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Passing Down IRA Assets? Clue In Family Members

Do you have substantial assets in your IRAs? It's important to be smart about beneficiary designations, and maximizing tax benefits, while avoiding potential pitfalls. But it's also essential not just to fill out all of the paperwork and forget about it. Instead, take the time to discuss your plans with family members.

Spouses who inherit traditional IRA assets have more flexibility than other beneficiaries, though non-spouses, too, can benefit from careful planning to determine the best ways to pass along money in an IRA. Here are key points to cover in your family discussions:

The first thing to do is to bring everyone up to speed on the differences between spouses and other beneficiaries.

1. Spousal beneficiaries: Spouses who are IRA beneficiaries can move the money into their own IRAs and treat it just like other assets in those accounts. They can do this without owing any tax, and if they haven't yet reached age 70½, they won't have to take the required minimum distributions (RMDs) that must begin after you reach that milestone. (But if your spouse who died already was taking RMDs, you'll need to make that withdrawal for the year of death.)

That doesn't mean a spouse can't withdraw some or all of the money in the inherited account. But any distribution will be taxed, probably as regular income. So it's generally better for tax purposes to take a series of distributions stretched over several years.

2. Non-spousal beneficiaries: If you bequeath IRA assets to your children or to anyone other than your spouse, those beneficiaries will have to follow different rules. They can't roll over the money tax-free into IRAs of their own. Instead, they must arrange to receive a series of distributions based on their life expectancies or empty out the inherited accounts within five years. Because beneficiaries tend to be younger than the deceased IRA owner, they often can use the strategy of withdrawing funds gradually over their life expectancies, an approach often referred to as a "stretch IRA."

But those non-spousal beneficiaries *will* have to take annual RMDs regardless of how old they are. Because the amount of those yearly withdrawals depends on the inheritor's age, younger beneficiaries will be able to take smaller RMDs than those who are older. But if they fail to take an RMD in any year they'll be hit by a penalty of 50% of the amount that should have been withdrawn. They'll also owe regular tax.

The amount of these RMDs will be based on the account balances on

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Tax Reform Outlook: Cloudy, With A Chance Of A Law

Ever since President Trump entered office, the drums have been beating loudly for a major overhaul of the tax system, echoed by support from a Republican-led Congress. So what are the chances for tax reform legislation this year?

In his early days in office, Trump expressed intentions to cut individual tax rates and consolidate other provisions, implement tax breaks to spur business growth, and repeal the federal estate tax, among other proposals. The House GOP issued a blueprint for tax reform in 2016 that seeks many of the same objectives, although by different means in some cases.

It seems at first blush that there's enough sentiment in Washington to pass a comprehensive bill, but there undoubtedly will be unexpected twists and turns along the way. In April, the Trump administration rolled out a revised tax plan emphasizing tax cuts for individuals and businesses. But the prospects for eventual enactment remain unclear.

If passed, such tax legislation likely would affect many aspects of your financial affairs, including investments, retirement plans, IRAs, estates, and trusts.

What should you do now? With uncertainty in the air, the best idea probably is to stick with your current plans and closely monitor the situation. We will be ready to help you if and when the time comes for action.

How Now, Dow Jones Industrials?

You see it reported every day in the financial news: The Dow Jones Industrial Average (DJIA). And the Dow made headlines back on January 25, 2017, when it cracked the 20,000-point mark for the first time in its history. But what exactly is the DJIA and what do the fluctuations in points really mean?

The DJIA is a long-time barometer for the way the stock market is moving although it's not the only one, and it may not be the best measure of the thousands of stocks listed on the major exchanges. Some experts consider the Standard & Poor's (S&P) 500 and the NASDAQ to be more reliable indicators. Nevertheless, even if you don't put much store into whether the DJIA goes up or down on a given day, it does have an interesting history.

The Dow measures the movements of just 30 stocks. Traditionally, those have included the "blue-chip" companies considered to be the bedrock of the American economy. So, when the DJIA finally punched through the 20,000-point mark, it may have seemed like a triumph for the economy as a whole.

The roots of today's DJIA can be traced back to before 1900. Charles Dow, co-founder of *The Wall Street Journal*, simply added up the closing prices of one share of each of a dozen companies he had selected to measure, and then divided the total by 12 to arrive at a daily average. Subsequently, the list was expanded to include 30 of the top industrial companies, with the daily average computed by dividing the total price of those stocks by 30.

But the math became trickier over time as stocks began to split and share prices became skewed. The solution to keep the DJIA going was to make periodic adjustments in the figures in order to keep the average historically consistent. Despite this change, this indicator still is referred to as an "average," although these days it isn't.

What's more, the ever-changing list is no longer limited to industrials. It now includes major retailers, technology companies, and financial services firms.

Also, of course, the percentage gains grow smaller as the total number of points goes higher. For instance, when the Dow reached the 6,000-point level more than 20 years ago, that represented a 20% increase from the 5,000-point mark. But the jump from 19,000 points to 20,000 points, another 1,000-point gain, was just a 5.3% increase.

In any event, don't discount the psychological and emotional impact that swings up and down in the Dow may have. You can't help hearing it on the news every day and it often affects investor judgment, especially when the economy is in turmoil or is booming. ●

Five Steps When You Inherit Assets

During the next 30 years or so, an estimated $30 trillion is expected to change hands, and many offspring of older Baby Boomers may inherit a small fortune. Here are five practical suggestions for handling the windfall:

1. Give yourself time to grieve. If you're like most people, the loss of a loved one will come at an emotional cost. So you're probably not going to run out and buy a luxury car or book a cruise the day after the funeral. Allow yourself enough time for your grief to pass before you make any major decisions. Don't let your heart overrule your head.

2. Consider the limitations. Just because you've come into some money doesn't necessarily mean you'll be living on Easy Street. So try to resist the impulse to splurge on items you still can't afford. You might consider using some of the money for a one-time "treat" for your family and use the rest to invest for long-term goals.

3. Pay down debt. If you owe a lot of money, this could be a good opportunity to pay off some of your obligations. While you don't have to rid yourself of *all* of your debt—you might decide to keep your mortgage and perhaps a car loan—it could make sense to retire credit card and other debt that has high interest rates.

4. Set goals. In considering how to use your windfall, you might divide your objectives into short-, medium-, and long-term goals. For instance, in the short term you may decide to move to a bigger home. A medium-term goal might be to save money for a child's college education through a Section 529 plan. And a long-term objective for many is to secure a comfortable lifestyle in retirement.

5. Create an estate plan. If you haven't done this already, your

17 Midyear Tax Moves You Still Can Make In ’17

Winds of tax reform are blowing in Washington, but nothing has happened yet. In the meantime, take advantage of tax breaks currently on the books, including these 17 items:

1. Capital losses: If you realized capital gains from securities sales earlier this year, you can start harvesting losses. Your losses will go to offset capital gains you realize in 2017 plus up to $3,000 of highly taxed ordinary income.

2. Capital gains: Long-term capital gains that aren’t offset by losses will be taxed at a maximum rate of only 15% (20% if you’re in the top ordinary income tax bracket). But some upper-income investors also may owe a 3.8% tax on investment income.

3. 401(k) contributions: Reduce your tax liability by boosting contributions to a 401(k) plan. For 2017, the maximum deferral is $18,000 ($24,000 if age 50 or over). Not only do you avoid tax on the contributions, the money in your account compounds on a tax-deferred basis.

4. Roth conversions: This may be a good time to convert funds in a traditional IRA to a Roth. Future Roth IRA distributions are tax-free if they meet certain conditions. And though you’ll owe income tax on the amount you convert, transferring the funds over several years could reduce the overall tax bite.

5. Higher education: Is your child going to college in the fall? Generally, you can claim one of two higher education tax credits, subject to phaseouts based on income. A tuition deduction, also off-limits to most high-income families, expired after 2016 but could be revived.

6. Monetary gifts: If you give money to charities this year—by check, credit card, or online—the donation generally is deductible in 2017. But you must observe strict recordkeeping requirements for charitable gifts of $250 or more.

7. Wash sales: If you acquire substantially identical securities within 30 days of taking a loss on a sale, you can’t deduct the loss. Avoid this “wash sale” rule by waiting at least 31 days to buy back the same securities—or you might buy the securities first and wait at least 31 days before selling the original shares.

8. Dividend-paying stocks: Most stock dividends are taxed at the same preferential tax rates as long-term capital gains. To qualify for this tax break, you must hold the shares for at least 61 days.

9. Installment sales: Generally, you can defer tax on the sale of real estate or other property if you receive payments over two years or longer. Besides stretching out tax payments, you might reduce the effective tax rate if you stay below the thresholds for higher capital gains rates and the 3.8% tax.

10. Hiring your child: Does your child need a summer job? If you hire the child to work at your business, the wages are deductible by the business and taxable to your child at his or her low tax rate.

11. Qualified small business stock: If you invest in qualified small business stock (QSBS) of a fledgling company (perhaps your own) and hold it for at least five years before selling it, you can exclude 100% of any gain.

12. Vacation homes: When you rent out your vacation home, you can write off specified rental activity costs, plus depreciation, but be careful: If your personal use of the rental home exceeds the greater of 14 days or 10% of the days the home is rented out, deductions are limited to the amount of your rental income.

13. Dependency exemptions: Generally, you can claim a $4,050 dependency exemption for a child graduating from college this spring if you provide more than 50% of the child’s annual support. Figure out the amount needed to clear the half-support mark.

14. Charitable gifts of property: Give furniture and clothing in good condition to charity. You normally can deduct the fair market value of property donated to a qualified organization, within certain limits.

15. Dependent care credit: If you pay expenses for the care of your under-age-13 child this year while you (and your spouse, if married) work, you may qualify for the dependent care credit. Note that the cost of summer day camp qualifies, but not overnight camp.

16. Like-kind exchanges: If you swap investment or business real estate you own for like-kind property, the exchange is tax-free, except to the extent you receive any “boot” (e.g., additional money) in the deal. Caution: The IRS imposes timing requirements for this tax break.

17. Estimated taxes: Check to see if you’re withholding enough income tax from your paychecks. Make necessary adjustments to avoid owing an “estimated tax penalty” in 2017. ●

windfall could provide an excellent opportunity to prepare for the eventual transfer of your own wealth, including the assets you’ve just inherited, to other family members. You might decide to establish a trust for the benefit of minors or make other arrangements to help ensure financial security for a surviving spouse or grandchildren.

Fortunately, you don’t have to do all this on your own. With the help of experienced professionals, you can develop a plan that makes sense. Don’t hesitate to contact us for assistance. ●

Trust As IRA Beneficiary: Not Crazy

You may have heard that you can't name a trust as a beneficiary of your IRA—but in fact that is a perfectly legal option for IRA owners. But whether you should do it is a completely different story and requires further analysis.

IRAs can be complicated enough on their own without bringing a trust into the equation. And if you do name a trust as a beneficiary and then make a mistake with your account, the tax consequences could be devastating—so proceed with extreme caution. You'll need to work with an attorney experienced in these matters.

Why would you want to name a trust as your IRA beneficiary? It's not a tax-saving move and indeed could increase your tax bill. Still, there are valid reasons for using this planning technique. The primary benefit is protection against the IRA assets being squandered or attached by creditors. For example, you might want to pass money in an IRA to someone who is under age 21 and may not have much experience handling financial affairs or to a family member who is known to be a spendthrift. Having the account pass into a trust could enable a trustee to control how the money is distributed.

In a similar vein, you might intend to provide IRA funds to your spouse in a second or third marriage, but without shortchanging your children from an earlier marriage. In that case, you might leave the assets to a trust that pays out income to support a surviving spouse for life, with the remainder going to the children.

In any of these cases, naming a trust as your IRA beneficiary could be helpful—though, again, you'll need to work with an attorney with specialized knowledge of trusts and estate planning. Having the proper language in documents for the IRA and the trust is crucial.

One key aspect of such an arrangement is that the trust you name as IRA beneficiary should have people—and not an institution or your estate—as its beneficiaries. That could enable those beneficiaries to use "stretch IRA" planning techniques to lengthen the amount of time that assets can utilize an IRA's tax advantages. Although required minimum distributions (RMDs) still will have to happen, they'll be based on the life expectancies of the ultimate beneficiaries. The younger they are, the longer the money can be shielded from taxes. If more than one nonspouse beneficiary is named in a trust, the age of the oldest living beneficiary must be used. Consider separate trusts for each nonspouse beneficiary.

A variation on this theme calls for naming your spouse as the primary beneficiary and the trust as the contingent beneficiary. Such a setup provides greater flexibility because the surviving spouse may roll over the inherited IRA assets into his or her own IRA as part of post-mortem estate planning. ●

Passing Down IRA Assets?

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December 31 of the prior year and a factor based on the beneficiary's projected life expectancy in IRS-prescribed tables. You have until December 31 of the current year to receive your RMDs, which generally will be calculated and paid out by the custodian of your IRA.

Of course, non-spousal beneficiaries, too, can choose to withdraw more than the required amount or to take a lump-sum distribution of everything in the account.

With these basic rules in place, there can be several strategies to maximize tax and other benefits. For example, naming younger beneficiaries could extend the life of a stretch IRA and reduce the amount that is lost to taxes. One way to do that, if your children don't need the funds, is to designate your grandchildren as beneficiaries. Or you could name a child as a primary beneficiary and a grandchild as a contingent beneficiary. When you pass away, the child would have the option to "disclaim" the inheritance, passing it along to the contingent beneficiary and thus lengthening the payout schedule. As long as assets remain within the IRA they won't be subject to current taxes.

The family members who inherit IRA assets then can make their own beneficiary designations immediately, selecting a spouse or a child to inherit the account. Your beneficiaries also will be able to avail themselves of strategies for extending the life of the IRA.

These rules cover assets in traditional IRAs. There are different requirements for Roth IRAs, from which most distributions, even by beneficiaries, are tax-free. The original account holders don't have to take RMDs, although beneficiaries are required to withdraw money each year according to schedules based on their life expectancies. ●

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