Money Matters

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Chris Cooper & Company

Professional Fiduciary Services

Second Quarter 2019

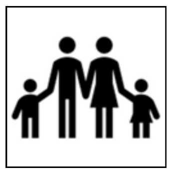
As A Final Act of Love, Plan Thoughtfully

"Everybody wants to go to heaven," according to a classic blues song, "but nobody wants to die." Nor does anyone like to think about dying. And that must be why some people don't put much thought into estate planning, much the less in drawing a schematic for distributing one's earthly possessions to those you love the most.

But this is important. It's something you want to do diligently. It's something you want to get right.

Your heirs and the executor of your estate — the person you choose to oversee that your wishes are carried out — will remember you kindly for your clarity of purpose; it's good for all involved. Otherwise, you risk setting off a family feud. Resolving not to leave your property open to legal dispute, here are three key rules for further planning your estate:

Name Beneficiaries Correctly. Putting someone's name in your will may not be enough, of course. It's wise to name who gets what in documents filed with your insurer, annuity provider and retirement fund sponsor, usually for individual retirement accounts. To be clear, if you want your daughter to get your ABC Stock 500 fund, naming her in the will does no good. It must be on file with a custodian. Moreover, listing multiple beneficiaries of real estate often is an invitation to a quarrel. What if you give your home to your three children? Maybe one wants to keep it for old time's sake, and the other two want to unload it and pocket the money. Or perhaps they all want to sell but can't agree on a broker or a fair selling price. In the meantime, they would



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Five Key Factors In Funding A Child's Education

The Tax Cuts And Jobs Act (TCJA) changed funding a child's education significantly. Here are five factors to consider.

1. You can now pay tuition for kindergarten through 12th grade at private, public or religious schools with money saved in tax-advantaged 529 college savings accounts.

2. You now can draw up to $10,000 federally tax-free per student from a 529 plan. While contributions are not deductible, earnings grow free of federal income tax on withdrawals used for qualified school expenses.

3. You are not limited to 529 plans sponsored by your state and can choose from a long list of 529s sponsored by other states.

4. The TCJA axed taxes on alimony payments, so custodial parents should have it easier qualifying for need-based aid.

5. Tax deductions for interest on home equity loans and lines of credit were eliminated. These are major sources of education funding and losing their deductibility may require a change in your college funding plan.

Education tax breaks were boosted overall by the TCJA, but you almost must be a financial professional to navigate the complexities confidently. We are here to answer questions and create a strategic approach.

Sun Starts Setting On Solar Tax Credit From Uncle Sam

The sun is shining on the tax credit for solar power but this federal tax credit that lightens your tax burden significantly starts sunsetting in 2020.

The good news is that the cost of solar panels and equipment is dropping, down about 6.5% in 2018, and putting in solar panels can cut your utility bills by a lot. The bad news is the upfront cost isn't cheap — an average of $13,188 in 2018, according to EnergySage, a marketplace for solar equipment.

Luckily, federal tax credits can cut your cost. That $13,188 upfront cost is after taking the tax credit. Far more valuable than a deduction against your taxable income, a credit reduces your tax dollar for dollar. But you better hurry to beat the phase-out of the credits.

Currently, the tax credit reduces the net cost of a solar system in residential and commercial properties by 30%. In 2020, that drops to 26%, and drops again in 2021 to 22%. The credit then zeroes out in 2022. The break for commercial use does remain, but only at 10%.

One small saving grace is that some states, local governments, and utilities also offer rebates and other tax incentives that can further lower the solar system costs. In the meantime, while the credit lasts, qualifying expenses include the panels themselves, the wiring to connect them to your home electrical system, and the cost of the labor in the installation.

If you don't have a big enough tax liability to use the full credit to cut your tax bill, the amount left over can be carried forward to the next tax year. The home served by solar power does not have to be your principal residence, and no limit is placed on the dollar amount of your credit, which is good if you own a large home.

A caveat: Should you rent out your home for part of the year, you have to reduce the credit for the time you're not present. In an example from TurboTax, if you live in the house for just three months, your credit is one quarter of the amount you'd benefit by had you lived in the place year-round: So, for a system costing $10,000, the 30% credit is $3,000, but you as a part-time resident and landlord get only $750. Rent out the house for the entire year, and you get zilch.

Certainly, some systems cost more than others. For instance, if you have a rectangular south-facing roof, your installation is simple. Yet if the roof is broken up by dormers, skylights and multiple levels, putting in a system is trickier, and more expensive. Nonetheless, whatever you end up paying, the shiniest deals are available now, so you may want to act before the sun starts to set on solar tax credits from Uncle Sam. ●

Sidestepping New Limits On Charitable Donations

If you think you're no longer allowed to deduct items like charitable donations on your income tax return, think again.

The new tax law doubled the standard deduction, slashing the number of Americans eligible to itemize deductions from 37 million to 16 million.

However, if you are among those who will lose your ability to deduct charitable donations, there is a simple strategy for managing the new limits on charitable giving, and it enables you to continue doing good while doing well for yourself by reducing your tax bill.

The strategy is simple: bunch a few years of donations into a single tax year instead of making them annually.

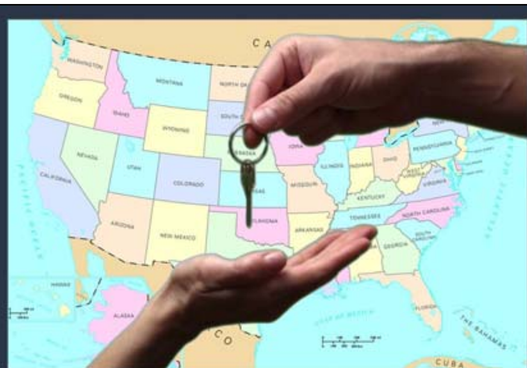
Rather than report charitable donations on your tax return every year, you bunch two or more years of contributions into a single tax year — enough to boost the charitable total above that year's standard deduction.

Say you're married and you give $10,000 in Year 1, $6,000 in Year 2 and $10,000 in Year 3. Your $26,000 total surmounts the $24,000 eligibility. If you deduct the total donations of $26,000 in Year 3, you

The New Math Of Renting Out A Vacation Home

If you've ever thought about becoming a landlord, here's an update on recent tax breaks that changed the equation for weighing whether to rent a property or be the sole tenant throughout the year.

If you bought a home in 2018, only the first $750,000 of the mortgage interest is deductible, down from $1 million under the old rules. But a rental property is not subject to these limits.



Renting out a property for at least 15 days a year means you can take a partial property tax deduction

While the math of renting out your place may not have worked before, you may want to look at it again. Your mortgage could be several million dollars, but you'd still be able to deduct *all* of the interest on it — just as you did before the new law. If you live in the residence for part of the year and rent it out for the rest, you're entitled to a partial break.

Another advantage for rental property owners is that you can now deduct only $10,000 in state and local income tax and property tax annually on a home if you are not renting it out. But if you rent out a property for at least 15 days a year, you can take a deduction on part of the property taxes paid.

A homeowner who pays $12,000 in property levies annually, for example, may deduct only the first $10,000. Renting out that property for three months qualifies you for a deduction on 25% of property taxes paid, or $3,000, and you could separately deduct the other $9,000 in property taxes paid.

Rental property owners also get a break on making home improvements. Under tax reform, landlords may immediately deduct capital spending on equipment and machinery. Gone is the requirement to take the break over many years. If you install a new kitchen in a rental property, for instance, it's deductible all at once.

Becoming a landlord is fraught with issues beyond finances, chief among them: privacy. Letting others invade your personal space literally is no small decision and a very personal one. However, the economics of renting out a vacation home have changed, and you may want to reconsider your options.

In the era of Airbnb, deciding to rent a vacation home requires advice from a professional who understands the strategic tax and financial planning as well as your personal situation. Please give us a call if you have any questions. ●

can take the standard deduction in Years 1 and 2 and itemize in Year 3.

Instead of giving in dribs and drabs, you will need to plan your giving strategy, but this will allow you to give as much as you used to before the limits without losing the tax benefits.

And if you can plan to make the larger donations in a year when you expect higher income, bunching charitable donations can be even more effective in lowering your tax bill.

We'll be speaking with clients about this in the months ahead because this tactic does take some planning in advance.

If you have any questions about your personal situation, please do not hesitate to give us a call. ●

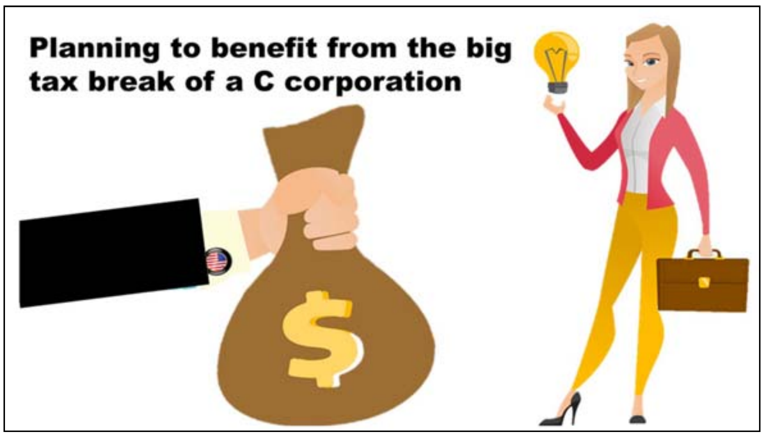
How To Sell Your Small Business And Pay No Taxes

So, you want to sell your small business? The good folks in Washington have a dandy tax break exempting you from all federal taxes on the sale—provided that you own a C corporation.

A lot of attention has gone to the special "pass-through business" break from the new tax law. This benefits income from S corporations and others like it, giving owners a 20% exemption on their business' earnings. That highly popular provision in the Tax Cuts and Jobs Act makes it seem like small business owners would be idiots to classify their company as a C corp.

Well, except for the terrific advantage you get as a C corp seller, which has been available for many years. Aside from the TCJA exemption and the lack of double taxation, C corps are taxed at the corporate level and then the owners get taxed on what they reap after that. In contrast, pass-throughs, like S corps, LLCs, and other partnerships, are only taxed once. C corp shareholders pay zero tax on a company sale, as long as they acquired the shares on or after Sept. 28, 2010. That's a huge tax break!

The gracious 100% tax exclusion is available to anyone with stock in a C corp for over five years. Taxpayers get a smaller break on shares owned before Sept. 28, 2010. You're also entitled to a 5% exclusion on C corp shares owned from Aug. 9, 1993 to Feb. 17, 2009. C corp shares purchased between Feb. 18, 2009 to Sept. 17, 2010 receive an exclusion on 75% of the gain on the purchase price in the event of a sale. If you owned your C corp shares prior to Aug. 9, 1993 date, you're out of luck.



To get this tax-favored status, called a Qualified Small Business Corporation, or QSBC, a small company must meet a batch of requirements. The business' gross assets must be less than $50 million, and the exclusion is capped at the greater of $10 million or 10 times the aggregate basis of the stock the taxpayer sold during the tax year.

Say you sell your business for $10 million. If the QSBC break didn't exist, and your capital gains rate is 23.8% (the top rate of 20%, plus a 3.8% surtax for singles making more than $200,000 annual or couples hauling in over $250,000), you'd owe $2.38 million to the IRS. But thanks to the QSBC benefit, you'd owe the government zilch.

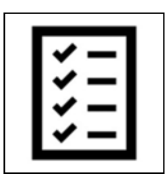
And here's a kicker. Both C corps and pass-through businesses are helped by the new, lower federal tax on companies, 21%, down from 35%. ●

A Final Act of Love

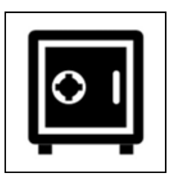
(Continued from page 1)

need to chip in to maintain the house, which can cause further disputes.

Keep Estate Plans Current. Years or decades may pass between when an estate plan is devised and your death. Lots can change. Like spouses. If you divorced and never updated your will afterward, your ex could end up inheriting your worldly possessions. And what about your nephew, who was so delightful as a kid but grew up to be someone you don't really want to help financially. What's more, the tax laws could have changed, and old plans may be totally out of sync with current rules. Reviewing your will annually makes sense.



Provide Vital Information. Another problem is not furnishing your executor and heirs with a thorough up-to-date list of accounts and how to get access to them. Account titles, user names, and passwords — along with security questions — must be stored. Encrypting and saving this information is best. Writing it down and storing it in a safe deposit box is next best. However, not everything should be stored digitally. Mortgage documents, the deed to your home, your last mortgage payment and paperwork on your car are best kept in a safety deposit box, which requires a key and a photo I.D. to access. So, remember to arrange access for your executor with the bank. In leaving an item of sentimental value, consider who among your heirs would most appreciate its significance. Your Facebook, Instagram and Amazon account can be managed from the grave using online services such as Mylennium. It's wise to have a master list with all user names and passwords for financial holdings. This can be in your safe deposit box or in a secure place in your home. Trouble is, keys tend to get lost. Encrypting it and storing it online or on secure media you keep in your home is better.



Nobody wants to die but if you want to go to heaven, making your final wishes easy on loved ones is a thoughtful final act to help get you there. ●