Schneider
WEALTH STRATEGIES

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WEALTH MANAGEMENT REPORT

New Year's Resolution: Review Your Estate Plan

Before you ring in another New Year, you may want to take time out of your busy schedule to observe another annual ritual: a review of your estate plan. If you're like most people, you probably stuck your will and other documents in a drawer or a safe deposit box as soon as you had them drawn up—and have rarely thought about them since. But changes in your personal circumstances or other events could mean it's time for an update.

It normally makes sense to review an estate plan at least once a year, just to make sure it's still meeting your main objectives.

Events That Could Spur Changes: What sort of changes might necessitate a change in your plan? Here are events that require alterations in your will or other estate documents.

- The birth or adoption of a child, grandchild, or great-grandchild;
- The death of a spouse or another family member;
- Marriage, divorce, or re-marriage;
- Illness or disability affecting you or another family member;
- A child or grandchild reaching the age of majority;
- A child or grandchild in need of education funding;
- The death of a guardian, executor, or trustee;
- Taking on or paying off a sizeable debt;
- Significant changes in the value of your assets;
- The sale of your residence or a second home;
- A significant promotion at work or a change in jobs;
- Retirement of you or your spouse;
- A large gift or inheritance;
- Sale of a business interest;
- Revisions in federal or state income tax or estate tax laws.

What You May Need To Do: If one or more of these events happens to you, there are several legal documents you may need to revisit.

Your will: As the centerpiece of your estate plan, your will dictates who gets which assets, and it also specifies a guardian for any minor children. Changes in your life since you had the will drafted could require significant alterations. (Note: If a will is kept in a bank safe, it may be sealed upon death. It's better to keep it in another safe place.)

Often that will include revisions in the bequests for some of your heirs. For instance, you might expand the list of beneficiaries to include a newborn in the family or reduce it if you've had a falling-out with a relative. A divorce could necessitate a complete overhaul. Also, you might decide to switch

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If Estate Tax Repeal Is Enacted Soon, Will It Stick?

As the drumbeat for tax reform grows louder, the chances that the federal estate tax will be repealed increase. Although there are no guarantees, especially in the current political environment, a repeal taking effect by 2018 is a real possibility.

But this doesn't mean estate tax planning should be abandoned—far from it. In fact, if history is any indication, an outright estate tax repeal isn't likely to be permanent.

Take the example of the monumental tax legislation enacted in 2001, the Economic Growth and Tax Relief Reconciliation Act (EGTRRA). Under EGGTRA, among other related changes, the estate tax rate was gradually reduced from 55% to 45% while the estate tax exemption rose from $1 million to $3.5 million. Then the estate tax "vanished" just for just one year—2010—before it was scheduled to be reborn in 2011 at 2001 levels via a "sunset" provision.

Subsequently, a higher estate tax exemption was preserved. Indexed for inflation, it's $5.49 million in 2017, with a top 40% estate tax rate. These changes are "permanently" written into the tax code.

Suffice it say that you can't foresee the impact of future presidential and congressional elections. Even if the estate tax is eliminated, it could easily return. The best strategy is to continue estate planning that takes a long-term view.

This Tax-Free Rollover Goes Right To Charity

The tax law provides a unique planning opportunity for retirees who have to take required minimum distributions (RMDs). You're allowed to transfer funds directly from your traditional IRA to a qualified charitable organization without paying any federal income tax on the distribution. Although the contribution isn't tax deductible, it does count toward your RMD for the year.

This tax break—sometimes called a "charitable rollover"—had expired and been reinstated several times. Thanks to the Protecting Americans from Tax Hikes (PATH) Act of 2015, however, the tax provision is now permanent.

Under the PATH Act, someone who's at least age 70½—the age at which RMDs must begin—can instruct an IRA custodian to move up to $100,000 of funds from that person's IRA to a favorite charity. A married couple can transfer up to $200,000, assuming they're both old enough to begin taking RMDs.

Can't you accomplish the same result by taking a taxable IRA distribution and then donating that amount to charity? Not exactly. There are several other factors to consider, including annual limits on deductions for donations to charity, plus potential tax return complications. What's more, the direct rollover is valuable to non-itemizers who aren't eligible to deduct charitable contributions. And this method is simpler.

There are, however, a few more details to attend to with this approach. To qualify for the tax exclusion, the distribution must be made directly from the IRA trustee to a qualified charitable organization. You're not allowed to use the funds temporarily before transferring them to the charity's coffers.

In addition, the contribution must otherwise qualify as a charitable donation. If the deductible amount decreases because of a benefit received in return — for example, the value of a dinner at a fundraiser — or the deduction would not be allowed due to inadequate substantiation, you can't take the exclusion.

A bonus is that you're required to start taking RMDs in the year after the year in which you turn age 70½. If you take a charitable rollover, you can meet this obligation without paying the usual tax on an IRA distribution.

This tax law provision also applies to Roth IRAs, though it may not be advisable to take this approach with a Roth. Roth IRA distributions to account holders over age 59½ are usually tax-free, and it doesn't make sense to use money that isn't taxed to make a donation that isn't deductible. But a portion of a distribution may be taxable if your Roth hasn't been in existence for at least five years. In that case, it might be reasonable to transfer the taxable amount directly to a charity. ●

Four Tax Strategies In Retirement

If you're like most people, you've invested in a variety of assets ranging from stocks and bonds to real estate. Amid this dizzying variety, the prevailing tax rules can provide further complications, especially after you've retired.

One overarching rule is that you must begin taking "required minimum distributions" from retirement plans such as 401(k)s and traditional IRAs after age 70½. Because these distributions are generally taxed at ordinary income rates, you could be facing a higher tax bill at just the wrong time.

But there are ways to ease the pain. Consider these four strategies for reducing the tax bite in years when you have to take RMDs.

1. Harvest capital gains. When you sell securities and other capital assets, your profits are taxed under special rules for capital gains. The maximum tax rate on long-term gains (on sales of assets you've held longer than a year) is 15%, or 20% if you're in the top tax bracket for ordinary income.

That lower rate is a benefit in itself. But another aspect of the law could help even more. Capital gains—including short-term gains, which are taxed as ordinary income—are offset by capital losses, and if you've taken any losses earlier in the year, you might take profits now on short-term holdings, knowing they'll be absorbed by the losses. It's usually better to use losses to offset short-term rather than long-term gains because of the higher tax rate for short-term gains.

2. Harvest capital losses. With a capital loss, you can offset capital gains plus up to $3,000 of ordinary income. If that still doesn't use all of your losses, you can carry over the excess to the following year. Typically, investors look to harvest losses at year-end when they've

Seven Steps To Get Ready For Your Retirement

Are you among the millions of Baby Boomers counting down the days to retirement? Before you move into the next stage of life, it's important to get all of your financial ducks in line. To prepare yourself, consider these seven practical suggestions.

1. Rebuild the budget. You've probably been living on a monthly budget that takes into account your usual expenditures and income. But that's about to change in a big way. For example, once you stop working, your expenses for a business wardrobe and commuting will also end, but so will the regular paychecks you've been living on.

Come up with a new plan. Identify what you expect to have coming in and going out. Remember that you won't be able to rely on 401(k) deferrals to reduce your taxable income after retirement, but you should still keep saving.

2. Zone in on a homestead. You could be planning to pull up stakes and move to a smaller home, perhaps downsizing from the place where your kids grew up and you might hope to end up in a warmer climate or in a less expensive area (or both). Or perhaps you're contemplating a move to a retirement community. But this kind of upheaval isn't for everyone, and you just might decide to stay put. In any event, your choice will affect numerous other aspects of retirement.

Also, don't assume that you and your spouse share the same vision. If you haven't talked about it yet, bring up the subject before you call it quits.

3. Review your investments. As you head into the home stretch before retirement, compile a list all of the investment assets you own, including amounts parked in taxable accounts, bank savings or checking accounts, and tax-favored retirement accounts such as 401(k)s and IRAs. Consider whether you will want to keep retirement plan assets where they are when you retire or consolidate them into other accounts. Similarly, consider the best use of life insurance policies.

One thing to think about is whether to convert your traditional IRAs to a Roth IRA. Although the conversion is taxable, your future withdrawals from the account will normally be tax-free. Check with a professional to crunch the numbers.

4. Settle on Social Security. If you retire before full retirement age (FRA)—age 66 for most Baby Boomers—you'll receive less in monthly Social Security benefits. You can apply for benefits as early as age 62. Waiting until after you reach FRA, on the other hand, can result in bigger monthly benefits. The longer you wait, until you turn 70, the larger your benefit checks will be.

But if you and your spouse will both receive Social Security payments, there will be other factors to consider. For instance, a higher-earning spouse might wait longer to claim benefits to provide greater protection for a surviving spouse if the higher-earning spouse dies first.

5. Learn all about Medicare. Usually, retirees opt to be covered by Medicare once they become eligible at age 65. But you will have a number of options to consider, so it's best to familiarize yourself with the key elements of Medicare before then. Estimating your future out-of-pocket costs, including premiums, deductibles, and prescription drug costs will help you decide which Medicare benefits to opt for and whether you'll need to supplement Medicare with coverage from a private insurance plan. Try to investigate all of the possibilities before the time comes to make your decisions.

6. Develop a draw-down strategy. Control the distribution of funds in your retirement by deciding which accounts you want to tap first. Although everyone's circumstances are different, often the best plan is to withdraw funds from your taxable accounts first (because you'll owe only capital gains taxes, which are usually much lower than taxes on distributions from 401(k)s and traditional IRAs), then from those other tax-deferred accounts, and finally from your Roth IRAs. This sequence enables you to benefit from tax-free compounding of investment income within a Roth for as long as possible.

But taxes aren't the only consideration. You may have other reasons for withdrawing funds from some accounts and holding onto others.

7. Meet with your financial advisor. As you can see, you'll be facing some difficult decisions during your countdown to retirement, and the financial consequences can be significant. But you don't have to do it all by yourself.

Schedule a meeting with us to assess and review your situation well before your expected retirement. The countdown to retirement won't be as nerve-wracking if you're well prepared. ●

already realized capital gains in prior months.

3. Smooth out income. Although you often can't control when taxable income comes in, you may be able to time some items to your tax benefit. When possible, consider taking just enough income—some of which may come from selling investments—to "fill up" income to the top of your current tax bracket, trying to stay below the thresholds of a higher bracket.

4. Rely on tax deferral. Tax-deferral strategies may help you to reduce your income, and your taxes, for a year or more. For example, if you sell real estate on the installment basis, only part of your gain will be realized in the year of the sale. Or you might simply wait until after the first of the year to sell securities at a gain. ●

Ask About Personal Residence Trusts

By using a qualified personal residence trust (QPRT), you might be able to sidestep potential estate tax pitfalls while transferring a home to family members. You can continue to live in the home for a term of years, after which ownership passes from the trust to the designated beneficiaries. Your gift of the home to the trust is taxable, but rather than being based on the home's value when it goes into the trust, that value is reduced by the amount of your "retained interest," which is calculated according to a complicated formula based on interest rates, the term of the trust, and other factors.

But this unique estate planning technique is often misunderstood. Here are answers to several common questions about QPRTs.

Q. What are the estate and gift tax consequences?

A. When your home goes into a QPRT, it comes out of your taxable estate. Although the transfer of the remainder interest—the home's value minus your retained interest—is subject to federal gift tax, the resulting tax from this future gift tends to be low, especially while interest rates remain depressed. The IRS relies on the Section 7520 rate, which is updated monthly, to calculate the tax.

Q. What happens if I die before the end of the trust term?

A. Then the home goes back into your taxable estate. This defeats the purpose of the trust, but your family is no worse off than before the trust was created.

Q. Do I have to transfer my principal residence?

A. That's normally the home used in a QPRT, but it can also be set up for a second home. In fact, you can have multiple personal residence trusts.

Q. How long should the trust term last?

A. There's no set period of time. Note that the longer the term, the smaller the value of the remainder interest that's subject to taxes. But a longer term also increases the chance that you'll die before it ends and the home will be returned to your estate.

Q. Can I sell the home during the trust term?

A. You can, but you'll have to reinvest the proceeds in another home or asset that will be owned by the QPRT and subject to the same trust provisions.

Q. Who pays for the upkeep of the home?

A. As long as you still live there, you do, for instance, you might pay the costs of monthly maintenance and repair, insurance, and property taxes to the trustee. But you get to deduct qualified expenses on your tax return.

Q. Can I back out of the deal?

A. No, the trust is irrevocable. However, if you want to stay in the home after the trust term, you can set up a rental agreement with the beneficiaries. They will have to pay income tax on the rent they receive.

Q. Are there any other drawbacks?

A. There are costs associated with a QPRT, including attorneys' fees, appraisal fees, and titling expenses. And you can't take out a mortgage on a home that has been transferred to a QPRT. (An existing mortgage is permitted but it complicates matters.) ●

Review Your Estate Plan

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executors. Finally, your will may need to be updated to reflect changes in state or federal laws.

Revocable living trusts: Similar to a will, a revocable living trust provides for the distribution of assets transferred to the trust. Unlike a will, however, these assets don't have to pass through probate upon your death. This can save both time and money, and you might decide to use a living trust to supplement your will.

Because the trust is "revocable," you retain the right to change beneficiaries and reallocate assets designated for certain beneficiaries. The same sort of additions and subtractions used for a will might apply to the trust. In addition, depending on your situation, you could amend other terms, such as changing the guardian of minor children, a trustee, or successor trustees.

Durable power of attorney: A power of attorney is a legal document authorizing someone (the "attorney-in-fact") to act on your behalf in financial affairs. A "durable" power of attorney stays in force if you become incapacitated. This can be a vital component of your estate plan.

Are you planning to buy or sell assets or undergo life-threatening surgery? A durable power of attorney may be especially beneficial in these situations. Include this document in your estate plan if you haven't already done so.

Living will: Finally, a living will can provide guidance to your loved ones should they face difficult end-of-life scenarios. This can be combined with a health care power of attorney to ensure that your physicians and the hospital comply with your wishes.

Living wills are often associated with elderly people, but issues can arise at any stage of life. In your review of your estate plan, look again at this document to see whether it still accurately reflects how you feel. And if you don't have these documents yet, consider adding them to your plan.

Once you've completed the year-end review of your estate plan, circle back to your professional advisors for assistance in implementing any changes that are needed. When you're done, you can look forward to a happy New Year! ●

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