ENCOMPASS

by Commerce Trust

SUMMER 2024

Featured Story

FLORIDA RESIDENCY – IS IT IN YOUR FUTURE?

Commerce Trust
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FROM THE PRESIDENT AND CEO

For more than a century, Commerce Trust has helped guide our private and institutional clients through change, as a steady partner, to proactively identify opportunity amid increasing complexity with comprehensive, team-based approaches geared toward arriving at a personalized solution for each client's needs.

At Commerce Trust, our service model means carefully curating an ensemble of seasoned professionals who collaborate to deliver a sophisticated, team-based approach to wealth management — an approach intended to ensure each client's financial journey is uniquely crafted for their personal and family goals.

I invite you to explore our new Encompass by Commerce Trust magazine. Inside these pages you will find our perspective on topics to support the goal of stewarding your wealth today while preserving your assets for your beneficiaries and your legacy in the future.

In addition, I am thrilled to announce the opening of Commerce Trust offices in Dallas and Houston, Texas, as well as our newest full-service Commerce Trust location in Naples, Florida.

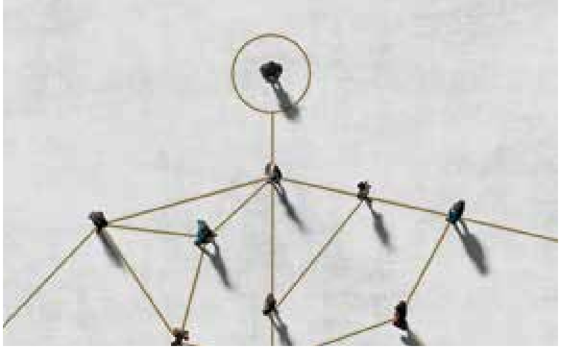
We can fully assist Commerce clients with banking and wealth management needs from the Naples location, including the convenience of safe deposit box services and access to a Commerce Bank ATM 24 hours a day.

At Commerce Trust, we are continually looking for ways to offer tailored banking, investment, and planning solutions to fit your needs.

On behalf of the company, I thank each of our clients for the privilege of serving your financial needs. And for those we have not met yet, please let us know if we can be of assistance in any way.

Sincerely,

JOHN K. HANDY
President and CEO, Commerce Trust



Private Wealth Management at Commerce Trust

TEAM-BASED, CUSTOMIZED, AND HOLISTIC

At Commerce Trust, our approach to wealth management is simple. It's advantageous to have a team in your corner. Because more collaboration and more perspectives from more disciplines converge to create a more personalized approach designed uniquely around your needs.

For more than a century, Commerce Trust has been a leading provider of financial planning, estate and tax planning, investment management, private banking, and trust administration services. Our clients benefit from the insights gained from our experience administering over $70.2 billion in total client assets through all market cycles.[1]

Learn more about our approach to wealth management at commercetrustcompany.com

[1] As of March 31, 2024.

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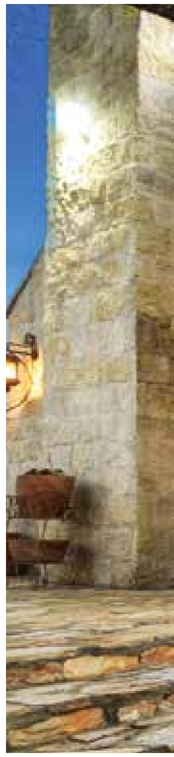
Written by

Jacqueline Gabbidon, J.D., LL.M. (Taxation), CPWA®, AEP®
Texas Market Executive, Commerce Trust



ESTATE PLANNING

Current Estate Tax Exemption Amounts Expected to Sunset at the End of 2025

We have all heard the news: absent new legislation, the current estate tax exemption amount which practically doubled in 2018 under the Tax Cuts and Jobs Act (TCJA), will end (or sunset) on 12/31/2025 and the exemption amount is set to be reduced to pre-TCJA levels, adjusted for inflation. While the end of 2025 may seem like a long way off, individuals with significant estates should not hesitate in putting their wealth transfer plans in place; particularly if there is possible estate tax liability, whether now or after the sunset of the TCJA in 2026 and beyond.

To review: the TCJA was signed into law on December 22, 2017. This legislation doubled the 2017 lifetime gift and estate tax exemption amount from $5.49 million to $11.18 million per individual for the 2018 tax year, indexed for inflation. For married couples, that amount increased from $10.98 million to an inflation-adjusted $22.36 million. The current 2024 exemption is $13.61 million for individuals and $27.22 million for married couples. These provisions of the TCJA are currently scheduled to expire on December 31, 2025, and as of

> *The sooner a wealth transfer plan is structured that takes advantage of the current exemption amounts in place, the better.*

January 1, 2026, the lifetime estate and gift tax exemption is expected to be lowered. Without further legislation, the exemption will revert to $5 million per individual, as adjusted for inflation.

With this in mind, let's take a look at why you may benefit from transferring your assets out of your estate sooner rather than later.

IMPLEMENTING A PROACTIVE STRATEGY

We all wish we had the crystal ball that would tell us exactly what happens on January 1, 2026. Since we don't, the best advice is to not "wait and see" what will happen. The sooner a wealth transfer plan is structured that takes advantage of the current exemption amounts in place, the better. Losing the potential to minimize your estate taxes is a far less than ideal consequence of a wait-and-see attitude.

STRATEGIES FOR ESTATE TAX EFFICIENCY

There are several strategies that can be used to reduce the value of your taxable estate, which can decrease your estate tax liability. These strategies can be utilized with current lifetime gift and estate tax exemption levels, but they become even more valuable if the basic exclusion amount decreases with the sunset of TCJA provisions in 2026.

Annual Exclusion Cash Gifts

Under current IRS guidelines, in 2024 you can gift up to $18,000 a year ($36,000 for married couples filing jointly) to as many individuals as you want. This is especially attractive if you have a large extended family and are looking for a simple way to transfer considerable wealth to the next generation. These annual cash gifts don't count against your lifetime exemption and are not taxable. This annual exclusion is also not subject to the TCJA, so absent other legislation, this is a strategy that will be applicable beyond 2025.

529 Plan Accelerated Gifts

529 plans are savings accounts operated by most states and are designed to help families save for college. The annual exclusion amount (currently $18,000) can be used to fund these gifts, and under the current tax law, you can accelerate five years of gifts to fund the educational accounts to children, grandchildren, and any other friends or relatives you choose to help. This means that you can gift a lump sum of up to $90,000 in a single year ($180,000 for a married couple) to each person on your list tax-free. Not only are you able to reduce your taxable estate, but you can also help loved ones save for future qualified educational expenses. The growth within the fund is tax-free and with certain exceptions, there is no tax due when the funds are withdrawn for qualified educational purposes.

Spousal Lifetime Access Trust (SLAT)

A SLAT is an irrevocable trust that allows spouses the opportunity to transfer assets into a trust for the benefit of the other spouse during life. The gift to the trust reduces the taxable estate of the spouse making the gift. However, the gift will count against the grantor's lifetime exemption and a gift tax return will need to be filed.

Irrevocable Life Insurance Trust (ILIT)

Transferring or purchasing life insurance into an irrevocable life insurance trust (ILIT) removes the value of the life insurance from the taxable estate. There is no estate tax owed on the death benefit proceeds at the death of the insured because the death benefit is not part of the decedent's gross estate and the death benefit proceeds do not constitute taxable income to the beneficiaries. Annual exclusion gifts can be used to fund the annual premiums which further serves to reduce the taxable estate.

Dynasty Trust

Establishing a dynasty trust allows for the transfer of assets across multiple generations. Dynasty trusts facilitate tax efficiency, as they do not incur estate or gift taxes on future trust asset income and appreciation. This ensures beneficiaries receive a larger share of family assets without the burden of additional tax liabilities.[1]

TIME IS OF THE ESSENCE

It is important to recognize that time is of the essence when it comes to putting an effective plan in place to accommodate whatever may happen when the TCJA sunsets at the end of 2025.

The strategies mentioned above are not an exhaustive list by any means. Your financial, legal, and tax advisors will have specific recommendations tailored to your unique financial situation, and it will take time to put new or updated strategies in place.

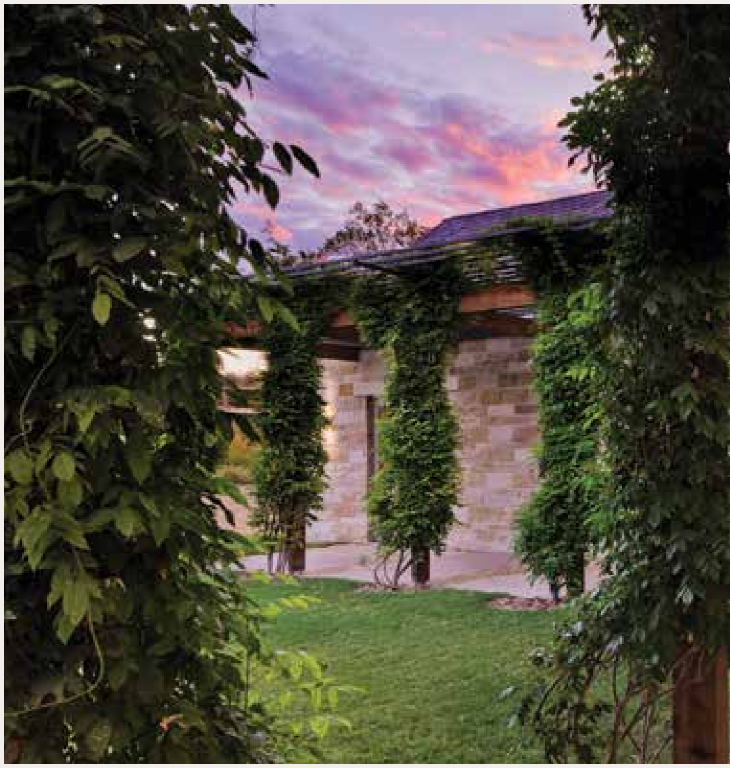
A Timeline of the Current Estate Tax Exclusion Amounts

The current $1.9 billion Tax Cuts and Jobs Act (TCJA) was signed into law on December 22, 2017.

At that time the legislation doubled the basic exclusion amount from $5.49 million in 2017 to an inflation-adjusted $11.18 million per individual for 2018. For married couples, the basic exclusion amount increased from $10.98 million to $22.36 million.

Indexed for inflation after 2018, the 2024 exemption increased to $13.61 million per person and $27.22 million for a married couple.

The TCJA estate tax provisions are set to expire at the end of 2025 unless there is further congressional action. It is possible that the basic exclusion amount will be reduced as soon as the 2026 tax year.[2]



Knowing that up front, there's bound to be a surge of individuals seeking to meet with their teams of professional advisors over the next few years. The more time you allow to work with your advisors, the more options you will have available to arrive at a suitable plan that not only increases the likelihood of controlling your future tax liability but also maintains your asset liquidity leading up to and through retirement.

COMMERCE TRUST CAN HELP

Even if you think the sunset of TCJA legislation will not affect your estate planning strategy, it's still important to revisit and adapt your plan based on your family's personal financial situation to safeguard your legacy. Life events including marriage, divorce, the birth of a child or grandchild, and planning for when your children come of age are all good reasons to revisit your will and estate plan.

When it comes to timing tax strategies, obviously some investments are more tax-efficient than others. The tax laws are numerous and complicated — it's important to seek advice from your team of professionals to help you determine which vehicles are the most appropriate and advantageous for your financial planning goals.

...it's still important to revisit and adapt your plan based on your family's personal financial situation to safeguard your legacy.

The Commerce Trust team of private client advisors, alongside your estate planning attorney and tax advisor, can help you explore the variety of options available to you and assist with making educated decisions based on your goals and unique financial situation. We are here to answer your questions and help you make informed decisions. ***Contact Commerce Trust today.***

[1] *Martin Schamis, CFP®, Vice President & Head of Wealth Planning, Janney Montgomery Scott, "What to Do Before the Tax Cuts and Jobs Act Provisions Sunset," Kiplinger Personal Finance, https://www.kiplinger.com/taxes/what-to-do-before-tax-cuts-and-jobs-act-tcja-provisions-sunset, June 13, 2023.*

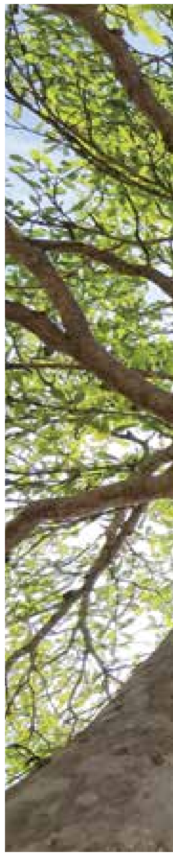
[2] *FORVIS, "Estate Tax Planning with a 2025 Horizon," https://www.forvis.com/forsights/2022/11/estate-tax-planning-with-a-2025-horizon, November 10, 2022.*

Written by

Guy Hockerman, CPA, CFP®,
Financial Planning Manager, Commerce Trust

ESTATE PLANNING

Key Considerations for Your Taxable Estate



Estate planning can be complicated and overwhelming, but understanding the basics of your taxable estate is critical to allocating wealth in a way that aligns with your goals. This article outlines some key aspects of estate taxes including what assets are included, which deductions can be applied, and how lifetime wealth transfers impact how much estate tax is owed.

These considerations are an essential part of maximizing the value of assets transferred to beneficiaries by working toward tax efficiency.

HOW ARE ESTATE TAXES CALCULATED?

The amount of federal estate tax owed is calculated using Form 706, also known as the United States Estate (and Generation-Skipping Transfer) Tax Return which encapsulates all relevant elements of someone's estate in one document. Estates are highly personal and can differ significantly between individuals.

"Everyone's balance sheet is a little bit different," says Guy Hockerman, CPA, CFP®, Financial Planning Manager at Commerce Trust, "and what that means in terms of what needs to be put in place for an estate plan can be different for every family."

However, some elements like what assets are typically included, which deductions can be made, and how wealth transfers that occurred during the decedent's life impact the tax due are broadly applicable.

WHAT ASSETS ARE INCLUDED IN MY ESTATE?

Assets like real estate, investments, cash, life insurance on the deceased, trusts, annuities, valuable personal property, and business interests are all examples of what comprises the gross estate.

Notably, the IRS uses the current fair market value of the decedent's assets rather than previous valuations or the original purchase price when determining the value of someone's gross estate.

WHICH DEDUCTIONS CAN BE APPLIED?

The IRS offers several deductions that can lower the value of the gross estate, which can effectively lower how much estate tax is paid. Some of the most common deductions include funeral expenses paid by the estate, estate administration expenses, certain outstanding debts, charitable bequests, and property that passes to a surviving spouse.

Any state estate taxes paid or anticipated to be paid are also deductible. Many states do not levy estate taxes at the state level, but it is an important factor for those with legal residency in states that do. For example, someone with a $20 million estate with legal domicile status in Missouri would owe no state estate taxes, but that same person would owe almost $2.3 million in state estate taxes if domiciled in Illinois.[1]

HOW DO TAXABLE GIFTS IMPACT MY ESTATE TAXES?

Previous taxable gifts can potentially increase an individual's estate tax liability. Once all applicable deductions have been subtracted from the gross estate, the difference equals the "taxable estate." Any taxable gifts made over the decedent's life are then added to the taxable estate.

Taxable gifts are recognized when cash or an asset that is greater in value than the annual exclusion amount is transferred to a non-spouse. In 2024, the annual exclusion amount is $18,000 for single donors and $36,000 for married couples. That means gifts can be made to as many individuals as one likes up to $18,000 tax-free. The annual exclusion amount has been adjusted over time and has only increased since 2011.

Any gift over the annual exclusion amount is known as a taxable gift and requires submitting Form 709, also known as a gift tax return, to the IRS. If that gift maker still has estate and gift exemption remaining, there will be no tax paid but rather Form 709 will capture the use of that exemption.

WHAT EXEMPTIONS CAN I USE TO LOWER MY ESTATE TAXES?

Two main exemptions are utilized to calculate an individual's overall estate tax liability. The first is called the estate and gift tax exemption. The IRS combines a person's cumulative taxable gifts made over their lifetime and the value of their taxable estate as of the date of death to determine how much of the lifetime gift and estate tax exemption is used to transfer assets tax-free. Any sum over this threshold is subject to a progressive tax that quickly rises to a 40% rate.

The second exemption is called the "generation-skipping transfer" (GST) tax exemption. A tax is levied on any taxable gifts given during the life

of the donor to a “skip person,” or someone two or more generations below the donor’s generation. Any gift that meets these criteria above the annually adjusted lifetime GST exemption amount would be taxed.

It is important to note that these two exemptions are separate from one another. Both exemptions, however, are based on cumulative wealth transfers over someone’s entire life.

NAVIGATE ESTATE TAX COMPLEXITY WITH COMMERCE TRUST

In estate planning conversations, tax implications are only a piece of the overall strategy. While this article provides an overview of the general elements involved in how estate taxes are calculated, your team of wealth management professionals can help you work through the complexities of estate planning.

Commerce Trust uses a holistic and personalized approach to estate planning. “There is a lot of value we can add from our multi-perspective approach, working in coordination with your financial and legal advisors,” says Abigail Ferguson, CPA, Team Lead, Tax Services at Commerce Trust.

The Commerce Trust team-based structure provides clients with a seamless experience starting with understanding and articulating their financial goals to putting in place the structure required to execute their estate plan, including securing a reliable executor or trustee and handling trust administration all in one place. Learn more about our private wealth management services or contact the Commerce Trust team today to initiate estate planning discussions and ensure readiness for your future.

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[1] “Illinois Estate Tax,” SmartAsset, https://smartasset.com/estate-planning/illinois-estate-tax.

FEATURED ARTICLE

FAMILY GOALS

Florida Residency – Is it in Your Future?


Written by

Mark Benskin, J.D., *Florida Market Executive, Commerce Trust*

Joan Humes, CPA, *Private Client Advisor, Commerce Trust*

Changing your residency from one state to another is a significant life and family decision that can have great implications for your estate plan and tax situation. It's more than the physical act of moving into a new home.

First and foremost, changing your state residence is a legal matter. That's why it can be beneficial to proactively seek the advice of legal, tax, and financial professionals when considering a change and before taking any action.

From a wealth management perspective, moving to a new state is a process that requires looking at the relocation from all sides. Given the complexity of an individual's financial situation, the risk of not fully understanding the ramifications, deadlines, and actions needed to establish permanent residence in a new state could result in unintended tax implications or forfeiting unknown benefits that could impact a wealth plan.

For thousands of Americans, Florida is already a place of secondary residence — ***the Sunshine State accounts for approximately 11% of all second homes in the U.S.,*** the largest inventory of any state.[1] Given the state's favorable weather, variety of things to do, and lucrative tax advantages, it's easy to understand why many may be considering ultimately establishing residency in the state of Florida.

A TAX-FRIENDLY STATE

Florida offers several tax benefits to its residents. There is no state personal income tax, which would include income from salary, investment income, Social Security, retirement accounts like IRAs or 401(k)s, and pension plans. This alone could represent significant tax savings for retirees moving from states that levy state income taxes.

By comparison, the state of Massachusetts approved a "millionaire's tax" in 2022. Under this law, Massachusetts residents who earn more than approximately $1 million annually through salary and capital gains will be charged a surtax of 4% on income exceeding the $1 million threshold, in addition to the standard flat 5% income tax rate. Lawmakers in several other states are considering similar tax legislation.[2]

Florida does not levy a state tax on estates, regardless of size. Florida also does not impose a state inheritance tax or gift tax, which are important considerations for Floridians to consider in their estate planning needs. However, residents may still be subject to federal taxes related to estates or gifts.

Florida homestead law also provides key property tax benefits for its residents. “Homestead” is defined as one’s principal place of residence on a lot up to one-half acre within a municipality and up to 160 contiguous acres outside a municipality. The tax exemption, a deduction based on a homestead’s assessed value, could reduce the taxable value of a home by as much as $50,000 provided the resident lives at the property on the first day of the tax year. In addition, Florida law provides a high degree of creditor protection so that a homestead property cannot be forced into sale by a creditor to satisfy a judgment except in special circumstances.

THE JOURNEY TO FLORIDA RESIDENCY

As part of establishing permanent residency in Florida, transplants must satisfy statutory residence requirements for the specific programs they would like to qualify for (like the homestead exemption or in-state tuition) and pass the domicile test. While the two words seem similar, it's important to understand the differences between "residence" and "domicile." An easy way to distinguish the two is someone can have more than one residence, place of abode, or dwelling, but there's only one domicile.

If coming from a state with legal provisions that define residency requirements, it will be important to ensure your previous home state would no longer consider you a resident. Commerce Trust can assist you with your transition away from your previous home state, in conjunction with your tax advisor, taking into consideration any applicable state residency laws and identifying steps to establish yourself as a non-resident.

The domicile test is more subjective and based on a person's intention to make Florida their permanent home. However, once an individual decides to establish domicile in Florida, he or she must provide evidence to build the claim for domicile.[3] The following actions are some ways to help make a case for the domicile test.

- File a Declaration of Domicile with the Clerk of Court in the Florida county where one resides.
- Establish a primary home by buying a home or signing a lease agreement.
- Complete a Florida voter registration application and vote in the state's elections.
- Obtain a Florida driver's license – and cancel the license from the former jurisdiction. Also, register all vehicles in Florida and get Florida license plates for them.
- Update home and automobile insurance to show a Florida address.
- Establish a relationship with a Florida-based bank, whether it's a brand-new bank or a Florida branch of a current bank. One easy way to do this is to secure a safe deposit box and transfer the contents of a safe deposit box located in a former state.
- Ensure that Florida is specified as your domicile and residence in documents that mention your residence, such as wills and trusts.
- Build relationships with Florida-based attorneys, accountants, or health care providers.

While these steps are critical, this list of criteria for proving domicile is not exhaustive. It's important to remember no single action will automatically change a domicile.

TRANSITIONING FROM YOUR STATE OF ORIGIN

Establishing residency in Florida is just one side of the equation. Residency with your state of origin must be undone which means severing all legal connections with that state.

This adds a distinct layer of complexity to a move. Different states have different minimum requirements, audit triggers, and enforcement levels.

Some states have aggressively challenged former residents who have moved to Florida, claiming these individuals have not severed all ties to the former state and therefore can continue to be taxed. More states may take a greater interest in this issue as these migratory patterns become more impactful to state revenue. Factors used to determine a connection to a state of origin include days spent there, business activities carried out in a former state, and where sentimental objects - family heirlooms, prized collectibles, photo albums, and even pets – are located.

SEEKING ADVICE

If you are considering or planning to establish permanent residency in a new state, as a client of Commerce Trust you can expect us to engage our team of experienced estate and tax planners, investment managers, private bankers, and trust administrators to guide you along the journey and ensure the coordinated execution of your plan.

If you are considering making Florida your new home state, visit commercetrustcompany.com to learn how we can help you with wealth planning needs.

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[1] *"Eye on Housing," National Association of Home Builders, https://eyeonhousing.org/2022/12/top-posts-of-2022-the-nations-stock-of-second-homes/, December 27, 2022.*

[2] *"Planning for the Millionaire's Tax – Not just for Massachusetts," Forbes, https://www.forbes.com/sites/matthewerskine/2023/02/14/planning-for-the-millionaires-taxnot-just-for-massachusetts/, February 14, 2023.*

[3] *"The 2023 Florida Statutes, 222.17: Manifesting and evidencing domicile in Florida," State of Florida Legislature, http://www.leg.state.fl.us/Statutes/index.cfm.*

For more information about Florida, please visit

Official Florida state government
www.myflorida.com

Florida Department of Revenue
www.floridarevenue.com

Florida Department of Tourism
www.visitflorida.com

CASH FLOW MANAGEMENT

An Efficient Strategy for Financing Life Insurance Policy Premiums

Written by

Michael Graham,
Director of Insurance Premium Finance, Commerce Trust

The death benefit from a high value life insurance policy can provide the liquidity needed to pay estate and transfer taxes at your passing and/or serve as a means for a smooth transition of your estate or business ownership. Because the premium for a high value life insurance policy can exceed hundreds of thousands of dollars, borrowing as a strategy to finance premium payments can help avoid adversely impacting your current cash flow or lifestyle. It can also prevent disruption to an investment portfolio. Insurance premium financing can reduce the need to liquidate investment assets, thereby triggering a taxable event or giving up potential future growth of those assets to make the premium payments.

ADVANTAGES OF UTILIZING INSURANCE PREMIUM FINANCING

Employing insurance premium financing allows you to preserve liquidity by only paying interest on the loan to finance the policy premium payments rather than paying the full premium amount out-of-pocket.

At Commerce Trust, our team of seasoned insurance premium financing specialists in private banking understands the intricacies of life insurance premium financing, structuring each lending solution to fit the client's unique needs and wealth goals.

ESTATE PLANNING

Utilizing insurance premium financing allows an estate to maintain its assets rather than drawing on existing capital to pay the premiums. Borrowers may prefer this option because they can invest their capital for a higher return than the cost of financing without having to liquidate assets at an inopportune time (e.g., real estate, investments, fine art, and collectibles).

Financing the premium payments rather than paying them out of pocket is also a strategy for high-net-worth estates to transition existing investment holdings or appreciated assets to the next generation. Most insurance policies used as collateral for insurance premium financing are owned by an irrevocable life insurance trust (ILIT) created and managed by the trustees of the estate. The ILIT buys and owns the insurance policy. Upon the death of the insured, the policy's death benefit proceeds are used to pay off the premium finance loan and then disbursed to beneficiaries to settle estate taxes and make other cash distributions according to the terms of the ILIT.

BUSINESS SUCCESSION PLANNING

The process of transitioning ownership of a business can be complex, particularly for family-owned enterprises. The benefit from a high value life insurance policy can be used to supplement a transfer of ownership to your children or beneficiaries. Financing the premium can be an affordable option to achieve this conversion as well as offering peace of mind throughout the transaction.

In businesses with multiple owners, a buy-sell agreement, that outlines a plan for what happens given the potential departure or death of one of the owners, can be paired with life insurance to create future liquidity in the face of an unexpected event. Businesses can implement an additional layer of efficiency through insurance premium financing, reducing the current cash outlay on their balance sheet.

CASH FLOW MANAGEMENT

High-net-worth individuals and families may find that paying premium payments outright could impede their ability to deploy cash for other opportunities that could create a potential return. Rather than surrender the policy, they can keep the life insurance policy in place and choose to finance the future premium obligations, freeing up additional liquidity.

Instead of making premium payments out-of-pocket, financing the premiums allows you to pay solely the interest on the loan while keeping the policy in place. By paying much less upfront, you can free up funds for other ventures.

NEXT STEPS

There are potential benefits and risks to consider in any borrowing strategy. Contact our insurance premium finance team in The Private Bank at Commerce Trust to learn more about how a life insurance premium financing strategy may fit into your wealth management plan.

INVESTMENT STRATEGY

Why Portfolio Rebalancing Makes Sense

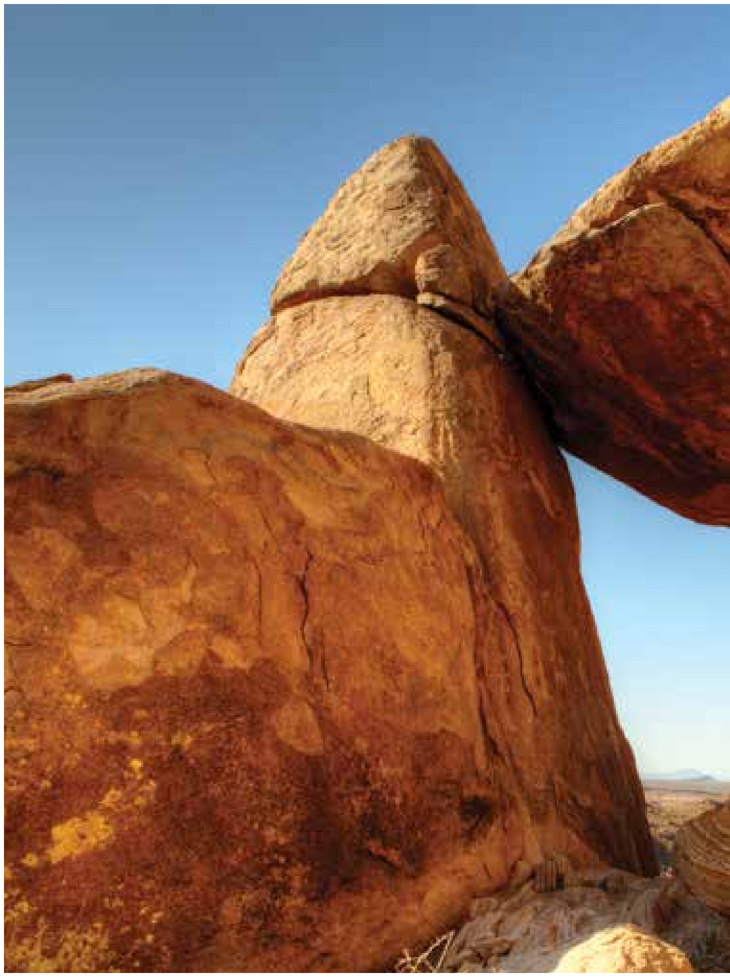

Written by

Matt Schmitt, CFA®, Portfolio Manager, Commerce Trust

Koji Watanabe, CFP®, Senior Financial Planner, Commerce Trust

Asset allocation in a portfolio is constructed based on an investor's goals, risk tolerance, and time horizon. It's the course investors set for their financial futures. However, natural market movements will cause the portfolio's allocation to shift over time, especially during volatile periods like the markets have experienced over the past several quarters.

Periodic rebalancing of the portfolio not only realigns the allocation back to its original target but can also present additional investment opportunities.



PART OF OVERALL WEALTH MANAGEMENT MAINTENANCE

It's important to remember portfolio rebalancing is about managing risk. If a portfolio becomes heavily concentrated in assets that have performed well over time, the investor could be creating greater exposure for themselves in those asset classes, especially if market conditions change and those assets don't continue to perform the way they did in the past. In this scenario, it may make sense to sell some of those concentrated positions and redirect the proceeds to other investment opportunities that represent balancing rates of return and realign the portfolio to its intended objective.

At Commerce Trust, our financial planning and portfolio management officers work together as a team to ensure a client's investment portfolio is appropriately allocated to deliver a risk and return balance that is aligned with their unique comprehensive wealth plan. This requires taking an aggregate view of a client's entire investment picture, not just one account.

All investment accounts should be considered when initiating a rebalancing strategy. For example, retirement vehicles like IRAs or 401(k) accounts could be overlooked because those investments may not be actively monitored on a consistent basis. In fact, IRAs and 401(k)s may offer rebalancing opportunities without triggering any capital gains tax impact.

TAX ADVANTAGES OF REBALANCING

Rebalancing a portfolio could also help provide investors with some tax relief on taxable investment accounts. Securities may become highly appreciated over time, presenting a significant capital gains tax hit when finally sold. That capital gains cost could be spread over time with rebalancing.

> *At Commerce Trust, our financial planning and portfolio management officers work together as a team.*

Another strategy to minimize tax impacts from an overweight position in highly appreciated securities could be to gift a portion of the position to a qualified charity. This would reduce a concentrated portfolio position while possibly offsetting a large capital gains tax. Investors should talk with a tax professional about strategies around the charitable gifting of appreciated securities.

HOW OFTEN SHOULD A PORTFOLIO BE REBALANCED?

Since rebalancing helps investors manage the risks of an investment strategy, determining how often to deploy a rebalancing strategy is important. Some investors opt for a rebalancing based on when assets within the portfolio shift by a predetermined amount. Others may prefer a calendar approach to rebalancing when they are doing other financial-related tasks like preparing taxes.

Rather than rebalancing on a set cadence, Commerce Trust takes a more consultative approach. Our client teams continually monitor portfolio movements in relation to market conditions and keep clients apprised of portfolio activity. This ongoing dialogue with clients allows more timely decisions to be made regarding rebalancing or other portfolio changes.

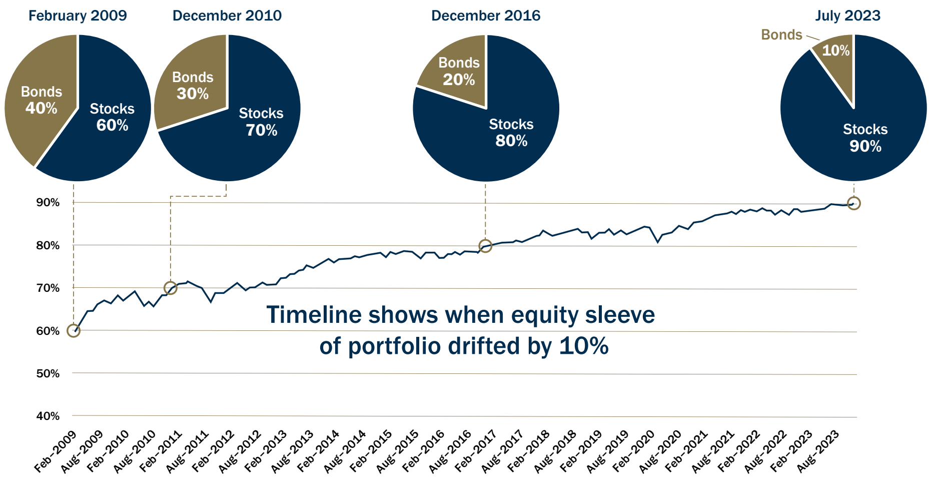
Portfolio rebalancing is an important component of investment management that is influenced by multiple factors. It is essentially an exercise that should take place periodically to not only maximize returns but also manage risk, keep investments aligned with a portfolio strategy, and help investors stay on track to meeting their financial goals.

NEXT STEPS

Commerce Trust is here to answer any questions you may have regarding rebalancing as part of a comprehensive wealth management plan. Contact us today and we can provide more information on our team approach to wealth management.

HOW A BALANCED PORTFOLIO CAN DRIFT OVER TIME

Natural movement of a 60% stocks/40% bonds portfolio without rebalancing, 2009-2023



Charts reflect combinations resulting from the monthly performance of the S&P 500 index and the Bloomberg U.S. Aggregate Bond Index from 2/28/2009 (the trough point of the Great Financial Crisis) through 12/31/2023. For illustrative purposes only. Past performance is not an indicator of future results, and individual investor returns may vary.

Source: Commerce Trust, Morningstar

Home Lending Solutions Tailored to Your Needs

Written by

Kyle Rosborg
Senior Director of Private Banking, Commerce Trust

Whether you are looking to build the family dream home or purchase a vacation residence, buyers today are seeking efficient financing solutions through the lens of an economic environment where inflation, changing interest rates, and elevated costs to borrow money continue to be concerns.

Incorporating the purchase or building of a home or residential property is a vital component of a comprehensive wealth plan. At Commerce Trust, we can structure tailored lending solutions to meet the distinct needs of our clients as part of a holistic wealth management approach, taking into account both sides of a client's balance sheet.

Strategic borrowing can play an integral role in allowing homeowners to build, buy, or refinance an existing or second residential property. At Commerce Trust, your private banking relationship manager can engage our financial planning and asset management client service specialists to research and present lending solutions that consider different assets you may be able to leverage.

Contact us if you are interested in learning more about how our private banking relationship managers can help you with your home financing needs.

MULTI-COLLATERAL LOAN

When purchasing an expensive home or piece of luxury real estate, the down payment can be a matter of managing a significant cash flow event. Buyers and owners may consider cashing out on the equity accumulated in an existing home or selling stock in an investment portfolio. However, liquidating portfolio assets for a down payment may not align with your investment strategy, possibly impacting your longer-term financial goals.

A multi-collateral loan is a unique financing option that leverages eligible assets in an investment portfolio or trust by pledging — not selling — securities to purchase a new home. This type of loan allows the homebuyer to keep their investment portfolio intact and possibly avoid triggering a taxable event that was unplanned while enjoying the benefits of a traditional mortgage.

And even if the homebuyer has enough cash on hand to cover the down payment, a multi-collateral loan provides the option to use that cash to pay for home improvements or other personal expenses instead.

CONSTRUCTION LOAN

A custom home gives homeowners the freedom to design every feature and finish of a new home to their specifications. A construction loan is an effective way to turn that vision into a reality.

Generally, construction loans are acquired once all home building plans are finalized. Construction loan providers typically offer the borrower a loan based on a percentage of the projected value of the house once constructed.

When the building phase is completed, the construction loan is paid back immediately, and a more traditional long-term mortgage is put in place.

At Commerce Trust, our private banking relationship managers serve as the single point of contact to coordinate the construction financing process between the builder, subcontractors, and the title company. The Commerce Trust team will work to lock in the end loan interest rate before construction starts, communicate proactively, and provide personal service to clients for the life of the loan such as collecting lien waivers, reviewing copies of checks written to builders to confirm intended use, and serving as a client advocate to address potential financing challenges.

LOAN MODIFICATION

Today's higher interest rate environment may have some homeowners re-evaluating their cash flow needs. A loan modification allows borrowers to react to changing interest rates with flexibility, as modified rates can take effect as soon as the next month with little paperwork.

If a client opens an adjustable-rate mortgage (ARM) home loan with Commerce Bank, the interest rate for the ARM can be reduced when interest rates decrease. There is no limit to the number of times the loan can be modified, and each modification resets the period for which the rate is fixed.

Strategic borrowing can play an integral role in allowing homeowners to build, buy, or refinance an existing or second residential property.

Banking Where Your Money is Managed

If time is our most precious commodity, why wouldn't you want the convenience of private banking services with the same financial provider that is managing your wealth plan? Your integrated Commerce Trust team looks at your wealth plan holistically, allowing for a more efficient and integrated client experience.

With our collaborative approach, all aspects of your service team are in house. Your private banking relationship manager can directly coordinate with your estate planning and portfolio management team to discuss your liquidity situation. There is little to no need for asset and employment verifications for new loan applications. At Commerce Trust, we provide banking solutions tailored specifically to you.

For example, if the interest rate on an ARM that is fixed for 10 years on a 30-year term mortgage is higher than current market rates, modifying the loan to match a lower rate fixes the rate for another decade or until the loan is modified again.

The loan modification process can also save borrowers time and expense relative to refinancing a home, as modifying a loan does not require any appraisals, title work, or asset verification. Traditional refinancing also typically requires the homeowner to meet certain home equity and credit rating standards, both of which are not a factor when modifying an existing loan. Crucially, a loan modification does not change the amortization schedule, which means borrowers can put a higher percentage of their payment toward the principal instead of paying more toward interest.

While there are risks related to this type of loan program, most notably when interest rates are rising, pursuing a loan modification may offer cash flow advantages in certain circumstances for homeowners who want to maintain their liquidity or allocate their cash to other expenses.

EXPLORING HOME LENDING SOLUTIONS THAT ARE RIGHT FOR YOU

From sophisticated financing structures to checking and savings, The Private Bank at Commerce Trust works to meet the ever-changing needs of our clients with personalized banking solutions tailored to each client's unique situation.

Visit commercetrustcompany.com to learn how we can work together to find a lending solution that fits your needs.

The Private Bank at Commerce Trust supports the markets and communities within our geographic regions and reserves the right to limit the geographic area in which loans will be made. The Private Bank at Commerce Trust does not lend in Maryland.

Multi-collateral loan programs require the pledge of eligible securities owned by an individual and maintained in a Commerce Trust account.

These programs may not be suitable for everyone, and a default on your mortgage could result in the loss of both your home and your securities. Should the value of the securities pledged as collateral decrease below a certain level (as specified within the loan documents), the deposit of additional assets and/or liquidation of assets may be required.

Commerce Trust may liquidate some or all of the securities in the account without contacting you. You are not entitled to an extension of time to meet a collateral call or choose which securities in your account are sold to meet the collateral call. Liquidation may result in adverse tax consequences. Mortgage interest may not be deductible if tax-exempt obligations are pledged as additional collateral. Trading within the securities account for the multi-collateral loan programs is subject to restrictions.

The Private Bank at Commerce Trust is a business unit of Commerce Trust, a division of Commerce Bank, Member FDIC.

EQUAL HOUSING LENDER
NMLS #411948

ABOUT THE AUTHORS

Mark Benskin, J.D., MST, LL.M. (Taxation)

Florida Market Executive

Mark is market executive for the Florida, Illinois, and Wisconsin regions of Commerce Trust. Mark joined Commerce Trust in 2021. In this role, he leads a team of professionals responsible for ensuring the growth, protection, and preservation of client assets and delivering an outstanding client experience.

Mark earned his Bachelor of Arts in Economics and Political Science, cum laude, at Northern Illinois University, his Juris Doctor, with distinction, at the University of Iowa College of Law, a Masters in Science of Taxation from Golden Gate University, and his Masters of Laws in Taxation, cum laude, from the Charles Widger School of Law, Villanova University.

Jacqueline Gabbidon, J.D., LL.M. (Taxation), CPWA®, AEP®

Texas Market Executive

Jacqueline is market executive for the Texas region of Commerce Trust. As Texas market executive, she leads the wealth management practice in Dallas and Houston. She is responsible for ensuring client needs and service standards are met across all areas of the trust, investment, and private banking business.

Jacqueline joined Commerce in 2023. Jacqueline earned her Bachelor of Arts in communication sciences from the University of Connecticut, Juris Doctorate and Master of Laws in taxation from the Southern Methodist University School of Law. She is a Certified Private Wealth Advisor® (CPWA®) designee from Investments & Wealth Institute (Formerly IMCA) and Accredited Estate Planner® (AEP®) designee from National Association of Estate Planners and Councils. She is also a member of ProVisors, the largest professional networking organization exclusively for Trusted Advisors.

Michael Graham

Director – Insurance Premium Finance

Michael is the director of insurance premium finance at Commerce Trust. He works with clients alongside their assigned private bankers, private client advisors, and commercial relationship managers to introduce and structure insurance premium financing options to meet their unique liquidity needs.

Michael joined Commerce in 2020 and has close to 20 years' experience in insurance premium financing and commercial lending. He earned a bachelor's degree in marketing from Pittsburg State University. Michael also graduated from the Graduate School of Banking at Colorado.

Guy Hockerman, CPA, CFP®

Financial Planning Manager

Guy is a financial planning manager for Commerce Trust. As a Certified Public Accountant and CERTIFIED FINANCIAL PLANNER™, Guy's extensive experience in financial planning includes working for banking and accounting institutions as a financial planner and tax advisor. His expertise includes planning for financial independence, executive compensation, estate preservation, philanthropy, and business succession.

Guy earned his Bachelor of Administration in business and economics from Wheaton College. Guy is a member of several organizations, including the Financial Planning Association and the American Institute of Certified Public Accountants.

Joan Humes, CPA

Private Client Advisor

Joan is a private client advisor for Commerce Trust. Joan facilitates all aspects of relationship management for the client team, including administering complex trusts, maintaining client communication, and coordinating with internal and external partners to deliver a superior client experience.

She joined Commerce in 2023. Joan received her Bachelor of Science in business administration with accounting emphasis at Montana State University at Billings. She has earned the designation of Certified Public Accountant (CPA).

Kyle Rosborg

Director of Private Banking

Kyle is the senior director of private banking for Commerce Trust. In this role, he is responsible for the systemwide oversight of all private banking activities for Commerce Trust.

Kyle joined Commerce in 2014. He earned his Bachelor of Science from the University of Illinois.

Matt Schmitt, CFA®

Portfolio Manager

Matt is a portfolio manager for Commerce Trust. Upon gaining a thorough understanding of a client's needs and goals as well as assessing the client's entire financial situation, he works with our investment research team to construct a portfolio to help clients achieve their long-term goals.

Matt joined Commerce in 2002. He completed his undergraduate work in 1994 at Drake University and received a Bachelor of Science in business administration and business management. Matt holds the Chartered Financial Analyst® designation and is a member of both the Kansas City Society of Financial Analysts and the CFA Institute.

Koji Watanabe, CFP®

Senior Financial Planner

Koji is a financial planner for Commerce Trust. Following a thorough assessment of a client's unique situation and thoughts regarding wealth, Koji develops holistic and coordinated plans to help clients meet their short-term and long-term goals as well as take full advantage of various planning, tax, and investment strategies along the way.

Koji received his Bachelor of Arts from Colby College in Waterville, Maine, and has earned his CERTIFIED FINANCIAL PLANNER™ certification. Additionally, Koji is a member of the Kansas City chapter of the Financial Planners Association.

Disclosures

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Commerce Trust is a division of Commerce Bank.

Investment Products: Not FDIC Insured | May Lose Value | No Bank Guarantee