WEALTH MANAGEMENT REPORT

Financial Lifeboat Drill For Mustering In Emergencies

Put yourself through this brief lifeboat drill, to prepare for things suddenly going wrong. Everything may be fine right now, in the eleventh year of the economic expansion. That's a sensible time to test your ability to muster the resources to respond to a range of emergency scenarios.

1. Cash. In case you lose your job, lose your health, or are befallen by life's myriad of mishaps, can you pay the bills for at least six months?

2. Investment policy. If the stock market were to fall by 40% over the next year or two, are you ready to ride out the storm — even if it takes a decade to come back? That's approximately what happened in the global financial crisis of 2008. Although this is not in the forecast, a written investment policy statement can eliminate any ambiguity about your investment risk preferences and plan to survive a terrible storm.

3. Family risk. Will your children be able to afford college, will your spouse be able to maintain your family's current lifestyle, and will your other loved ones have the financial wherewithal to carry on if you die? Insurance — specifically no-frills term insurance — is meant to manage the worst of all risks families face.

4. Beneficiary designations. Life changes families. Divorce, death, health, and family financial dynamics change over time, making it necessary to reexamine beneficiaries listed on your retirement and other accounts.

5. Retirement income plan. Retirement income planning is being transformed by U.S. demographic

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Tie The Knot For Retirement With A Spousal IRA

In most families, one spouse earns more than the other. For example, if you stayed home to look after the children while your spouse worked full-time, you may not have accumulated as much money for retirement as your spouse.

But having a low income doesn't necessarily mean you can't make significant contributions to a retirement account. You and your spouse might consider a spousal IRA. If at least one of you has earned income, you both can contribute to a traditional IRA for your spouse as well, within certain limits, until the working spouse reaches age 70½.

The annual limit for IRA contributions is $6,000 or $7,000 if you're age 50 or older. That ceiling is effectively doubled for a spousal IRA—for example, if both spouses are 55, they can contribute a total of $14,000.

To qualify for a spousal IRA, you must:

- Be married;
- File a joint income tax return for the year of the contribution; and
- Together have earned income of at least as much as your total contribution to all IRAs.

Your contributions might be tax-deductible, but even if your income is too high to qualify for that tax benefit, you still can benefit from tax-deferred growth within the IRA.

Finally, you might opt for a Roth IRA—your contributions won't be deductible but distributions during retirement normally are tax free. And you don't have to take money from the account during your lifetime. (Eligibility is phased out for high-income taxpayers.)

Tax Relief For Disaster-Area Losses

If you reside in one of the areas recently devastated by a hurricane, wildfire or another natural disaster, or own investment property in one of those places, you may be able to salvage some tax relief. Federal tax laws allow victims of disasters to claim casualty losses of personal property on their tax returns, although the write-offs are limited. What's more, if you suffer a loss in a designated disaster area and you're due a tax refund, you may be able to speed up its arrival.

Generally, you're eligible to claim a casualty loss caused by an event that is "sudden, unusual, or unexpected." This, of course, includes natural disasters such as hurricanes, fires, tornados, floods, earthquakes, and the like. But no deduction is allowed for normal "wear and tear" of property over time. Your casualty losses for the year, including any losses due to theft or vandalism, are grouped on your tax return.

However, after you've subtracted any insurance reimbursements, the deduction for the remaining damages is subject to these two rules.

- You can deduct only the amount that exceeds 10% of your adjusted gross income (AGI), and that is after...
- You reduce the loss for each event by $100.

Suppose you own an apartment building in Houston that was destroyed by Hurricane Harvey and your unreimbursed loss was $50,000. If your AGI for 2017 is $100,000, your deductible loss is limited to the amount by which it exceeds 10% of AGI—$10,000—leaving you with $40,000 minus $100, or $39,900.

Because the IRS often challenges deductions that appear to be inflated, it's important to obtain an independent appraisal of damage to your real estate or other property by a reputable third party.

Compared with those who have suffered regular casualty and theft losses, people in federally designated disaster areas can obtain faster relief. Normally, you claim a casualty loss on the tax return for the tax year in which it occurred. However, a disaster-area loss may be deducted on a return for the year *preceding* the tax year of the event.

So, in the example involving Hurricane Harvey, instead of waiting to file your 2017 tax return—due by April 15, 2018—to claim your loss, you could file an amended tax return for 2016, and your refund would be sent to you within a matter of weeks.

Similarly, if you suffer a disaster-area loss early in 2018, you don't have to wait until you file your 2018 return in 2019 to claim the loss. You can opt to take it on the 2017 return you'll file in 2018.

These tax rules are designed to provide people who have casualty losses with a measure of relief to help them get back on their feet. Review these rules with your professional advisers if your personal property is damaged or destroyed. ●

High Income Earners & Roth Conversion

Roth IRAs are tax-free, making them popular, but a married couple is ineligible to contribute to a Roth if they earned more than $203,000 of modified adjusted gross income in 2019 and 2020 ($137,000, if single). A "backdoor" around this limit enables you to convert traditional IRA assets into tax-free Roth IRA accounts, even if you're over the income limit. Here's a strategic approach for maximizing the backdoor route to get tax-free Roth treatment with the least amount of conversion-tax.

When you convert a traditional IRA to a Roth account, you are required to pay tax on the income withdrawn from your traditional IRA. If you do not have the cash on hand to pay the extra income tax you'll owe next April 15, you probably should forget about converting now; withdrawing a larger sum to pay for the income taxes is a risky financial bet and is generally unwise.

If you have the cash on hand to pay the extra income tax you'll owe in the year you draw from your traditional IRA to make the conversion to the Roth, your next move is maximizing your tax bracket. For instance, if your taxable income is $177,500 after making a $100,000 withdrawal from the traditional IRA, consider lowering the amount you convert to avoid pushing you into the 32% bracket. Reducing a $130,000 conversion to a Roth by $30,000 lowers your maximum tax bracket to 24%, for example, giving you the maximum benefit of the 24% bracket.

If you want to evaluate a Roth IRA conversion feel free to contact our office to discuss your options. We are happy to coordinate with your CPA to develop a strategy that makes sense for you. ●

How To Give Gifts And Not Trip On The Gift Tax

It may be better to give than to receive, as the old saying goes, but it's also best to avoid the taxes on your generosity. What's also smart is knowing when you have to file a tax form as a gift giver.

You can give one person up to $15,000 yearly without incurring any taxes. In fact, you can give multiple people a gift of up to that amount, and they don't even have to be related to you — your son, your daughter, your best friend, your manicurist, whoever.

So, if you give your favorite niece $25,000, you have to file gift tax return, since you have exceeded the $15,000 annual limit. And a gift need not be cash. It could be stock or real estate or cars.

What's more, the limit is per person, not per couple. Your spouse could give that lucky soul the same amount, doubling your household's giving and you're personally still staying under the yearly $15,000 ceiling. Note that only you, the giver, are on the hook to potentially pay any tax, and not the recipient.

The tax stops people from giving all their money and property away during their lifetimes to skirt the estate tax when they die. The good news is that — with a little planning — you don't have to pay the gift tax right away, and may never have to.

In addition to the $15,000 per recipient annual limit, there's a lifetime exclusion amount, $11.4 million in 2019 — this covers *all* your lifetime giving to everybody. With the lifetime exclusion, your estate pays what you gave in excess of that cap.

The lifetime exclusion allows people more freedom to give big gifts. Example: You give your sister $40,000 this year. The extra $25,000 ($40,000 gift minus $15,000 annual exclusion) is taxable. Instead of paying that tax now, you count it against the $11.4 million lifetime number. After subtracting that $25,000 from the lifetime exclusion, you have $11.375 million still to go.

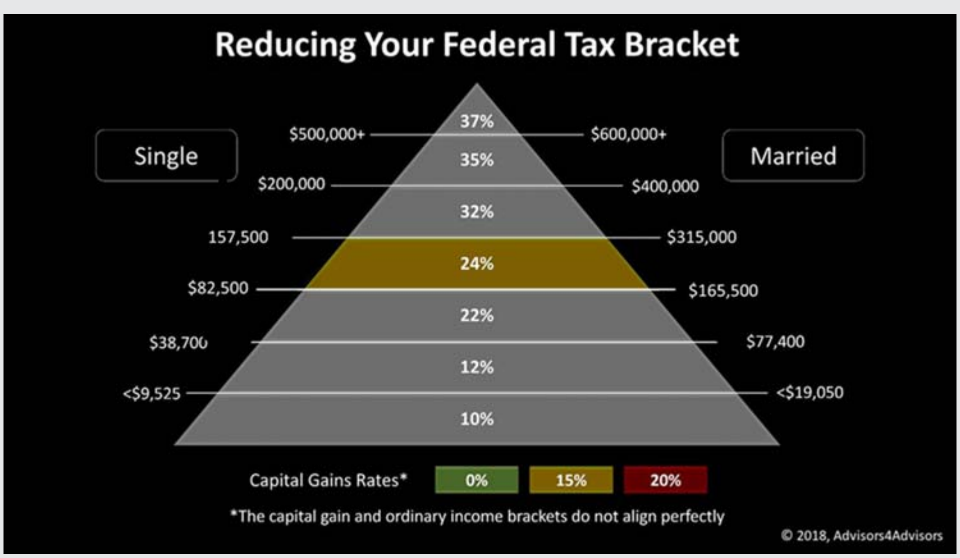
It's rare for most Americans to go over the $11.4 million lifetime giving limit. But if you're well-heeled and very generous — your daughter's destination wedding in Corsica costs a bundle — then you can hit it. The gift tax rate ranges from 18% to 40%.

About filing with the IRS: Every year you go over the $15,000 exclusion level, you need to file a Form 709. That way, the government can track who is on the road to reaching the lifetime $11.4 million exclusion.

Some things may not seem to be gifts, but are, and you're required to file the form, like that large sum you blew on your daughter's costly nuptials. And if you make an interest-free loan to a friend, the IRS sees it as a gift, too.

Some gifts are tax-free, provided that you give them the right way. Such as gifts for medical or educational expenses. Should you pay someone else's hospital bill, don't give the money to the patient, who then settles the medical tab themselves. You must pay the hospital directly. Ditto for education. Instead of giving the money to the student, write the check to the school. Giving to your spouse or a charity is also totally free from the gift tax.

One sure thing about gifts is that they make people happy. Staying within the rules makes the tax man happy, too. It's best to consult a qualified tax professional about this topic, and we are here to help. ●



Why Turn Down An Inheritance?

Sometimes you just have to say no, even when it might benefit you financially. Suppose you're in line to receive an inheritance—shouldn't you welcome it with open arms? In some cases there can be good reasons to turn down the money, using a "qualified disclaimer."

Why would you ever *not* take an inheritance? The best reason is to save your family money on taxes. By using a qualified disclaimer, the assets bypass your estate and go to the next beneficiary or beneficiaries. This enables you to preserve your personal estate tax exemption to use in other ways. In addition, in many states a disclaimer may be used to avoid claims of creditors.

The combined personal exemption for estate and gift taxes is $11.4 million in 2019, an amount that is indexed to inflation and normally increases every year. That gives most people plenty of wiggle room. But for those whose wealth exceeds that amount or who have already used up part of the exemption, estate and gift taxes may still be a major concern. In addition, most money you might want to transfer to grandchildren will be subject to the generation-skipping transfer tax (GSTT). The GSTT exemption is the same as the estate and gift tax exemption.

If you were going to pass along assets you've inherited to the younger generation at some point anyway, the disclaimer expedites matters. The money ends up with the contingent beneficiaries named by the person who was leaving you the inheritance without ever touching your hands.

To qualify under the strict legal definition of a qualified disclaimer, the document must meet these requirements:

- It must be made in writing and signed by the disclaiming party.
- It must identify the property, or the disclaiming party's interest in the property, that is being disclaimed.
- It must be delivered, in writing, to the person or entity charged with the obligation to transfer the assets (i.e., the executor).
- It must be written less than nine months after the date the property was transferred or the transferor's date of death.

Note that you can't alter who will receive the property you're disclaiming. For instance, if the contingent beneficiaries are your nephews and nieces, you can't redirect the money to your own children. The designations made by the person who made the bequest control where the money goes.

Also, you can't disclaim property once you've accepted it. For example, if you receive money and use a small portion to pay for funeral arrangements for the decedent, you can't disclaim the inheritance afterwards.

Although future changes in the tax code might discourage the use of disclaimers, for now this is still a viable technique. Be sure to consult with your legal and financial advisors about any inheritance you may receive. ●

Financial Lifeboat Drill

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trends and changes to the U.S. Tax Code. A retirement income plan done before the 2018 tax law changes, or that is not in tune with the demographic trends affecting income investing, should be updated.

6. Medical proxy. If you are unable to make your own medical decisions, give the power to make medical decisions for you to someone you trust.

7. Final details. Specify preferences about your funeral, and leave a list of all your accounts, assets, loans, important legal documents and advisors delegated to carry out your final instructions. Include how you want certain personal possessions and family heirlooms treated. If you have social media accounts, you can let someone know what to do, or there are apps that write or make recordings of final thoughts for loved ones.

A financial lifeboat drill is a pithy concept, belying its seriousness, and it requires answering hard questions about your personal financial, tax, and family situation. It would be a privilege to help. ●

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