Waller Financial Planning Group

Legacy Press

LIFESTYLE & LEGACY CHOICES BY DESIGN℠

Fall2019

Fact

Only 23% of parents talk to their school-age kids about personal economic issues, and 35% of parents admitted they are uncomfortable discussing financial literacy topics with their kids, according to a think tank presentation at Pershing Advisor Solution's annual INSITE conference.

Source: Think Advisor

"You can't always visualize the reward, but you can believe in the sacrifice if the vision is strong enough."

Don Connelly

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Year-End Charitable Giving Tips

By: Charlie Kerwood, CFP®, ChFC®, AEP®

It's hard to believe, but the countdown is on to make your year-end charitable gifts. Due to deadlines imposed by various custodians and brokerage firms, it's important to make decisions quickly and to implement them as soon as possible. Many of these institutions will not guarantee gifts will be processed after December 15. Here are some things to consider:

Qualified Charitable Distributions (QCD): Those who are over age 70 ½ can transfer up to $100,000 per tax year from their individual IRA to charities of their choice. As long as the checks is are made payable directly to the charities, the amount given will not be included in taxable income. This could be very advantageous to those attempting to keep their income within a certain range to avoid increased Medicare premiums. Please note that each spouse may give up to $100,000 per year from his or her IRA, and the amount distributed counts towards their required minimum distributions.

Stock Donations: Given the continued increase in the value of many stocks, now is the time to consider gifting shares of highly appreciated stock to your favorite charity. Some might drag their feet about giving away their favorite stock; however, simply take the cash you otherwise would have given to your valued charity, and use it to purchase shares to replace those given away. This will "reset" the tax basis in your stock. This also allows for taxes to never be paid on the capital gains in the appreciated stock. Note: you should never gift stock worth less than what you paid – instead, sell the stock and realize the capital loss to lower your taxable income.

Bunching Donations: With changes in the tax law instituted in 2017, some individuals may no longer find it advantageous to itemize their deductions due to the larger standard deductions. In these cases, individuals may want to consider "bunching" their charitable deductions to their favorite charities in order to get the larger immediate income tax deduction by itemizing. The taxpayer generally gives the same amount to the charities; however, the timing of the donations allows the taxpayer to itemize that year. If a household intends to make this, and limit donations in subsequent years, be sure to communicate this to your favorite charities. Many charities count on these regular donations for their operating budgets and programs. It will be vital for them to know your plans for future contributions.

For more information, Jason Farris wrote an article about reclaiming charitable donations.

Donor-Advised Fund (DAF): A donor advised fund could be helpful to a charitably inclined taxpayer with a large taxable event. This is particularly useful if the taxpayer needs a taxable deduction in a given year, yet needs more time to consider their charitable intent. Distributions may be made in future years to their favorite charities.

Check out Charlie's article on the difference between DAFs and Private foundations for more information.

If you have further questions on charitable donations, please contact us.

What Is The Deal With Qualified Opportunity Zones?

By: Jason Eliason, CFP®, ChFC®, CFA®

We have recently received several questions regarding Opportunity Zone investments. Although they were created under the Tax Cuts and Jobs Act of 2017 (TCJA), very little has been discussed about them until this year, mainly due to the time necessary for local, state, and federal government agencies to identify the Qualified Opportunity Zones (QOZ). There were over 8,700 QOZ identified across the United States, with 52 of them being in Ohio.

One of the significant implications of the TCJA was the creation of Qualified Opportunity Funds (QOF). QOF invests in projects in Qualified Opportunity Zones. The idea, or governmental enticement, is to provide tax incentives for people to invest in projects that attempt to spur growth or affordable housing in economically disadvantaged parts of the U.S. landscape.

There are three distinct income tax advantages of investing in QOF:

1. Deferral of capital gain on the sale of any asset used to fund the QOF
2. Step-up in basis of the original basis
3. Elimination of potential capital gain on the QOF

Of course, there are specific rules that should be closely followed:

The deferral of the capital gain (Advantage #1) on your initial investment that was sold to fund the QOF is dependent on making sure that, at least, the gain was reinvested within 180 days into a QOF. The deferral will be through 2026, or the date the QOF is sold, whichever comes first.

The income tax basis of the original investment is stepped-up (Advantage #2) by 10% if you hold the QOF for five years. After holding the QOF for two additional years, the income tax basis is increased an additional 5%; however, these holding periods must be met by December 31, 2026. Thus, to receive the entire 15% step-up in basis, the investment would need to be made before the end of 2019. You can still receive the 10% step-up in basis so long as the investment into the QOF is made by year-end 2021.

If you hold the QOF investment for at least ten years, any capital gain tax on the sale of the investment is eliminated (Advantage #3).

Investment opportunities that are primarily driven by income tax saving opportunities can be a precarious scheme. The income tax incentives could influence people to ignore the true risks of the QOF investment. Think about it; the government is attempting to persuade you to deploy capital in economically distressed areas. While the potential income tax benefits are significant, they still pale in comparison to the primary driver of whether to make an investment – that the potential investment return is worth the risk.

For more information or a question about the article, please contact us.

Sources:

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https://www.ncsha.org/wp-content/uploads/NCSHA-Opportuntity-Zones-Fund-Directory-7.17.19.pdf

https://www.dispatch.com/news/20190324/some-federal-opportunity-zones-attract-investors-who-might-have-come-anyway

Post-Death Planning

By: Jason Farris, CFP®, CAP®

Have you ever wondered what happens to your unpaid bills after you die? You might be surprised to know that it depends on what kind of debt is still outstanding.

In most cases, your estate will have enough assets to pay off all bills—assuming you have a positive net worth at the time of death. But understand that life insurance proceeds, retirement and annuity accounts and brokerage accounts are left outside the estate—and therefore cannot be forced to pay off debts. Your estate's actual net worth may not be as great as you think it is.

Your executor will review the assets and debts in your estate and prioritize the debts according to some fairly straightforward rules. Certain creditors, similar to those who issue medical or mortgage bills, must be paid first. A probate court will decide which remaining debts go in which priority, unless there are clear directions in your will.

Mortgage debt normally passes to the spouse or partner whose name is also on the loan documents, but if there is no joint mortgage holder, and the estate has insufficient funds to pay the mortgage, whoever inherits the home can usually move in and resume making the mortgage payments. The rules are different with home equity loans; with these, the bank can demand that whoever inherits the home (and the loan) immediately repay the outstanding balance. However, this is not required of the lender; in many cases, the bank will agree to let the heir continue to make the loan repayments on schedule.

Auto loans work similarly to mortgages; the estate handles payments if the money is available. If not, whoever inherits the car has the option to continue making payments or selling the vehicle to cover the cost of the auto loan.

What about credit cards? Any joint account holder is liable for the debts after the co-account holder dies. But if you're the sole account holder, the credit card cannot go after any unpaid debts from your estate when you die. Spouses who live in community property states may or may not be liable for the outstanding debt.

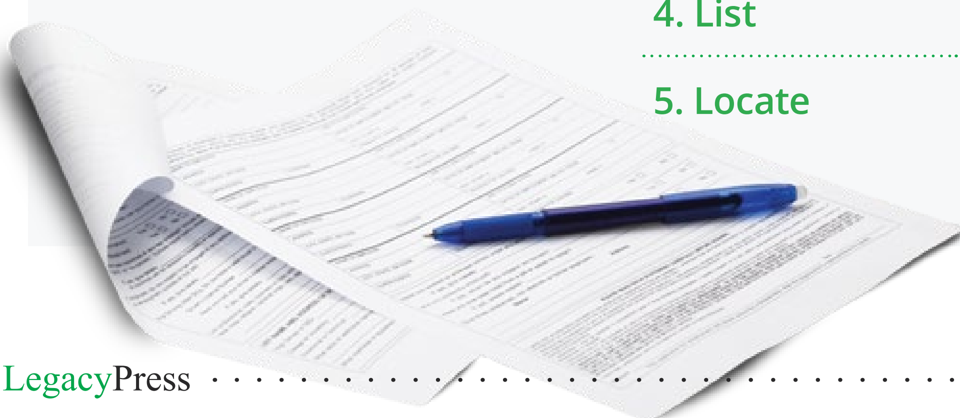
Student loans are typically paid out of the estate, but if those funds are not available, the loan provider cannot force anyone to pay off the loans, since they are unsecured; however, if there is a co-signer for the loan, that person is liable for repaying the debt. Once again, however, a spouse in a community property estate may be liable for student loans incurred during the marriage.

Many financial planners will recommend a term life insurance policy for a specified time for people who are still building their financial lives, to avoid burdening the family with debt in the event of premature death. And of course, everybody should have a will, and the will should clarify where the existing financial accounts reside and how to access them. A little upfront planning can save having to deal with a mess later on.

Source: https://www.thestreet.com/personal-finance/debt-management/what-happens-to-your-debt-when-you-die-15106476

5 Quick Tips to Help with Post-Death Planning:

1. **Pause** — Few decisions need to be made immediately, take a deep breath.
2. **Communicate** — Contact your financial planner and attorney.
3. **Documents** — Locate your will and trust documents.
4. **List** — Create an inventory of assets and liabilities.
5. **Locate** — Find your insurance policies as claims may be made.



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News & Notes

In observance of the upcoming holidays, our offices will be closed on the following dates:

November 28 & 29
December 25 & 26
January 1

In honor of our Fall newsletter, we asked our staff to send their Halloween family pictures. The choice was difficult, but the Olsgard family and the Kincaid's really dressed up! For more Halloween pictures, check out our Facebook page.