



# Trust Company of Vermont

## Quarterly Update

JANUARY 2024

Brattleboro ■ Burlington ■ Rutland ■ Manchester ■ Keene, NH

Employee-owned & Vermont-based

tcvermont.com



Chris  
Cassidy  
CEO

MY FIRST EXPERIENCE with LLCs came in my early twenties. A few friends and I started up an LLC to run weekend basketball clinics for youths in Chittenden County. I absolutely loved being in the gym, but I didn't love keeping our books. Thankfully, the business was relatively simple, and since it didn't make a lot of money, I was able to do the annual filings and federal and state tax returns myself by hand in the comfort of my kitchen. When the three of us got too busy with other life events, it was easy to dissolve the LLC and move on with our lives.

Many individuals have much more complicated (and valuable) businesses or situations that require tax expertise that cannot be done by hand in the kitchen. In some instances, people have grown a successful business with significant value that they are trying to monetize and need advice. In other instances, individuals have passive gains or losses from a real estate property and need advice how best to utilize it. In other instances, someone may have inherited significant assets from a parent and are trying to figure out how it will impact their tax returns going forward and what they can do about it.

Trust Company of Vermont has always offered more than investment management to clients. We have knowledgeable estate planning attorneys on staff to provide guidance on complex situations and help with review of trust documents newly drafted by clients' attorneys, or perhaps drafted decades ago and still impacting our clients. We have a department for helping clients with bill pay to provide people peace of mind that property taxes, estimated taxes and various bills will be

paid on time. We have financial planning experts to help answer questions such as, how much money can I safely spend in retirement? We have Certified IRA Professionals and seasoned Trust Administrators to help with transactions both usual and unusual.

To continue providing a full suite of service offerings to those that we serve, Trust Company of Vermont has recently hired Nathan Alexander, CPA, CFP® and his team, which includes Andrea Reynolds, Joan Goulet and Lori Jankowski. All four of these experienced and knowledgeable individuals will operate out of our newly opened office at **81**

**Court Street,  
Keene, New  
Hampshire.**

Nathan and his team will not be taking the place of clients'

current tax preparers, but rather are here as a resource for clients who may need advice or clarity on complex business and tax issues.



Nathan has extensive experience in many different areas ranging from mergers and acquisitions to 706 estate tax returns to corporate and personal tax returns and all types of consulting. He is looking forward to being a tax resource for all our clients and is available to provide guidance, answer difficult questions and work collaboratively with tax preparers. This month, Nathan has written an article for the newsletter on business sales and exit strategies. ■



# Giftg to Grandchildren

CLIENTS OFTEN ASK our recommendations for the best way to make meaningful financial gifts to grandchildren. The end of the year is a great time to consider this type of gifting, as it should be done hand in hand with other financial planning. As with all gift planning, you should make gifts only after you confirm that you have adequate assets for yourself for the remainder of your lifetime.

The great thing about implementing a gifting program for grandchildren is that, if you start when they are young, there is a lot of time for gifted assets to accumulate and appreciate. There are several ways to structure a gifting program to be tax efficient, even tax-free, so that growth over time is maximized. As with all planning, what gifting program would work best for you depends on the particular facts and circumstances of your family. That said, here are our favorite gifting structures for grandchildren:

## 529 Plans

A 529 Plan is a special type of savings account that provides tax-free growth provided the assets in the Plan account are used to pay for the education of the beneficiary. 529 Plans are governed by federal law but are administered by states. All states (except Wyoming)

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have a 529 Plan, and each state plan has a different maximum funding level for a Plan account. States often offer benefits for state residents for using a state Plan, such as state income tax credits or matching contributions, but you can use the Plan of any state. Attractive features of 529 Plans are:

- A grandparent may make 5 years of annual exclusion gifts to a 529 Plan in one year. For 2023 and 2024, 5 years of annual exclusion gifts is \$85,000 and \$90,000, respectively.
- If one grandchild doesn't use all the assets in a Plan account, the Plan account can be transferred to another family member.
- Starting in 2024, a one-time transfer of up to \$35,000 of Plan assets to a Roth IRA is permitted under certain circumstances.

There are two main drawbacks to 529 Plans. First, if a grandchild doesn't attend college or doesn't need funds to pay for college, 529 Plan earnings are subject to income tax plus a 10% penalty if withdrawn for non-educational purposes. Second, 529 Plan account investment options are limited to what is offered by the Plan custodian selected by a state.

## Crummey Trust

A Crummey Trust is a special kind of trust that allows gifts to the Trust to be eligible for the annual exclusion. Most people like to make sure that a gift qualifies for the annual exclusion otherwise the gift will reduce the Donor's available federal estate tax exemption. Generally, a gift qualifies for the annual exclusion only if it is a gift of a present interest, and a gift to a trust is typically a gift of a future interest. However, a properly structured Crummey Trust includes a provision requiring the Trustee to notify the beneficiary that he or she may remove an annual exclusion gift for a short period of time after the gift is made. Thus, unless the annual notice requirement is problematic for a particular grandchild, a Crummey Trust is a great vehicle for making annual exclusion gifts for a grandchild. Married grandparents could make annual exclusion gifts to a Crummey Trust over a period of 10 or more years without using any estate tax exemption. The Trust terms may provide for distributions to be made to the grandchild for any number of purposes including, but not limited to, education. In addition, the Trust could last for as long as is desirable – until the grandchild is 25 or 65 years old

or anywhere in between. Finally, a Crummey Trust could be structured as a so-called "grantor trust." This means that the grandparent(s) who created the trust would be treated as owning the trust assets for income tax purposes and would pay income tax on the interest, dividends and capital gains earned by the trust. This may sound unappetizing but allows the trust assets to grow free from reduction for income taxes. For grandparents with state or federal taxable estates, this can have the happy side effect of reducing the grandparent's estate without any use of exemption.

The main advantage of a Crummey Trust is flexibility. For example, the trust assets may be used for purposes other than education and are not subject to restricted investment options, unlike the 529 Plan. The disadvantage of a Crummey Trust is that it does not offer the tax-free growth of a 529 Plan, and the annual notice requirement can be impractical or an administrative hassle. Because the Crummey Trust and the 529 Plan both have significant benefits, some families will use both a Crummey Trust and a 529 Plan if the overall circumstances make it feasible.



Jeanne  
Blackmore  
Esq.

## 2503(c) Trust

A 2503(c) Trust serves the same purpose and has the same general structure as a Crummey Trust. However, by legislative grace, in the case of a 2503(c) Trust, it is not necessary to provide notice of gifts to qualify for the annual exclusion. Rather, the beneficiary must be notified of his/her temporary right to withdraw the trust balance at age 21 and, if the beneficiary does not withdraw the trust balance within a short period of time, then the trust continues according to its terms. Apart from the different mechanisms for qualifying for the annual exclusion, a 2503(c) Trust may be structured with the same flexibility as a Crummey Trust and offers the same advantages and disadvantages as a Crummey Trust. Since the annual notice requirement is an administrative burden, a 2503(c) Trust is a popular alternative to a Crummey Trust. Please be in touch if you would like additional information regarding any of these gift strategies. ■



# Financial & Lifestyle Planning

IT HAS BEEN A FULL YEAR since we rolled out our enhanced Financial Planning with EMoney as part of our inclusive services and we could not be more pleased

with the response we have had from you—our clients! We have learned so much about your lives and are grateful that you entrust us with such a personal process.

We have found that only a part of our planning with you has to do with dollars and cents. We've realized that we are not only focusing on a story of numbers but also a number of stories that make up the lifestyle you have worked hard to create and want to protect. True lifestyle planning goes beyond financial projections. It allows you to prioritize what is important to you and your family. Every family has a different income and balance sheet, but also different sentiments regarding money, goals, and priorities.

We understand that starting the process of financial planning can be intimidating. It is common to be a little bit nervous to look at your overall situation. Taking an inventory is an important first step that will allow us to build a strong foundation for your plan together. We are here to help keep the process on track and in small achievable phases, which helps to decrease feeling overwhelmed. We've asked clients who have completed planning with us in the last year for feedback and they are sharing some of their thoughts.

## Informed and Empowered Decision Making

Let's face it, transitions are hard, and life is full of them. Emotions run high during stressful times, and these feelings can cause impulsive decisions that might not be in line with your goals. A common scenario is feeling that you have worked diligently to create the lifestyle you have achieved but you find yourself asking, 'What if...?'. Perhaps, you begin thinking about transitioning into retirement or

deciding whether to downsize. Maybe you begin to witness your parents or spouse age or lose capacity. Or you are firmly in your working years wondering what level of savings it will take to fund a college education, retire at a certain age, or plan your bucket list trip.

With ever changing IRS tax rates, brackets, and the upcoming sunset of the 2017 Tax Cuts and Jobs Act (TCJA) at the end of 2025, financial planning is playing a bigger role in how to protect and pass on your assets. Depending on your goals, we can build different scenarios into your plan to utilize current federal lifetime exemptions and fine-tune gifting strategies. Additionally, as IRAs are becoming a larger part of one's estate, we can clearly see the effects that ROTH conversions will have on your plan. With the introduction of the "10-year rule" for IRA beneficiaries, we find that heirs have a larger tax burden to bear. Building in annual conversions during your lifetime to keep you in the same tax bracket can have a double benefit: This strategy will reduce the required taxable amount you have to take from retirement accounts during your lifetime, and also provide more funds to your beneficiaries tax-free.

Lifestyle planning is not about your planner or advisor telling you what you "can" or "can't" do with your money. It is our job to partner with you, listen and educate you, and allow you to see the potential effects of making different decisions. We find the value in these projections is often not in one scenario, but rather in the comparison between scenarios. Seeing the effects of different choices provides you with a tool that you can use to evaluate difficult decisions based on your personal priorities and needs.

"Recently we have been working with TCV to help with our decision-making process regarding the purchase of a new home. EMoney provided a comprehensive view of our financial plan, including a cash flow model to help us decide how much we could afford when purchasing a new home after we retired. EMoney allowed us to work with TCV to see how different decisions and assumptions regarding the sale of our current home and the price of a new home



affected our overall retirement plan. The ability to change various variables and see the changes reflected in our cash flow projections was really helpful."

## Changing Your Focus

Looking at projections and seeing the outcome of different scenarios is the first step in the decision-making process. The second is changing your focus from the bottom-line dollar and shifting to how the outcome of the projection makes you feel. The emotional reward from making a decision often far outweighs the dollar value saved as a result of the projection.

"We are both around 60, and retirement talk is pretty popular among all our siblings and peers, but we had no idea where it would fit in our timeline, so the talk was just stressful. But once we met with you, and understood what information was needed to crunch some numbers, the timeline became a real thing, something we could actually see and manipulate. A huge relief."

How you feel when looking at the outcome of your projections and by comparing scenarios links directly to your meaning and your values; these are measurable to you and your family alone. Exploring questions you have through lifestyle planning allows you to be proactive when your lifestyle may be heading toward a transition. Your circumstances may change multiple times over the course of your lifetime. By practicing focused decision making you can more easily evaluate decisions as your situation changes.

## Peace of Mind

You may not have a big decision to evaluate, but the goal of planning is simply—Peace of Mind. Planning is extremely individual and often the plan you want to see is not only about projecting the return on your investments but ensuring that the lifestyle you are accustomed to will be maintained during turbulent times. This is often true for our clients in the later stages of life—there may not be much change on the horizon, but it is important to confirm that

you are secure for the rest of your lifetime. This feeling can be a huge relief and allow you to enjoy retirement with less stress.

When making decisions, looking at the outcome of your personal lifestyle plan does not mean you have to commit to a course of action right now, but can give you the peace of mind of knowing you have the information and tools to do so when the time comes.

"Creating a financial plan gave both my wife and me a sense of peace that we would be financially secure under a variety of scenarios. From an estate planning perspective, we were both relieved and informed about the best way to manage finances after the primary earner passed away. This was the capstone to our estate planning. We are deeply grateful."



Jill  
Dolan



Katie  
Gardner

How do you feel about your future? We hope you are at peace, but if you have questions about how your lifestyle may be affected by various circumstances, you not only have a planner at TCV, but you have a dedicated partner who is there to help. ■







# Plan early and be flexible

**THE NUMBER OF SMALL BUSINESSES** seeking an exit and transition strategy appears to be at an all-time high, and I thought it would be helpful to broadly frame the idea of selling your business. The key takeaway is that the process of successful business transition of control, and transition of wealth takes more time than one might think, and also takes a tremendous amount of flexibility by Seller and Buyer.



**Nathan  
Alexander**  
CPA, CFP®

Buyers kick the tires, some seemingly qualified are not, while Banks can promise easy and hefty loans to Buyers, but then when it comes to underwriting they sing a different tune. Smooth and successful small business sales generally have the following in common: A Seller that takes enough time to get educated, evaluate values, consider what they are willing to offer the Buyer in terms of transitional help or Seller's financing, but most importantly they try to assemble a team to get their ducks in a row before directly negotiating with a potential Buyer. All

too often, by the time the CPA, Attorney, or other advisors are consulted, a Seller and potential Buyer have already had so many conversations and planned the sale out in their minds that they have dreamed an un-workable transaction.

Here is how I like to counsel Sellers when they are just beginning to think of selling:

First, what are you considering selling? Are you selling an operating business and the real estate that goes along with it? Does your pool of potential Buyers include only those offering a cash down payment? A Seller who might be focused on a full cash-out of business and real estate all at once, for mainly cash at closing, may have a more limited pool of Buyers than a Seller who is open to selling the business in stages or offering financing.

Second, know what a successful sale means to you. Are you interested in top dollar, or preserving as much of the business culture, team, and customer experience as possible even if that means selling to a Buyer who might not be able to offer top dollar but will honor those core values? Does anyone within the organization show the promise of a potential Buyer and operator?

Third, spend some time and resources independently assessing the fair values of what you are selling. This might mean engaging both a property appraiser and a qualified business valuation specialist. Some business valuation folks work for brokers and may offer "free" valuations that might at first appear more attractive than hiring a separate firm to offer some pricing context. Business valuation is as much art as it is science, so it is so important to make a thoughtful

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choice about who to engage to price out what you are selling. Sellers need to understand that an operating business is often valued based upon its discretionary recurring cashflow and is NOT valued based upon all the individual assets of the business. This is often a sticking point with Sellers who focus on all their collective investment over the years and may have a hard time understanding the valuation conclusions in a financial model. Take your time, ask for help to come up with a reasonable price, and then spend time understanding how the value was actually derived BEFORE you begin chatting about numbers with a potential Buyer.

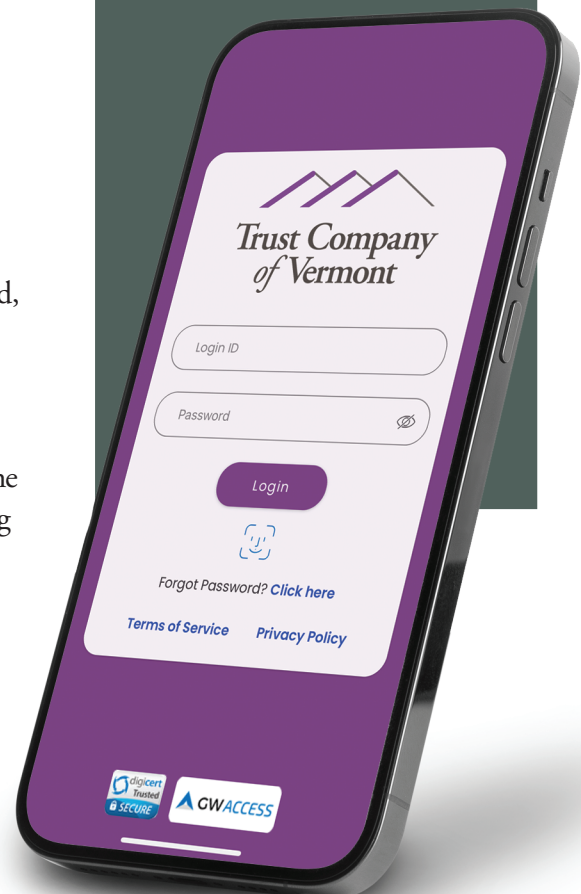
Fourth, ask your financial advisor or CPA to model out some possible sales prices and financing scenarios to see what might be reasonable. Often the Buyer will offer proposed terms, but the transaction must "cash flow" to show that future anticipated profits will cover debt burdens with additional margin for the unknown, and an unsophisticated Buyer may not have plotted out reasonable numbers. A Seller could have a fair selling price that was independently determined, but any business can only sustain so much debt.

Fifth, Banks need to be managed as well when they are offering financing ideas to Buyers. So often, a Bank will lead with the Buyer's rosy financing proposal that may have an SBA (Small Business Administration) lending guarantees requirement. As the transaction progresses with this Bank, the Seller finds out their subordinate financing contains so many restrictions that they opt to not sell to a Buyer that is depending on SBA guaranteed loans, and now the Seller is back to square one. Having a CPA, attorney, or other teammate work as an intermediary with possible Banks will help save time by avoiding financing proposals that (to the Seller) are nonstarters.

Finally, take your time and talk about it way ahead of talking terms to Buyers, because once an idea is floated, or a price, it's very hard to take it back. Momentum is key, and as your trusted advisors we are here to help ensure your valuable time is optimized for a successful result. ■

## New for 2024!

We are excited to announce a new mobile app for iPhone users that will allow you to review your account easily from your phone. Continue to monitor our website (which is also getting an updated look) for when it is available.



# simply different



Chris  
Lafayette  
CFA

IT'S ALWAYS FUN speaking with prospective clients. Typically, people end up in our office for the first time because someone said they should talk to Trust Company of Vermont. One of the first questions out of their mouths is often, "What exactly do you all do?" This is when we list our services: Trust Administration, Estate Planning, Retirement Planning, and Investment Management, but the fun part is when we get to the fees, because we

offer all of these services as part of one standard fee schedule. However, this focus on simplicity and fee reduction doesn't end there, it's a driving force in our investment process as well.

Depending on the prospective client, the discussion of our investment process can be high-level or incredibly nuanced. However, no matter how deep we dive into this discussion, the core tenets of our investment process remain the same: maximize after-tax returns for clients while minimizing detractors from this objective, namely fees and transaction costs.

The first way our portfolio managers accomplish this goal is by eliminating high-fee, volatile-return asset classes. Hedge Funds, Real Estate, and Commodities are asset classes with unique strategies and the potential for large returns through the use of derivatives, leverage, and concentration. However, the single most common feature of these types of investments is that their managers charge a significant additional fee, on top of an investment advisors fee. These fees add up, and over

time, have led to the average fund in each category generating lower net returns than public stocks over the past decade.

Once we have explained to a potential client why we use a combination of public stocks and bonds in a portfolio, we focus on how we invest within these asset classes. At this level, our preference is to own individual stocks and bonds. Direct ownership of individual securities eliminates the second layer of fees inherent in funds and allows us to pick which securities to sell tax efficiently when distributions are needed. These positions are also viewed within the context of an estate plan, which incorporates the tax impact of the generational transfer of assets.

Our in-house estate planning attorneys work with both a client's attorney and our portfolio managers, as we consider various types of trusts, gifting, and titling strategies all directed toward achieving the best outcome for our clients and their beneficiaries. This integrated model sounds complex, but when we explain the alternative of hiring service providers in each domain, and having them work together, the unified solution usually resonates with prospective clients.

Ultimately, it's Trust Company of Vermont's ability to demonstrate our expertise in these areas that determines if a prospective client chooses to work with us. We strive to explain a basic value proposition, and highlight that fragmentation is often synonymous with higher fees. As we turn the calendar onto our 25th year of existence, we appreciate that many of you have been clients for a significant amount of time and are far removed from that initial meeting. Thus, we'd welcome the opportunity to again explain how we work in your best interest and what differentiates us. If we have achieved our ambition, then our focus on simplifying the financial side of your house will have brought you the peace of mind that comes with knowing a trusted team is working on your behalf. ■



**Welcome the Keene Office** We are pleased to announce the opening of our newest office, located at **81 Court Street, in Keene, N.H.** Former Ferguson Alexander employees Nathan Alexander, CPA/CFP, Andrea Reynolds, Lori Jankowski, and Joan Goulet have joined Trust Company of Vermont as employee owners and will operate at the Court Street location. The Keene Office will provide a full range of services including investment management, trust administration, tax planning and financial and estate planning.