Trust Company *of* Vermont Quarterly Update

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Brattleboro ■ Burlington ■ Rutland ■ Manchester ■ Keene, NH

Employee-owned & Vermont-based tcvermont.com

Chris Cassidy
CEO

TRUST COMPANY OF VERMONT turned twenty-five this past month having been founded in September of 1999. The state's first independent trust company started, thanks to eight entrepreneurial Founders who had all worked together in the trust department of Vermont National Bank.

The company began with the belief that if you provide a high level of personalized service to your clients, create a positive and empowering work environment for your employee-owners, collaborate with professionals in your market areas and give back to the communities that you work in, that success will follow. Thankfully, it has.

What began with eight people and zero assets under management has grown to forty-eight people and almost $3 billion in assets under management. Although office locations and faces have changed over the years, the steadfast commitment to clients, colleagues and communities has not.

My own personal journey with TCV began in March of 2004 when I was home on spring break in East Dummerston, Vermont. I wanted to secure an internship in finance for the summer, and asked some friends and family who I should talk to. The name Jack Davidson and Trust Company of Vermont was mentioned.

Not knowing any better, I walked into the Trust Company of Vermont Brattleboro Office, without an appointment, and asked to speak to Jack, who was the President of the company. Luckily, Jack was willing to speak with me. I told him that I was looking for an internship for the summer and I was happy with an unpaid internship, and that I was willing to do whatever was asked of me. He said "so I don't have to pay you, and you will do whatever work we give you? I think we can figure something out."

That summer, I had a little rolltop desk right next to Jack's desk, and my work ranged from exciting tasks such as researching companies and economic sectors to less glamorous jobs such as cleaning out parts of the office basement. I loved it.

Although the experience was great, I assumed that I would need to take a job in a large city after graduation. I was all set to start a job in the financial district of Boston when Jack called me out of the blue. He informed me that Trust Company of Vermont was buying a building in Burlington and wanted to offer me a job as a portfolio manager in that office. I accepted, and almost twenty years later I'm still here.

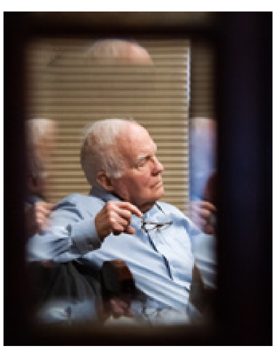
Although Jack retired almost four years ago from TCV, he is still a Board Member and wise counsel for the current management team. Many clients, colleagues and professionals have missed Jack's colorful quarterly newsletter articles. Thankfully, Jack is writing a new series of articles the first of which is featured in this Newsletter. A big thank you to Jack and all the Founders for setting a solid foundation for the success of the company. Happy 25th Trust Company of Vermont. ■

25 YEARS

Photo by Benjamin Crown/Brattleboro Historical Society

THE LEGACY OF JONATHAN HUNT

The Corners on Main Street in a Second Half of Life



Jack Davidson

AS A RECENTLY RETIRED FOUNDER of TCV, I have not, as they say, left the family. The eight founders of TCV were previously employed by the Vermont National Bank in its trust department and I took pride in hiring these individuals whom I had worked with for many years. Most of the founders came from other states, myself included, and embraced a culture of living in our Vermont neighborhoods and working with clients from start to finish.

In our trust world, the start is when a prospect would like estate planning. Often the prospects are parents whose first focus is on their family and how to help them through one or more generations. The finish may be many years away.

Most of the TCV founders showed up in Vermont in the seventies, when many of the bank trust departments had been locally controlled for many generations, and we worked together at the Vermont National Bank trust department in Brattleboro. Our offices were located on Main Street in a building the bank built in 1871. Vermont National Bank at the time was the state's oldest and longest-operating financial institution.

Corner# 1 Elliot Street

In 1820, Jonathan Hunt and his wife purchased the corner property on High Street. The Hunts' home was the first brick house in Windham County. In 1821, Mr. Hunt was the founder of the Vermont National Bank (originally named the "Brattleboro Bank"). His mansion is no longer in existence but his front yard eventually became Pliny Park, named after Pliny Burrows, a long-time and very respected resident of Brattleboro.

When I was young, most of my clients were older. As I look at the average age of TCV's current staff, I see that most of our clients are still older, thanks to those who have joined us as we increased in size. Although retired, I decided to stay on the board in part because I want to be part of the TCV family and our culture is family planning. I would like to continue writing articles to engage the older clients who may have to deal with the second half of life, retirement. My focus is to learn and share rather than sleeping in my chair holding my iPad.

I have many areas of concern and the need to study the various routes I will take. Writing articles will allow me to share with our staff and our clients my "bits and pieces" of retirement. Whether my mosaic will help others, time may tell. So this is the start.

Bits: keep a pad and pen or iPhone with you to write down names. Not remembering names as we age is simply well known and expected.

Pieces: iPhones are easy to find if you leave them within ring range...borrowing my wife's phone and calling mine has been very helpful in most cases but not when I leave my phone in my car. I am considering tile trackers for my phone. Tile trackers connect to the internet, and are useful in finding my car keys when I lose them.

Old-fashioned writing pads may need a tile tracker if I can't find my pad to write down the names of those I used to know but cannot recall their names and some of my interactions with them.

Bits: My diet has changed based on what I read. So far I think I am making the right choices. I now concentrate on the unprocessed organic foods so available in Vermont. However, were I to move to another state, I am not sure that I could trust my local grocery store.

Pieces: I have certainly changed my diet and my sugar consumption is now under control.

Bits: I need to exercise to stay healthy.

Pieces: I try to walk many steps a day, but I often forget to bring my umbrella.

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Corner #2 High Street

When our employer, Vermont National Bank, was purchased by another bank, we all knew that our new employer would change our culture of staying in town from start to finish. That is why we took the chance of creating a trust company, thanks in part to our legislators who had recently changed the law to allow a trust company that is not a bank.

The trust culture in a bank is very different than a bank culture. My limited perception of the banking world is that it exists simply to offer deposits and make loans. In the trust culture, there is a mosaic of bits and pieces...managing assets, adapting to changing laws, and helping family members over several generations. Vermont National Bank allowed us to embrace the trust culture, but we were concerned that the new owners would change our culture and we wanted to keep doing what we loved to do from start to finish with our clients.

Devon Walsh

Building an Investment Philosophy

> Investing is both an art and a science, demanding patience, and a deep understanding of the businesses we choose to invest in.

WITH TODD GRAY, a portfolio manager out of the Brattleboro Office, recently retiring and providing his investment pearls of wisdom in the previous newsletter, I thought it might be valuable to offer a perspective from someone newly entering the profession and still absorbing insights from those around him. Throughout my academic studies and my year of experience at the Trust Company of Vermont, I've come to realize that stock picking is not an exact science. However, certain key principles have resonated with me as I have shaped my own investment philosophy.

I believe there are two main criteria that make an attractive equity investment: the stock is priced reasonably, and the company possesses sustainable, competitive advantages in its line of business.

Reasonable Pricing

When evaluating a company, we typically value the stock price as a multiple of income or cash flow, since companies often return excess cash to shareholders through dividends or share buybacks. For instance, if a company generates $5 billion in net cash flow and is worth $100 billion, we anticipate a 5% return assuming the company distributes all its cash flow to shareholders. 5% would be considered the company's cashflow yield. However, while cash flow yields and multiples offer valuable insights for valuation, they aren't the only factors affecting a stock's worth. Even when we identify what we believe to be a mispriced stock, it may take months or even years for the market to correct itself.

Thus, successful investing often requires a long-term perspective. We must believe that the company has a strong market position, even if its price may not reflect that in the short term. As Warren Buffett, the Oracle of Omaha, wisely observed, "The market can remain irrational longer than you can remain solvent." Price, while important, is only part of the equation; an equally, if not more, crucial aspect is identifying companies with sustainable competitive advantages.

Sustainable Competitive Advantages

Assessing a company's sustainable competitive advantage—or "moat"—involves not only understanding its current market position but also evaluating its future prospects. A company's moat represents its ability to fend off competitors and maintain its market share. For example, a mining company that controls the sole supply of a rare mineral would have a wide moat, as consumers would have no choice but to do business with them. However, it's important to consider the durability of this moat—what happens if another company discovers the same mineral and offers it at a lower price? The key question is whether a company's competitive advantage will endure over time.

One of the strongest competitive advantages we see today is called the network effect. This phenomenon occurs when a product becomes more valuable as more people use it, making it increasingly difficult for competitors to gain traction. Major tech companies like Microsoft, Google, and Meta (Facebook) are prime examples of firms benefiting from the network effect. The more users they attract, the stronger their market position becomes, as consumers grow accustomed to their platforms, and competitors struggle to break through. Companies with moats like these are well-positioned to maintain their dominance and represent long-term value, as they can capitalize on their strong market positions in the future.

Bringing It All Together

Ultimately, our goal is to choose companies that are reasonably priced and supported by a strong moat in the market. If we had to prioritize, a sustainable competitive advantage holds more weight, since market mispricing at least may eventually be corrected, while a strong moat is likely to persist. Warren Buffett himself evolved from seeking only cheap companies to realizing the value of paying a premium for a superior business. As he said, "It's far better to buy a wonderful company at a fair price than a fair company at a wonderful price."

Investing is both an art and a science, demanding patience, and a deep understanding of the businesses we choose to invest in. While stock pricing is vital, it is the strength of a company's moat—its sustainable competitive advantage—that ultimately determines its long-term success and value. By focusing on companies that are reasonably priced and have solid moats, we can remain confident in our investments, even in the face of short-term market volatility. As I continue my journey, Todd's wisdom has been invaluable, and I'm excited to build on these insights to refine my own investment strategy. ■

The Corners on Main Street

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Bits: I am addicted to my iPad. I am not sure that many in my age category share this addiction.

Pieces: I wake up, read the local paper online, and play "Words with Friends" and "Wordle" while drinking 16 ounces of coffee. I also have an app that reminds me how much water I need to consume each day.

Bits: Across the country, many places have started to teach seniors about Artificial Intelligence and its ability to affect their lives and the threats that technology poses.

Pieces: I simply don't trust my iPad like I used to... pop-up news often misinforms.

Bits: I have recently been asked a very complicated question: Assisted living when those of us will be getting close to the gates of heaven. Location, cost and compatibility of residents are very complicated. This question may show up again when I write my next article.

I hope my mosaic will be helpful to others. —Jack

Elliot Street

For over 150 years, this was the key location for a bank. As a result of bank consolidations, the names have changed from Vermont National to Chittenden in 2000, People's United in 2008 and M&T in 2022. Last year, M&T sold the building to the Snow Republic Brewery, which plans an establishment that would sell brewed-on-site beers like Hop Avalanche, Joy Ride, and My Hands Feel Like Two Maracas. Once it opens, I plan to invite the founders to celebrate our second half of life.

High Street and Pliny Park

Thanks to Jonathan Hunt, and Mary Lacy and Corrine Yonce who pieced together a wall-size mosaic in downtown Brattleboro's Pliny Park. ■

the sunset
of the Tax Cuts and Jobs Act

THE LAW KNOWN AS the Tax Cuts and Jobs Act of 2017 (the "TCJA"), P.L. 115-97, is set to expire at the end of 2025. If Congress does not act, this expiration will generally result in higher tax rates, fewer deductions, and increased taxes for many of our clients. Therefore, while Congress may ultimately extend some or all of the TCJA's provisions, it is important that clients know which provisions are set to expire and think about how to maximize their tax savings in case the provisions sunset as currently planned.

The following are some of the key provisions of the TCJA that are set to expire at the end of 2025:

Estate and gift tax exemption. The TCJA essentially doubled the estate and gift exemption amount from $5,490,000 per person in 2017 to $11,180,000, adjusted each year for inflation. The 2024 exemption is $13.61 million per person, or $27.22 million for a married couple. This amount will again be indexed for inflation in 2025, but it will drop back to an inflation-adjusted 2017 level on January 1, 2026, which is estimated to be around $7 million per person or $14 million per married couple. The same sunset provisions also apply to the federal Generation Skipping Transfer Tax exemption.

Individual tax rates. The TCJA lowered income tax rates for individuals across many brackets. The top rate decreased from 39.6% to 37%. After the sunset of the TCJA, the top tax rate will revert to 39.6% on Jan. 1, 2026.

Standard deduction. The TCJA almost doubled the standard deduction. As a result, many taxpayers have not itemized deductions in recent years. After 2025, the standard deduction will drop to roughly half the current amount, adjusted for inflation.

The state and local tax (SALT) itemized deduction. The TCJA capped the SALT deduction at $10,000, significantly impacting taxpayers in high-tax states. This cap is set to expire after 2025, allowing increased benefit from deducting such taxes, which include real estate taxes, state/local income taxes, and personal property taxes.

Child tax credit. The TCJA increased the child tax credit from $1,000 to $2,000 per child, but the credit will return to the pre-TCJA amount in 2026.

Alternative minimum tax (AMT) exemption and phaseout. The TCJA increased exemption amounts and phaseout thresholds for the AMT, lessening its effect on taxpayers. When the TCJA sunsets, the AMT exemption will revert to prior levels.

Qualified business income (QBI) deduction (Sec. 199A). Owners of passthrough businesses (e.g., partnerships, S corporations, sole proprietorships) may currently claim a deduction of up to 20% of QBI under the TCJA. This 20% deduction will expire at sunset, increasing the effective tax on QBI.

In light of the anticipated changes from the sunset of the TCJA, taxpayers should consider some of the following planning opportunities in order to maximize use of their estate and gift tax exemption and mitigate changes to income tax rates.

Maximize use of the increased estate and gift tax exemption. Taxpayers should consider making substantial gifts now, whether outright or in trust, in order to maximize their use of the higher estate tax exemption amount before it sunsets. For high- net-worth married couples, one approach to consider is fully utilizing at least one spouse's elevated exemption amount by gifting to a spousal lifetime access trust (SLAT) or to a combination of a SLAT and other trusts. If a married couple wishes to gift a total of $13.61 million (one spouse's exemption) before the TCJA sunsets, it is much more advantageous for one spouse to make the gift on their own rather than having each spouse use half of their respective exemption amount. This is the case because the increased exemption is "use it or lose it," so if each spouse makes pre-sunset gifts that use only up to, but not over, the post-sunset exemption amount, they haven't preserved their pre-sunset increased exemption. A SLAT allows one spouse to transfer assets into an irrevocable trust for the benefit of the other spouse (and, if desired, the couple's descendants), removing these assets from the donor's taxable estate, but allowing the family to continue to benefit from the assets during the donor's lifetime. High-net- worth unmarried donors should also consider making gifts to irrevocable dynasty trusts for the benefit of their descendants in order to maximize use of the current, elevated estate and gift tax exemption.

Transfers of income-producing property. Taxpayers might consider transferring income-producing assets to family members who could be in lower tax brackets.

Consider Roth conversions or other ways to accelerate income. Taxpayers should think about converting a portion of traditional retirement savings into Roth accounts before the sunset to ensure use of the current lower tax rates on converted amounts. Roth accounts offer tax-free growth and tax-free future withdrawals and are some of the very best assets to leave to beneficiaries on death. Since tax rates are set to rise, pushing income into the current lower tax bracket years can be advantageous as a general matter.

Livia DeMarchis Esq.

Charitable giving. In any year, taxpayers should consider donating appreciated assets to charity to avoid capital gains taxes and to receive a tax deduction. If taxpayers are considering a large charitable gift in the upcoming few years, they should closely evaluate the income tax effects of doing so in 2024 or 2025 versus 2026 to see which year offers the most tax benefits given the expected sunset of the TCJA.

Plan for itemized deductions and the SALT deduction. Taxpayers will more likely need to itemize deductions after the sunset of the TCJA, and in high-tax states, they may be allowed larger deductions once the SALT cap expires. Strategic planning for these changes should be considered to maximize benefits.

Reconsider business structure. The corporate tax rate of 21% available to C corporations is not expiring with the sunset of the TCJA, so taxpayers with entities taxed as partnerships or S corporations may want to consider converting to a C corporation if that offers tax benefits.

QBI deduction planning (Sec. 199A). Passthrough business owners should consult with their accountants and other tax advisors to consider ways to structure their business to maximize the QBI deduction before it expires.

While there is still uncertainty about whether Congress will act to extend any provisions of the TCJA, it is important for taxpayers to think proactively and plan for the potential sunset of the TCJA. Trust Company of Vermont is happy to schedule meetings with our clients to discuss whether there is any planning appropriate for their specific situation in light of the potential TCJA sunset. ■

Kasey
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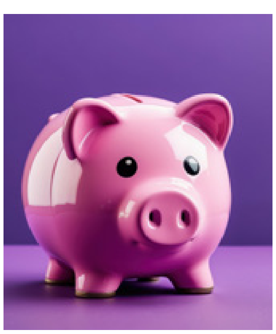

IRS Finalizes Regulations on Inherited IRAs and the Ten-Year Rule

- Beginning with the SECURE Act of 2020, beneficiaries who inherit an IRA have had to reckon with the new "Ten-Year Rule," requiring many to withdraw and pay tax on the entire inherited IRA in ten years' time.

- Both the SECURE Act itself and the IRS's Proposed Regulations, published in 2022, laid out some exceptions to the Ten-Year Rule that are based on characteristics of the person inheriting: a beneficiary who is a spouse or a minor child of the IRA owner, or is not more than ten years younger than the IRA owner, or who qualifies as chronically ill or disabled, is an "Eligible Designated Beneficiary" who is not subject to the Ten-Year Rule.

- For all other individual beneficiaries – those who are subject to the Ten-Year Rule – there was a surprise in the 2022 Proposed Regulations. Reading the Secure ACT alone, most industry experts believed that Ten-Year Rule beneficiaries could wait until year ten to withdraw and pay tax on the inherited IRA assets. That did not prove to be the IRS position.

- The IRS relied on what they call the "At Least as Rapidly Rule" to require that, if annual Required Minimum Distributions (RMDs) had already begun during the IRA owner's life, then annual RMDs must continue in years one through nine after the IRA owner's death when the account is inherited by a beneficiary subject to the Ten-Year Rule.

- Ten-Year Rule beneficiaries who inherit before the deceased IRA owner reached their RMD age can take as little or as much as they want over the first nine years of the ten-year period. The same is true for Roth Inherited IRA beneficiaries. Since Roth IRA owners are never required to take RMDs during their lifetime, they are always treated as having died before their RMDs begin.

- The IRS's blend of the At Least as Rapidly Rule and the Ten-Year Rule caused such confusion that the Service eventually waived penalties on Ten-Year Rule beneficiaries for annual RMDs not taken before the tenth year for tax years through 2024.

- This July, Final Regulations at last replaced the Proposed Regulations. In the final version, the IRS's position has not changed: **Beneficiaries subject to the Ten-Year Rule must take RMDs each year during the payout period if RMDs had already begun during the owner's life, and penalties will apply for annual RMDs not taken in 2025.**

- As you can see, navigating inherited IRAs can be a confusing subject. Here at TCV, we have a team of IRA specialists ready to assist IRA owners and beneficiaries with these complexities. We encourage clients to reach out to us with any questions or concerns. ■