Schneider
WEALTH STRATEGIES

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WEALTH MANAGEMENT REPORT

6 Common Estate Planning Myths: Here's The Reality

Some people avoid estate planning at all costs. But putting aside the inevitable emotions involved in looking ahead to your own demise, it's crucial to understand the process. A good place to start is by debunking these six common but potentially damaging myths:

Myth #1: My estate is too small to need an estate plan.

Reality: You don't need a small fortune for your heirs to benefit from estate planning. For instance, what if you decide to divide your assets among several beneficiaries, instead of designating just your spouse or another person? That could be very important if you're in a second or third marriage and have children from a previous marriage. In addition, you might want to leave some of your estate to charity. Wanting to help your family avoid the delays of probate, seeking to reduce estate taxes, and choosing who will administer your estate also call for estate planning.

Myth #2: I don't need an estate plan because my spouse will inherit everything.

Reality: This is closely related to the first myth. Just because you have left everything to your spouse under your will—and your spouse has returned the favor—doesn't mean you won't benefit from estate planning. What happens if your spouse dies first at a relatively early age, or if you die together in an accident? What then? There might be complications because of how assets are titled, who are named as beneficiaries of your life insurance policies and your retirement plans, or the estate laws of your state.

Myth #3: If you're wealthy, there's no way to avoid estate taxes.

Reality: That's simply not true. On the federal level, your estate can benefit from a generous $5.43 million exemption for those dying in 2015 (and that amount is indexed for inflation and will rise in future years). What's more, because you or your spouse can use the other's leftover exemption, the effective amount the two of you can shield from estate taxes is almost $11 million. Trusts and other tax-saving vehicles can further reduce estate tax exposure. Although state inheritance tax rules aren't always as generous, professional guidance may help there, too.

Myth #4: Everything is covered in my will so estate planning isn't necessary.

Reality: While a will is a good starting place for an estate plan, it's not likely to be enough on its own. There may be numerous other loose ends to tie up. In addition, depending on your state's laws, your heirs may have to go through a lengthy probate process that can be even more drawn out if you owned property in several states. A revocable living trust can help you pass

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Have Your Child Kick Into A Roth With A Reward To Boot

Suppose your teenage child lines up an after-school job and is raking in the money. Your progeny might have an eye on the latest X-Box or iPhone, but there are plenty of other ways to spend that hard-earned cash.

Crazy as it might sound, you could encourage your child to deposit some of the funds in a Roth IRA.

Why would a high school student contribute to a Roth? This is a good time to teach your child about the benefits of tax-advantaged accounts. If your 17-year-old puts away $5,500 each year (the current maximum) and receives a hypothetical 7% annual return, the stash will grow to a staggering $2,235,909 by the time he or she is ready to retire at age 67!

What's more, future distributions from a Roth may be 100% tax-free. Although you generally have to wait until age 59½ to qualify for this treatment, earlier distributions may be wholly or partially tax-free under certain circumstances.

Finally, if you want to take some, or all, of the sting out of the situation, you can give your teenager a cash gift for up to the amount of the Roth contribution. This is perfectly legal as long as the child has earnings from a job. Plus, there's no gift tax liability because the maximum IRA contribution is less than the $14,000 a year you can give without tax liability. Everybody wins.

3 Ways To Deduct Mortgage Interest

Your home is more than an investment and a place to live—it also can be a valuable source of tax deductions. For many homeowners, one of the biggest itemized deductions on Form 1040 is the one for qualified residence interest (commonly called the "mortgage interest deduction"). In the usual situation, you can write off all, or almost all, of the mortgage interest you've paid for the year.

But this generous tax break might not stay intact forever. Recent proposals in Congress would scale back some of the tax benefits. Keep an eye out for future developments.

Under current law, you may claim deductions for three basic types of mortgage interest, up to certain limits:

1. Acquisition debt. This involves mortgage proceeds you use to buy, build, or substantially renovate a home. The loan must be secured by a qualified residence (either your principal residence or a second home such as a vacation home). Interest on such debt is deductible on amounts of up to $1 million. Acquisition debt often amounts to the lion's share of your mortgage interest deduction.

2. Home equity debt. If it's allowed by the laws of your state, you also may deduct the interest on home equity loans secured by a qualified residence, regardless of how you use the proceeds. But with home equity debt, deductions are limited to interest paid on loans of up to $100,000. In addition, the loan amount can't exceed your equity in the home.

3. Points. Although points really aren't mortgage interest, the tax law essentially treats them as if they were. These are the charges a lender may impose when you obtain a mortgage. (One point equals 1% of the amount you borrow.) You can deduct any points you paid for acquisition debt, but you'll need to deduct charges for refinancing over the term of the loan. For instance, if you refinance a $200,000 mortgage with a 10-year loan and pay two points – or $4,000 – you may deduct $400 in points ($4,000 divided by 10) annually for 10 years.

Mortgage interest deductions are claimed as itemized deductions on Schedule A of Form 1040. You can claim the deduction only if you're an owner of the home and pay the interest. Other special rules may apply, but this overview covers the basics.

Keep in mind, though, that the "Pease rule" may reduce your itemized deductions, including mortgage interest deductions, if your income is sufficiently high. The reduction equals 3% of the excess adjusted gross income (AGI) over an indexed threshold (but not by more than 80% overall). For 2015, the AGI threshold is $258,250 for single filers and $309,900 for joint filers. ●

Self-Employed? Map Out Tax Details

Have you joined the ranks of the self-employed? You're not alone. According to the Bureau of Labor Statistics, more than 14.4 million Americans were counted as being self-employed in 2014. Some estimates place the total even higher.

In addition to major lifestyle changes, self-employment really is whole new ballgame when it comes to paying your taxes. Now, you're responsible for reporting all of your own income and deductions for the business on Schedule C.

What makes Schedule C different? If you're been treated as an employee until now, you've filed a Form 1040 listing wages paid by your employer, as reported on your W-2. But you generally weren't able to deduct any expenses related to your job (other than maybe qualifying for a limited deduction for unreimbursed employee business expenses). Now the income and deductions from your business are largely confined to this one tax form, and you're likely to be able to write off several costs that aren't deductible for regular employees.

Of course, Schedule C isn't the whole story. For instance, you may qualify for a generous Section 179 deduction for equipment or other business-related purchases you've added during the year. On 2014 returns, the maximum deduction is $500,000 (scheduled to drop to $25,000 in 2015), plus you may be entitled to "bonus" depreciation. In addition, if you work out of your home, as many self-employed people do, you may be able to claim a home office deduction. Finally, you will have to cope with numerous other complications, such as the stringent rules and limits applying to deductions for business travel and business use of a vehicle.

Self-employment income is taxed at ordinary income rates, currently topping out at 39.6% on the federal

Learn Ins And Outs Of Education Tax Breaks

If you have one or more children in college, or your offspring will be heading to college or university soon, you already know about the ever-rising cost of higher education. It's not unusual for a year at an elite university to cost $60,000 or even more. Suppose you have three children who have the grades to get into top-notch colleges and each one spends four years at such a school. That's a total cost of at least $600,000!

Although federal tax laws provide some relief to parents in the form of two higher education credits and a tuition deduction, those tax breaks are phased out for upper-income taxpayers. What's more, you can claim only one of those tax benefits in a year. Here's what's available:

1. American Opportunity Tax Credit (AOTC). The AOTC, formerly known as the Hope Scholarship credit, recently was extended by Congress through 2017. The credit equals the sum of 100% of the first $2,000 of qualified tuition and related expenses and 25% of the next $2,000 of such expenses, for a maximum annual credit of $2,500. But you could claim the credit for each child who's in college, so if you have three kids in school at the same time, you could claim a maximum credit of $7,500 in that year.

Under another recent tax law change, the AOTC now applies to the first four years of a student's higher education. Previously, it was limited to just two years. Furthermore, you're allowed to receive up to 40% of the value of the AOTC as a tax refund, up to a maximum of $1,000, in the unlikely event that you have zero tax liability.

But the AOTC is phased out based on a family's modified adjusted gross income (MAGI). For 2015, the phaseout range is between $80,000 to $90,000 of MAGI for single filers and $160,000 to $180,000 for joint filers. Once you exceed the higher threshold, you can't claim the AOTC at all.

2. Lifetime Learning Credit (LLC). Unlike the AOTC, the LLC is on the books permanently, but it is generally not as beneficial as its close cousin. It is equal to 20% of the first $10,000 of qualified expenses, for a maximum of $2,000. And that limit applies to each taxpayer, not each student. So for those parents with three children in school at the same time, the maximum credit remains $2,000. What's more, unlike the AOTC , the LLC can't result in a tax refund.

Finally, the MAGI phaseout levels for the LLC are even lower than they are for the AOTC. For 2015, the range is between $55,000 to $65,000 for single filers and $110,000 to $130,000 for joint filers.

3. Tuition deduction. Finally, you may be able to deduct tuition and related fees that you pay to a college on behalf of your dependent children. The allowable deduction is either $4,000 or $2,000 depending on your MAGI for the year. For single filers, the deduction is $4,000 for a MAGI of up to $65,000 and $2,000 if your MAGI is between $65,000 and $80,000. Joint filers can deduct $4,000 for a MAGI of up to $130,000 and $2,000 if your MAGI is between $130,000 and $160,000. Exceed those upper thresholds and you don't get the deduction.

The tuition deduction officially expired after 2013. However, after much debate in Congress, it was extended retroactively one year for 2014.

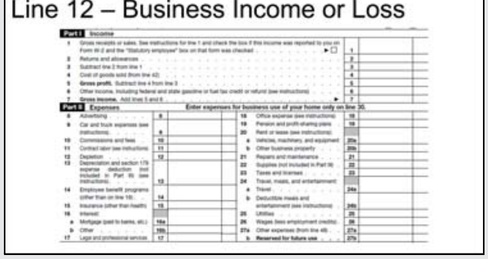
Remember that you can claim only one of these three tax breaks in a given year, even if you don't exceed the phaseout limits. Because those cutoffs are relatively low, and because the tax relief they offer won't make much of a dent in the overall cost of sending a child to college, most parents will need to look elsewhere for tax benefits. Consider the advantages of college saving devices such as Section 529 plans and Coverdell Education Savings Accounts (CESAs).

Section 529 plans can prove to be especially valuable because they have very high contribution limits and the money you contribute to a plan is invested and can compound over time. You aren't taxed on investment earnings in a plan and distributions for most college expenses also aren't taxed. And if there's money left over after one child finishes school, you can transfer the account to a sibling.

CESAs aren't as attractive as 529 plans because CESAs have an annual contribution limit of $2,000, although if you begin putting in money when a child is very young it could add up to a decent amount of education savings, and the assets in these accounts also can grow without any current tax. Moreover, a CESA can be tapped to pay for private school education before a child enters college. That's not allowed with Section 529 plans. ●

level. Typically, your same net amount of self-employment income also is subject to state income tax under the rules of the state where you live.

There are other factors to consider, too. When you file your 1040, you'll also need to pay self-employment tax, the equivalent of the Social Security and Medicare taxes that employees must pay. But employers typically pick up half of the amount owed on behalf of a worker. Because you're self-employed, you pay both the employer and the employee shares, making your tax twice what you'd owe if you were an employee. For the 2014 tax year, the self-employment tax is equal to 15.3% on self-employment income up to $117,000 ($118,500 in 2015) and 2.9% on amounts above that threshold. But you do get to deduct half of the self-employment tax.


Line 12 – Business Income or Loss

While software programs may help you file your own tax return, don't get in over your head. Professional help is usually warranted. ●

6 Bad Money Habits For You To Avoid

Take the time to give an honest answer to this question: "Are you mismanaging your money?"

Though your first reaction may be to say "no," upon more reflection you might have to reply "yes," especially if your spending continues to outpace your earnings.

To avoid making the same mistakes over and over, try to identify your bad money habits and eliminate or at least curtail them. Consider these six common problems:

1. You let emotions rule. Do you shop to relieve stress, escape boredom, or entertain yourself? Do you experience anxiety, guilt, or remorse after shopping? You could be an emotional shopper, genetically programmed to spend excessively. The trick is to keep emotions from getting in the way so that you buy only what you need. One option is to give yourself a cooling off period of a couple of days before making a major purchase to determine whether it's really worthwhile.

2. You feel entitled. Maybe you feel you deserve more than you have regardless of how much you earn or what you own. Why should you be deprived of a top-of-the-line car or your dream house? But smart money-managers train themselves to shy away from such notions and buy only what they can afford.

3. You crave instant gratification. If you need to get things right away—the latest electronic gadget or designer clothes—you may pay a premium, plus interest on any amount you need to borrow. That's a sure-fire way to sink deeper into debt. If you resolve to pay cash for all your purchases you may be able to hold back and consider the big picture.

4. Your self-worth is defined by possessions. Advertising pitches are designed to make you believe you'll be happier if you buy particular products. But you're much more than what you own, and if you can remind yourself of that, you may be able to look at prospective purchases in terms of whether they answer actual needs.

5. You've become complacent. Many people have the tendency to accept the status quo, even if that means continuing to pile up debts. Complacency is a dangerous emotional state because it lets you disassociate the pleasure you get from buying from the pain you'll feel when the credit card bill arrives. Realizing that you need to change is the first step toward making it happen.

6. You don't have a plan. Those with bad money habits tend to look at what they earn, spend, and save as separate things rather than acknowledging that they're all tied together. Creating a budget and a retirement savings plan, and sticking to it, are essential. Otherwise, mounting debt becomes a self-fulfilling prophecy.

One way to teach yourself better money habits is to try to run your personal affairs like a business. Set aside reserves for emergencies and allot funds for retirement saving on a monthly basis. Make a few important changes and you'll see the difference very soon. ●

Estate Planning Myths

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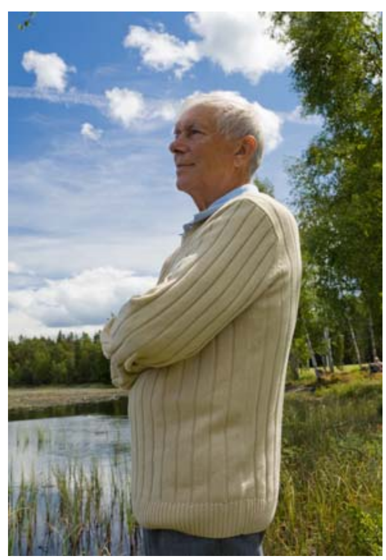
some assets to your heirs without probate, and your will probably also should be accompanied by a durable power of attorney authorizing a family member or a professional to act on your behalf if you're incapacitated.

Myth #5: I don't have to worry about life insurance and retirement plan designations.

Reality: This is overstating the case. Although the beneficiary designations you've made for life insurance and retirement plans, as well as for your IRAs, are a good start, you still need to coordinate those choices with other aspects of your estate plan. You might want to revise your designations, for example if you get divorced or a spouse dies, or you could need to add secondary or contingent beneficiaries. Also, while the proceeds from life insurance generally are excluded from estate tax, there are exceptions that could direct that money back into your taxable estate.

Myth #6: Once my estate plan is complete, I don't have to do anything else.

Reality: Nothing could be further from the truth. Your family and financial circumstances almost certainly will continue to evolve, and your estate plan needs to reflect significant changes. Marriage, divorce, or the birth of children or grandchildren all could have an impact. And the best-laid plans could be affected by a disability or unexpected death of a spouse. Finally, your plan may have to be fine-tuned to take other events into account, especially if the estate tax laws are revised again. So be sure to review your plan periodically and revise it when necessary. ●



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