Schneider
WEALTH STRATEGIES

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WEALTH MANAGEMENT REPORT

Be Prepared For Tax Policy To Swing Back

For business owners, professionals, and wealthy families not living in high tax states, tax rules are about as favorable as they've been in decades, but the tax policy pendulum could swing back again. Be prepared to make some important financial decisions much sooner than had been expected.

For example, the lifetime tax exemption for gifts made in 2019 is $11,400,000, up from $11,180, 000 in 2018. It doubled over the $5.43 million in effect in 2017 and is scheduled to ratchet higher through 2025, as a result of the enactment of the Tax Cuts & Jobs Act (TCJA). In 2026, the exemption reverts back to the level in effect before the TCJA became effective in December 2018.

That means families should have many years before they would be forced to decide whether to make gifts in 2025 to maximize their exemptions from tax in passing their wealth to family members. The 2025 peak in the exemption amount forces a decision about whether to give assets to loved ones while you're still alive or hold onto your assets and give them away after you die. In 2025, you use the $12-million-plus exemption or lose it, and the exemption reverts back to a much lower amount in 2026 and beyond.

However, the tax policy pendulum — a politically charged issue — could swing in the other direction in the months ahead. Business owners, professionals, and other high-net worth individuals may need to make decisions about gifting assets much sooner. There is no assurance that you will have until the end of 2025 to make this important strategic decision about passing on your family wealth.

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Set Aside The Funds You Might Need For A Rainy Day

You've probably been told time and time again about the importance of saving money for a "rainy day." And it's sound advice when you think of what could happen if you suddenly lost a job or had an unexpected medical illness or injury. If you have money set aside to handle emergencies, you'll be better equipped to weather the storm.

But how much money is needed in your rainy day fund? Frequently, people underestimate what they really need to live on and may come up short when the chips are down.

The conventional wisdom has been to stash away enough so you can live comfortably for a period of about three to six months. But that may not be enough at a time when it's hard for unemployed workers to find jobs and out-of-pocket medical costs continue to skyrocket. Also, make sure you factor in expenses other than your fixed costs for a mortgage and monthly car payments. Utility bills, your cell phone plan and other costs can really add up.

For some people it may be safer to set up a fund that you estimate will last nine months to a year.

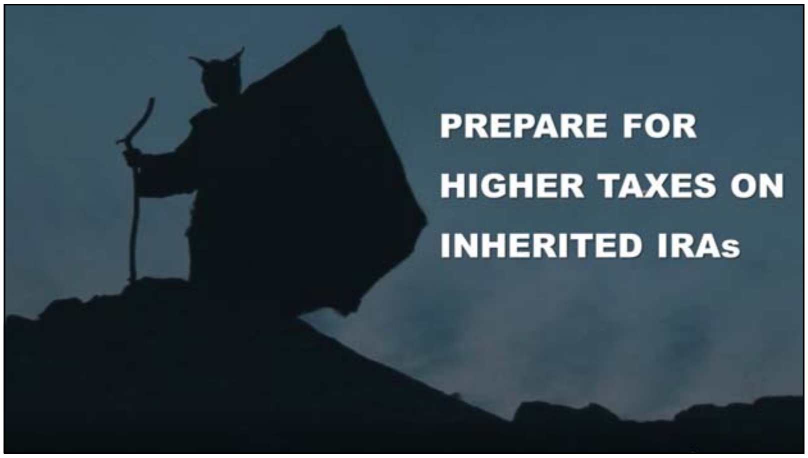
Where should you keep the money? Most people use an account at a bank or credit union or money market fund. If you want to consider options that earn income, just make sure they're very low risk and that you can get the money right away in case of an emergency.

Prepare For A Sweeping New Law On Retirement Account Taxes

A sweeping new law changing retirement investing tax rules was passed by the House of Representatives on May 29th. It's expected to be passed by the Senate and has the support of President Donald J. Trump. Although the legislation may not be signed into law until late this year, individuals with retirement accounts should consider how its enactment will affect them and their beneficiaries. Here's what you need to know now:

Secure Act Misnomer. The legislation is referred to as the Secure Act. Often buried or unmentioned in coverage is the full name of the legislation, "Setting Every Community Up for Retirement Enhancement Act of 2019."

Kills Stretch IRAs. A popular strategy for stretching tax deferral would be eliminated by the proposed law. The legislation's sweeping changes would kill stretch IRAs and represents a move to higher taxes on IRA beneficiaries. Non-spouse beneficiaries of Individual Retirement Accounts (IRAs) would no longer be permitted to defer taxes on payouts of inherited IRA over their expected lifetime after 2019. Under current rules, you could leave an IRA to your children and your heirs who can take distributions from that IRA based on their life expectancy. This allows those inheriting IRAs to stretch deferral of taxes over many decades, and the IRA account compounds without being taxed in this period. Under the proposed change, heirs would be required to distribute an inherited IRA over 10 years.



Exceptions. The proposal carves out an exception for minors — 18 or 21 in most states — until they reach the age of majority, and then they would be required to distribute the assets in the IRA over 10 years. A surviving spouse, those who are chronically ill or disabled are among those not affected by the new 10-year payout rule.

Beginning Date Of Required Minimum Distributions (RMDs). The new law would push back the age at which you must begin withdrawing money from an IRA. Under current law, you are required to begin taking distributions on the 1st of April following the year you turn age 70½. Under this new statute, that's going to be pushed back to age 72.

Stay Tuned. Waiting till the legislation is signed into law may not leave enough time to adjust your plans and minimize taxes for yourself and loved ones, and the legislation makes changes so sweeping and so new that its effects on long-term financial plans are still being researched. Please watch this space to learn details about ways to shield yourself and your beneficiaries from higher taxes on IRA payouts in the weeks ahead. Tax panning requires a qualified tax professional and personal attention. This is an early warning about an important issue affecting strategic long-term tax planning and not intended as tax or legal advice. ●

Risk And Tax Effects Of An Installment Sale Of A Home

An installment sale of real estate is a variety of seller financing in which the buyer is borrowing from the seller. Why would a seller want to do this? Isn't it better to get the money up front? No, not always, especially when a sizable real estate capital gain would push you into a higher tax bracket.

An installment plan can give a home-seller a way to unload homes in bad market conditions and enable buyers who otherwise would not qualify for a mortgage to buy a home. Installment financing is a familiar concept for big-ticket consumer items, like cars and furniture, but handily applies to dwellings.

Some of this arrangement tracks the standard housing finance playbook. The buyer makes a down payment and agrees to pay the rest over a set term, which can be whatever the two parties want it to be. And they also set an interest rate on the loan.

What's more, to protect the seller in the event that the buyer defaults on loan payments, the buyer takes out a purchase-money mortgage. This is posted with the local property records agency, which establishes the arrangement in case disputes arise. The seller can foreclose if there's non-payment and take possession of the home. Point is, the seller can be well-protected but full and fair disclosure of the terms must be managed diligently.

In tax terms, the results can be favorable to sellers. Sellers owe no income taxes on the portion of the monthly installment payments considered to be the cost basis—that is, the amount the seller originally paid for the home. The amount of the installment payment above the cost-basis is a capital gain, however, and, depending upon the seller's income, is taxed at a 15% or 20% rate, much lower than ordinary income tax rates. Therein lies the tax advantage. The interest portion of the installment payments is subject to ordinary rates.

In addition to avoid being pushed up

A Primer On Setting Up A Trust

Trusts used to be the realm of the wealthy, providing a tool to pass money to heirs and charities. Nowadays, though, they are becoming a means for more people to engage in smart estate planning.

Trusts are legal arrangements allowing you to put assets into accounts that benefit another person or an organization, like a charity or college. They are often complicated and require a lawyer to put together.

The basic idea is to control who gets your assets, either when you're alive or afterward. A trust can help you lower estate taxes and avoid probate, the often-arduous legal procedure that proves a will is valid.

First Steps. As you set up a trust, you need to settle a few key questions:

1. What assets go into the trust: stocks, bonds, mutual funds, cash or property?

2. Who are the beneficiaries, meaning the people who receive the trust's benefits?

3. Who will be the trustee, the person who manages the assets and oversees the trust? The best thing is to appoint someone you know, who also is familiar with your financial situation and your beneficiaries. Plus, this person should be financially astute, and knowledgeable about taxes and investing.

4. How will be assets be invested and managed, and when will they be paid out? For instance, you might not want your children to receive the benefits until they're a certain age.

5. What is the duration of the trust, and under what conditions will it end operations? Is it paid out over time, or all at once?

6. Can its conditions be changed? Some trusts are irrevocable, meaning they are practically chiseled in stone. Others are revocable, meaning for instance you can shift the beneficiary to be your daughter instead of your younger brother.

7. What stipulations do you want? Maybe the money will go to your son for everything except paying off his creditors. Or your daughter, but not your son-in-law if she should die.

Beyond these considerations, it's wise to find a good, experienced estate attorney. The lawyer will craft a document called a declaration of trust, which will set up the trust fund and establish its conditions.

Timing. Next, the trust fund is registered with the IRS, allowing it to file its own tax returns and legally open financial accounts at banks or other institutions. Then, you transfer the assets into the trust, a process called retitling.

Do you want the trust to take effect now or at your death? And should it be revocable or irrevocable?

The question of how long the trust will stay around, before its last assets are paid out, is a tricky one. Common law is structured against letting trusts persist indefinitely. But many states let you get around that by setting up a so-called dynasty trust, which permits the wealth to grow for a long time without being taxed.

Types of Trusts. Aside from whether the trust is revocable or not, its structure can be very complex and carry advantages and disadvantages. Some examples:

- Generation-skipping trust, aka a dynasty trust. This lets you transfer money tax-free to beneficiaries who are two generations younger than you. The goal is to avoid the assets being taxed twice: once when they go to your grown children, and again when that generation passes the assets along to their own kids — namely, your grandchildren.
- Bypass trust. Here, you bequeath an amount up to the estate tax exemption (in 2019, that's up to $11.4 million from a single giver or double that from a couple). The rest goes to your spouse tax-free. After your spouse dies, you can stipulate that what's left goes to the kids.
- Qualified terminal interest property (QTIP) trust. This is best at singling out which particular relatives to direct your largesse to. A QTIP is often helpful in families where there are divorces, remarriages and stepchildren. Your surviving spouse can receive income from it, and once that spouse dies, the remaining principal goes to specific younger relatives.

For you, the donor, creating a trust gives you peace of mind that the legacy you want to leave is well-constructed and wisely directed. This article is not intended as personal advice, but rather as an educational resource about planning techniques available when working with a financial professional. ●

to a higher tax bracket with a big onetime gain from a traditional sale, higher-income sellers may skirt the 3.8% net investment income tax. Sellers subject to this additional tax are singles with adjusted gross incomes over $200,000 and married couples with AGIs above $250,000.

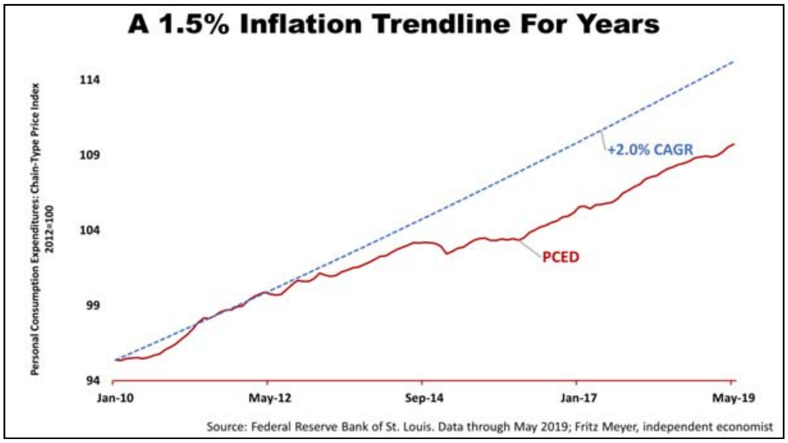
This strategy has its downsides in certain circumstances. If you're a seller of a business property and have taken big depreciation deductions on it, then the installment plan might not work. Depreciation recapture rules could trigger a 25% tax on previous write-offs for depreciation. In addition, you must be prepared to deal with late payments from borrowers, which can become complicated and ugly.

True, a house is not always a home, but it can be a tax savings, if everything goes right. ●

Amid Record Stock Prices, Fed Policy Is A Risk

Stock prices have soared in 2019, breaking records repeatedly, and the latest economic signals — though less robust — don't clearly signal recession just yet.

Perhaps the biggest risk threatening to end the 10-year old expansion is the Federal Reserve Board's inflation policy.



The Fed incorrectly for over five years has predicted an inflation rate of 2%, and the central bank's June 19th economic release was unrelenting in its forecast.

If the Fed's 2% forecast had been correct since January 2010, the trajectory of the inflation rate would have looked something like this blue line.

In fact, the actual rate of inflation, shown in red, has been approximating the 1.5% growth trajectory.

The last time the Fed's forecast for 2% inflation was correct was in 2011 and 2012, but the Fed's forecast has been off year after year since 2013!

The Fed's broken forecast for inflation has not ended the long expansion, but economic growth has slowed, and the Fed's policy has, when layered on top of the trade war, increased uncertainty.

On December 19th, 2018, amid the trade war with China and growing signs of a global slowdown, the Fed hiked lending rates; it caused a flash bear market plungein stocks, chilled holiday retail sales, and growth in new jobs abruptly stopped.

On January 4th, 2019, the Fed did a complete about-face and Chairman Jerome Powell said plans to hike rates further were on hold, seemingly acknowledging that the Fed's economic model was wrong.

Recessions since 1954 have be generally been caused or worsened by Fed tightening, so, the Fed is at a crossroads; its inflation policy in the weeks ahead will be key to the expansion continuing. ●

Be Prepared For Tax Policy

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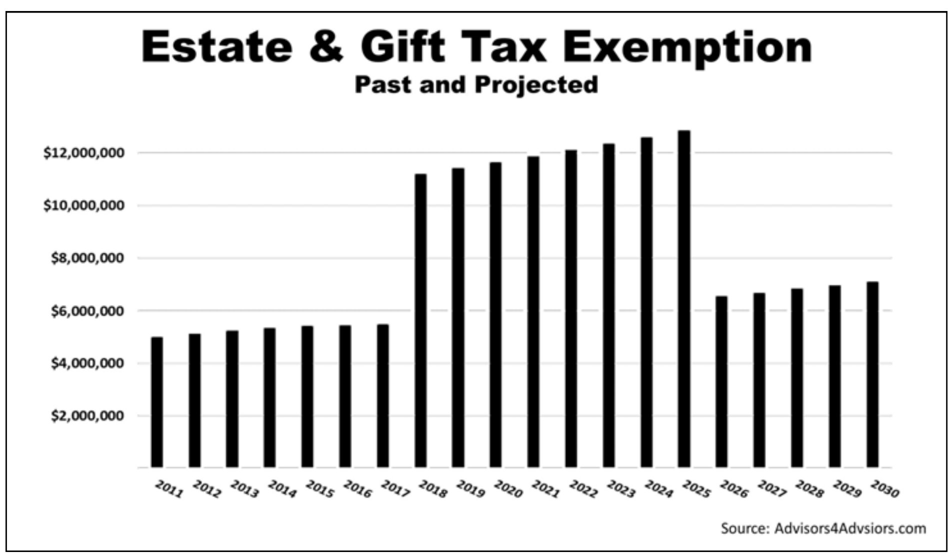
Point is, if tax policy changes, business owners, professionals and individuals benefiting from strategies enabled under the TCJA, may be forced to make decisions about income tax as well as estate and gift tax strategies much sooner than they might have expected. It's not an issue you want to fall behind on and will require personal and professional tax advice.

2025 is supposed to be the date when you use or lose the large estate and gift tax exemption on family wealth transfers. If everything went along as scheduled under the current law, you wouldn't hit that use it or lose it moment until the end of 2025!



However, if tax policy were to shift in 2020 or 2021 — which is a real possibility — then you could be on the precipice of paying millions in estate and gift tax much sooner than expected. ●

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