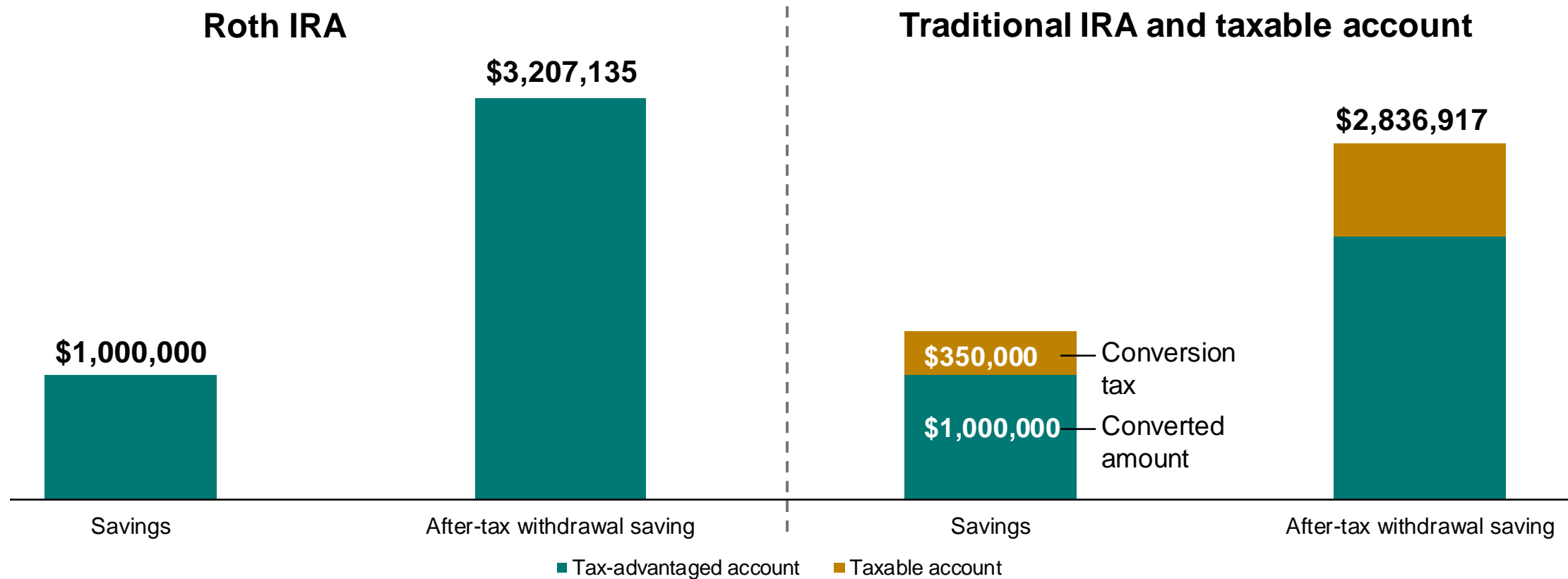


Source: Vanguard.

Notes: Our calculations assume a 6% annual return, a 35% current marginal income tax rate, and a 20-year investment horizon. This hypothetical illustration does not represent the return of any particular investment.

\$1 million Roth conversion

Other factors should be considered in addition to the rule of thumb, such as the size of taxable accounts

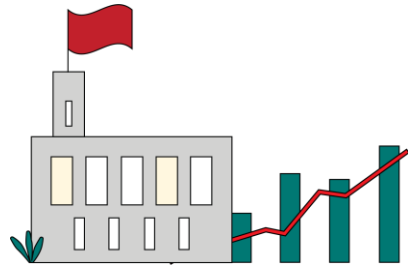


Source: Vanguard.

Notes: Our calculations assume a \$6,000 Roth IRA contribution versus a \$6,000 traditional IRA contribution plus \$2,100 in a taxable account, a 6% annual return, a 35% ordinary income tax rate, and a 20-year investment horizon. For the taxable account, the entire annual investment return is taxed annually. This hypothetical illustration does not represent the return of any particular investment.

Estate and gifting opportunities

Understanding estate taxes and lifetime gifting



Federal estate tax

40% tax imposed at your death on assets above the set “exemption amount”



Federal gift tax

Tax on assets you gift during your life that exceed your “lifetime exemption amount”

Lifetime estate and gift tax exemption

- The total amount exempt from federal estate and gift taxes
- Deceased Spousal Unused Exclusion Amount (DSUEA)

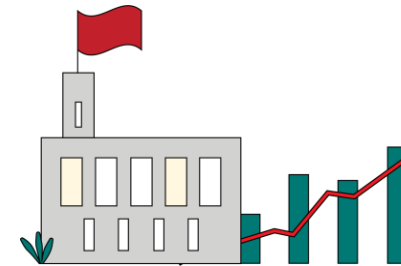
YEAR	LIFETIME ESTATE AND GIFT TAX EXEMPTION
2004–2005	\$1,500,000
2006–2008	\$2,000,000
2009	\$3,500,000
2011	\$5,000,000
2017	\$5,490,000
2018	\$11,180,000
2022	\$12,060,000
2023	\$12,920,000
2024	\$13,610,000
2026 sunset estimate	\$6,805,000

Source: Evans Estate Law Resources.

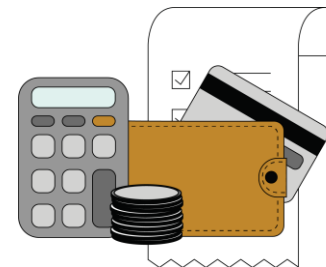
Gifting strategies



Complete direct gifts to beneficiaries



Remove assets from estate using intermediary structures

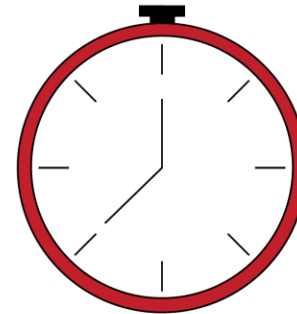


Comprehensive wealth transfer and large case design

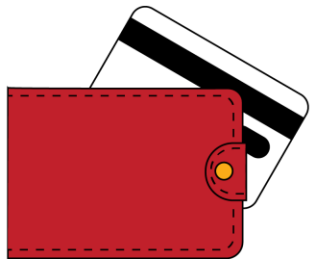
Develop an annual gifting strategy with your clients



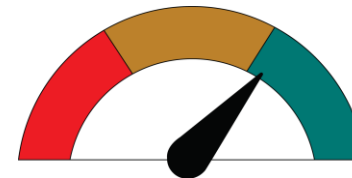
Make \$18,000 annual exclusion gifts to as many people as you wish



Front-load 529 savings plans with up to five years of annual gifts for beneficiaries



Pay for qualified tuition and medical expenses directly



Maximize gifts to qualified charities

Action items for advisors

Prepare clients for the potential of falling into a taxable estate

Over \$3M

- Start an annual gifting strategy

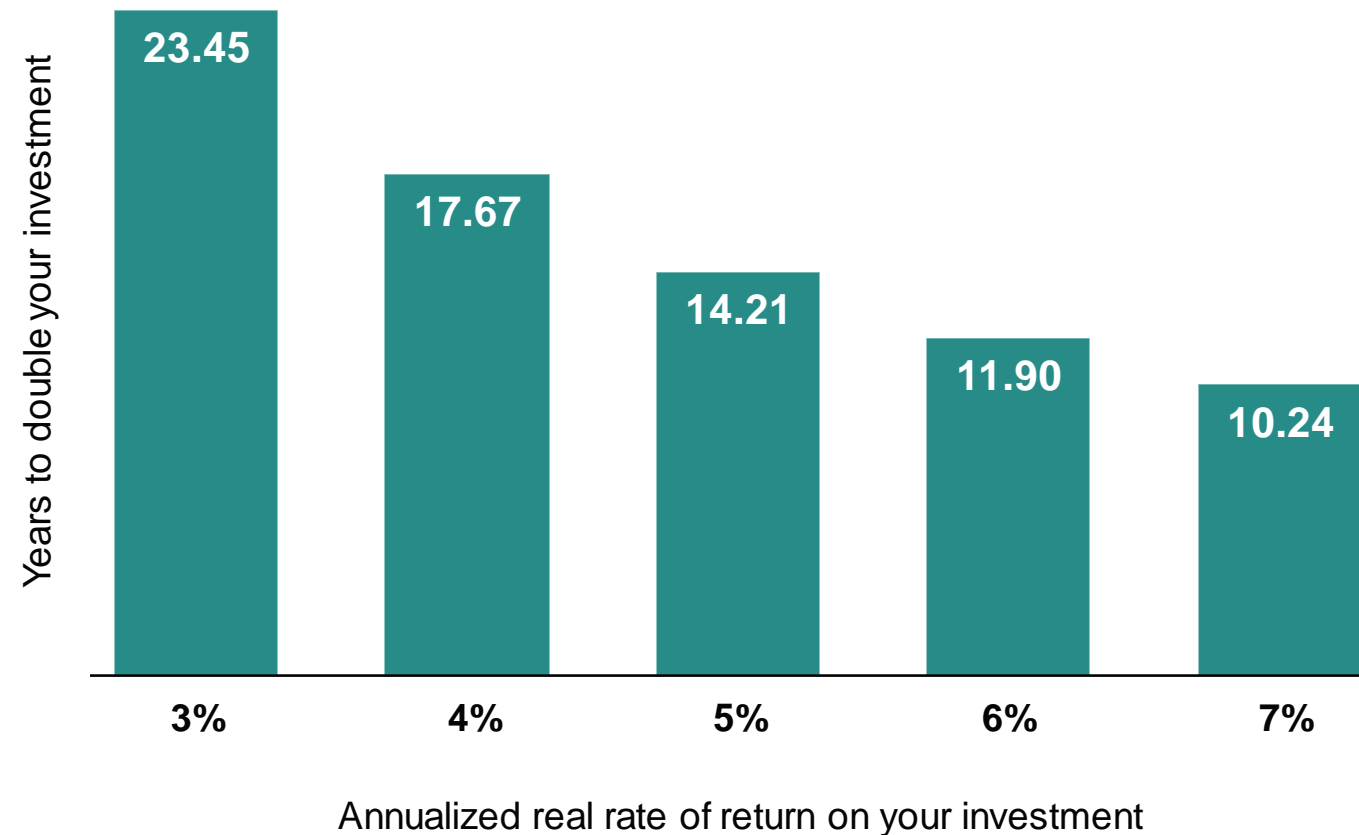
Between \$6M and \$13M single filers/\$13M–\$26M married

- Put time into planning. Your assets don't exceed the current exemption but will exceed it at sunset

Assets over \$13M single filers/over \$26M married

- Act now as your assets exceed the current lifetime exemption amount

\$3M net worth can easily double in less than 25 years



Notes: This hypothetical illustration does not represent the return on any particular investment and the rate is not guaranteed.

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Action items for you

SECURE Act 2.0

- Screen book for clients turning age 70+
 - Discuss changes to future RMDs
- Identify clients over age 50 to develop savings plans for future catch-up contributions
 - Special catch-up contributions for ages 60–63 starting in 2025
 - High FICA wage earners with more than \$145,000 must allocate catch-up contributions to Roth starting in 2026
- Identify whether parents and grandparents have 529s
 - Awareness of FAFSA changes and new rollover options to fund Roth IRAs

Tax sunset

- Reach out to clients with over \$6M to discuss potential decrease in lifetime exemption
- Discuss Roth conversions for pre-retirees ages 55 to 62
- Identify young professionals who can unlock the potential to do back-door Roth contributions after converting their traditional accounts to Roth

Gifting

- Identify clients that make large annual charitable contributions
 - QCDs
 - Bunching
- Develop annual evergreen gifting strategies with clients who want to maximize wealth within the family
- Explore direct indexing

Important information

All investing is subject to risk, including possible loss of principal. Be aware that fluctuations in the financial markets and other factors may cause declines in the value of your account.

There is no guarantee that any particular asset allocation or mix of funds will meet your investment objectives or provide you with a given level of income. Prices of mid- and small-cap stocks often fluctuate more than those of large-company stocks. Investments in stocks or bonds issued by non-U.S. companies are subject to risks including country/regional risk and currency risk. These risks are especially high in emerging markets. Funds that concentrate on a relatively narrow market sector face the risk of higher share-price volatility. It is possible that tax-managed funds will not meet their objective of being tax-efficient.

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Tax-loss harvesting involves certain risks, including, among others, the risk that the new investment could have higher costs than the original investment and could introduce portfolio tracking error into your accounts. There may also be unintended tax implications. We recommend that you carefully review the terms of the consent and consult a tax advisor before taking action.

Although the income from a municipal bond fund is exempt from federal tax, you may owe taxes on any capital gains realized through the fund's trading or through your own redemption of shares. For some investors, a portion of the fund's income may be subject to state and local taxes, as well as to the federal Alternative Minimum Tax.

Withdrawals from a Roth IRA or 401(k) are tax free if you are over age 59½ and have held the account for at least five years; withdrawals taken prior to age 59½ or five years may be subject to ordinary income tax or a 10% federal penalty tax, or both. (A separate five-year period applies for each conversion and begins on the first day of the year in which the contribution is made.)

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