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EPIC CAPITAL

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INSIGHTS

# Leaving a Legacy to Your Grandkids

***This vital investment account question should be answered sooner rather than later.***

**Grandparents Day provides a reminder of the bond between grandparents and grandchildren and the importance of family legacies.**

**A family legacy can have multiple aspects.** It can include much more than heirlooms and appreciated assets. It may also include guidance, even instructions, about what to do with the gifts that are given. It should reflect the values of the giver.

**What are your legacy assets?** Financially speaking, a legacy asset is something that will outlast you, something capable of producing income or wealth for your descendants. A legacy asset might be a company you have built. It might be a trust that you create. It might be a form of intellectual property or a portfolio of real property. A legacy asset should never be sold – not so long as it generates revenue that could benefit your heirs.

To help these financial legacy assets endure, you need an appropriate legal structure. It could be a trust structure; it could be an LLC or corporate structure. You want a structure that allows for reasonable management of the legacy assets in the future – not just five years from now, but 50 or 75 years from now.[1]

Think far ahead for a moment. Imagine that forty years from now, you have 12 heirs to the company you founded, the valuable intellectual property you created, or the real estate holdings you amassed. Would you want all 12 of your heirs to manage these assets together?

Probably not. Some of those heirs may not be old enough to handle such responsibility. Others may be reluctant or ill-prepared to take on the role. At some point, your grandkids may decide that only one of them should oversee your legacy assets. They may even ask a trust officer or an investment professional to take on that

## Inside this Issue

**FEATURES**

responsibility. This can be a good thing because sometimes the beneficiaries of legacy assets are not necessarily the best candidates to manage them.

Values are also crucial legacy assets. Early on, you can communicate the importance of honesty, humility, responsibility, compassion, and self-discipline to your grandkids. These virtues can help young adults do the right things in life and guide their financial decisions. Your estate plan can articulate and reinforce these values, and perhaps, link your grandchildren's inheritance to the expression of these qualities.

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**You may also make gifts with a grandchild's education or retirement in mind.** For example, you could fully fund a Roth IRA for a grandchild who has earned income or help an adult grandchild fund their Roth 401(k) or Roth IRA with a small outright gift. Custodial accounts represent another option: a grandparent (or parent) can control assets in a 529 plan or UTMA account until the grandchild reaches legal age.[3]

**Make sure to address the basics.** Is your will up to date with regard to your grandchildren? How about the beneficiary designations on your IRA or your life insurance policy? Creating a trust may be a smart move. In fact, you can set up a living irrevocable trust fund for your grandkids, which can actually begin distributing assets to them while you are alive. While you no longer own assets you place into an irrevocable trust (which is overseen by a trustee), you may be shielded from estate, gift, and even income taxes related to those assets with appropriate planning.[4]

**This Grandparents Day, think about the legacy you are planning to leave.** Your thoughtful actions and guidance could help your grandchildren enter adulthood with good values and a promising financial start.

# Ways We Can Make a Difference for Charity

***You don't need to be ultra-wealthy to make an impact and get a win-win***

Do you have to make a multimillion-dollar gift to a charity to receive immediate or future financial benefits? No. If you're not yet a millionaire or simply a "millionaire next door," yet want to give, consider the following options, which may bring you immediate or future tax deductions.

**Partnership gifts.** These gifts are made via long-term arrangements between donors and recipient charities or non-profits, usually with income resulting for the donor and an eventual transfer of the principal to the charity at the donor's death.

For example, a *charitable remainder trust* (CRT) may be structured to provide a beneficiary (i.e., you) with cash flow for a defined number of years, even for life. After the end of the trust term (or your death), the remaining trust principal passes to charity, or in some cases, to a family foundation. You could even name a CRT as the beneficiary of your IRA as part of your estate planning strategy. In fact, some charities and universities will now administer a CRT you create for free if the remaining trust principal is designated for that charity or university's investment or endowment fund. A *charitable lead trust* (CLT) makes annual charitable gifts on your behalf, for a set number of years; if structured and executed properly, the trust beneficiaries (i.e., your heirs) can eventually receive the leftover trust assets without having to pay estate or gift taxes on them.[1,2]

If you don't have enough funds to start one of these, you might opt to invest some of your assets in a *pooled income fund* offered by a university or charity. In a pooled income fund, your gifted assets go into a "pool" of assets invested by a fund manager; as a donor, you are assigned "units" in the fund proportionate to your share of the fund's total assets. In turn, you get a proportionate share of the income of the fund for life, and when your last income beneficiary passes away, the principal of your gift goes to the school or charity.[3]

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If you like the idea of a family foundation, but don't quite have the money and don't want the bureaucracy, you could consider setting up a *donor-advised fund*. Essentially, this is a charitable savings account. You make an irrevocable contribution to a third-party fund, realizing an immediate tax deduction for the year of the gift; the fund invests the money in an account you create, where it grows without being taxed. You can request where the charitable donations from the DAF go, and you have a say in how you want the funds in the DAF invested, but the DAF makes the actual donations to non-profits and has the legal control over these matters.[1,4]

**Lifetime gifts.** These are charitable gifts in which the donor retains no powers or other controls over the gift once it is made. The gift is irrevocable, or in federal tax terms, "complete." A lifetime gift of this sort is not included in what the Internal Revenue Service calls your Gross Estate (but taxable gifts are used in calculation of estate tax).[5]

Lifetime gifts also include *outright gifts* of cash or appreciated property, such as stocks or real estate. Thanks to the 2017 federal tax reforms, you can make outright gifts via cash or check and deduct such donations up to 60% of your income. A gift of appreciated property could bring you an income tax deduction for its fair market value and help you avoid the capital gains tax that would result from the sale of the asset.[6,7]

Through a partial or whole gift of *appreciated property,* you can transfer a real estate deed to a school or charity and get around capital gains taxes that may result from a property's sale. You may receive an immediate charitable income tax deduction for the full fair market value of the gifted property, a deduction which you may apply up to 30% of your adjusted gross income. You could even arrange a *retained life estate,* in which you transfer the title to your home to a charity or non-profit while retaining the right to live in it as your primary residence for the rest of your life.[8]

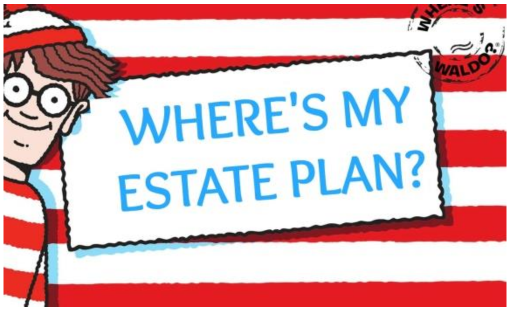
**Life insurance policies and IRAs.** Donating a paid-up life insurance policy to a university or charity may allow you an immediate charitable deduction for the value of the gift. You can also name a charity as the beneficiary of an IRA; upon your death, the full value of the account will transfer to the charity without being subject to federal estate or income taxes.[6]

**The caveats.** As your income increases, you may face limits on the amounts of charitable gifts you can deduct. Your charitable deductions for any federal tax year cannot be more than 50% of your adjusted gross income. But if you exceed such limits, the I.R.S. lets you carry forward excess contributions for up to five years.[9]

**Would you like to learn more?** Now is as good a time as any to do so. Your charitable gifting can have real impact even if you don't have a fortune. Keep in mind that your unique circumstances need to be weighed before making any decision. Please consult your financial professional, tax professional, or attorney prior to making any move.

# Minimizing Probate When Setting Up Your Estate

***What can you do to lessen its impact for your heirs?***




**Probate subtly reduces the value of many estates.** It can take more than a year in some cases, and attorney's fees, appraiser's fees, and court costs may eat up as much as 5% of a decedent's assets. Probating a "routine" estate valued at $400,000 could cost as much as $20,000.[1]

What do those fees pay for? In many instances, routine clerical work. Few estates require more than that. Heirs of small, five-figure estates may be allowed to claim property through affidavit, but this convenience isn't extended for larger estates.

So, how can you exempt more of your assets from probate and its costs? Here are some ideas.

**Joint accounts.** Married couples may hold property as a joint tenancy. Jointly titled property includes a right of survivorship and is not subject to probate. It simply goes to the surviving spouse when one spouse passes. Some states allow a variation called tenancy by the entirety, in which married spouses each own an undivided interest in property with the right of survivorship (they need consent from the other spouse to transfer their ownership interest in the property). A few states allow community property with right of survivorship; assets titled in this way also skip the probate process.[2,3]

Joint accounts can still face legal challenges. A potential heir to assets in a jointly held bank account may claim that it is not a "true" joint account, but a "convenience account" where a second accountholder was added just for financial expediency. Also, a joint account arrangement with right of survivorship may be found inconsistent with an estate plan.[4]

**POD & TOD accounts.** Payable-on-death and transfer-on-death forms are used to permit easy transfer of bank accounts and securities (and even motor vehicles, in a few states). As long as the original owner lives, the named beneficiary has no rights to claim the account funds or the security. When the original owner passes away, all the named beneficiary has to do is bring his or her I.D. and valid proof of the original owner's death to claim the assets or securities.[5]

**Gifts.** For 2018, the I.R.S. allows you to give up to $15,000 each to as many different people as you like, tax free. By doing so, you reduce the size of your taxable estate. Gifts over $15,000 may be subject to federal gift tax (which tops out at 40%) and count against the lifetime gift tax exclusion. The lifetime individual gift tax exemption is currently set at $11.18 million. For a married couple, the lifetime exemption is now $22.36 million.[6,7]

**Revocable living trusts.** In a sense, these estate planning vehicles allow people to do much of their own probate while living. The grantor – the person who establishes the trust – funds it while alive with up to 100% of his or her assets, designating the beneficiaries of those assets at his or her death. (A pour-over will can be used to add subsequently accumulated assets to the trust at your death; yet, those assets "poured into" the trust at that time will still be probated.)[8]

The trust owns assets that the grantor once did, yet the grantor can invest, spend, and manage these assets while living. When the grantor dies, the trust lives on – it becomes irrevocable, and its assets should be able to be distributed by a successor trustee without having to be probated. The distribution is private (as opposed to the completely public process of probate), and it can save heirs court costs and time.[8]

**Are there assets probate doesn't touch?** Yes, there are all kinds of non-probate assets. The common denominator of a non-probate asset is a beneficiary designation, which allows these assets to pass either to a designated beneficiary or a joint tenant, regardless of what a will states. Examples: assets jointly owned with right of survivorship, trusts and assets held within trusts, TOD accounts, proceeds from life insurance policies, and IRA and 401(k) accounts.[9]

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**Make sure to list/update retirement account beneficiaries.** When you open a retirement savings account (such as an IRA), you are asked to designate eventual beneficiaries of that account on a form. This beneficiary form stipulates where these assets will go when you die. A beneficiary form commonly takes precedence over a will.[7]

Your beneficiary designations need to be reviewed, and they may need to be updated. You don't want your IRA assets, for example, going to someone you no longer trust or love.

If you are married and have a workplace retirement plan account, your spouse is the default beneficiary of the account under federal law, unless he or she declines to be in writing. Your spouse is automatically entitled to receive 50% of the account assets should you die, even if you designate another person as the account's primary beneficiary. In contrast, a married IRA owner may name anyone as a primary or secondary beneficiary, without spousal consent.[10]

To learn more about strategies to avoid probate, consult an attorney or a financial professional with solid knowledge of estate planning.


# Tax Moves to Consider Right Now

*Now is a good time to think about a few financial matters.*

**Making changes earlier rather than later.** If you own a business, earn a good deal of investment income, are recently married or divorced, or have a Flexible Savings Account (FSA), you may want to think about making some tax moves now rather than in December or April.

**Do you now need to pay estimated income tax?** If you are newly self-employed or are really starting to see significant passive income, you may need to quickly acquaint yourself with Form 1040-ES and the quarterly deadlines. Every year, estimated tax payments to the Internal Revenue Service are due on or before the following dates: January 15, April 15, June 15, and September 15. (These deadlines are adjusted if a due date falls on a weekend or holiday.) It might seem simple just to make four consistent payments per year, but your business income may be inconsistent. If it is, and you fail to adjust your estimated tax payment per quarter, you may be setting yourself up for a tax penalty. So, confer with your tax professional about this.[1]

**Has your household size changed?** That calls for a look at your pre-tax withholding. No doubt you would like to take home more money now rather than wait to receive it in the form of a tax refund later. This past April, the I.R.S. said that the average federal tax refund was $2,864 – the rough equivalent of a month's salary for many people. Adjusting the withholding on your W-4 may bring you more take-home pay. Ideally, you would adjust it so that you end up owing no tax and receiving no refund.[2]

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**Think about how you could use your FSA dollars before the end of the year.** The Tax Cuts & Jobs Act changed the rules for Flexible Spending Accounts (FSAs). The I.R.S. now permits an employer to let an employee carry up to $500 in FSA funds forward into the next calendar year. Alternately, the employer can allow the FSA accountholder extra time to use FSA funds from the prior calendar year (up to 2.5 months). Companies do not have to allow either choice, however. If no grace period or carry-forward is permitted at your workplace, you will want to spend 100% of your FSA funds in 2018, for you will lose those FSA dollars when 2019 begins.[3]

**You could help your tax situation by contributing to certain retirement accounts.** IRAs and non-Roth workplace retirement plans are funded with pre-tax dollars. By directing money into these retirement savings vehicles, you position yourself for federal tax savings in the year of the contribution. If you make the maximum traditional IRA contribution of $5,500 in 2018, and you are in the 24% tax bracket, that translates to a $1,320 federal tax deduction for 2018.[4]

While it may seem far from April, this is an excellent time to think about tax-saving possibilities. You and your tax professional have plenty of time to explore the options.

# Have You Considered Charitable Gifting?

*Now is a good time to think about a few financial matters.*

**A gift to charity may also help to improve your tax or financial situation.** Here's a brief look at some popular options for charitable gifting, with potentially significant tax advantages.

**Charitable Remainder Trusts (CRTs).** Taxpayers with highly appreciated assets, such as stock portfolios or real estate holdings, are often hesitant to sell those assets and reinvest the proceeds because of the capital gains taxes linked to the sale. A CRT may give them a solution to this problem.

In exchange for transferring highly appreciated assets into a CRT, you may get: a) income payments from the CRT for a period of years or the rest of your life, b) a tax deduction for the present value of those assets, and c) tax-free compounding of those assets while they are held within the CRT. If the CRT is properly implemented and structured, the highly appreciated assets will eventually be sold from within the trust, exempt from capital gains taxes. Another plus: assets held within a CRT are usually held outside of a person's taxable estate.[1]


After you die, whatever assets remain in the CRT will go to the charity (or charities) of your choice. What about your heirs? You can structure a CRT in conjunction with an irrevocable life insurance trust (ILIT) so that they are not disinherited; they can receive the proceeds from the life insurance policy.[1]

A charitable remainder annuity trust (CRAT) pays out a fixed income each year, representing a fixed percentage of the initial fair market value of the asset(s) placed in the trust. In a charitable remainder unitrust (CRUT), income from the trust can increase as the trust assets gain value with time; the annual payout to the donor represents a fixed percentage of the beginning-of-the-year values of said asset(s).[2]

**Charitable lead trusts (CLTs).** This is the inverse of a CRT. You transfer assets to the CLT, and it annually pays a percentage of the value of the trust assets to a charity. At the end of the trust term, the remaining assets within the trust go to a non-charitable beneficiary (which could be your heirs or a family trust). By creating a CLT, you could markedly reduce your potential gift or estate tax.[1]

*"Give carefully. If you are thinking about making a charitable gift, remember that the amount of your tax deduction could vary depending on the kind of assets you contribute and your individual tax situation*

**Charitable gift annuities.** Universities often promote these charitable gifting agreements to alumni and donors. Basically, you (or you and your spouse) donate money to a university or charity in exchange for a guaranteed lifelong income stream. You may claim a partial charitable tax deduction for the donation. After you pass away, the remaining balance of your donation goes to the university or charity.[3]

**Pooled income funds.** In this variation on the charitable gift annuity, the assets you donate are unitized and "pooled" with the assets of other donors. Essentially, you are buying "units" in an investment pool, like an investor in a mutual fund. The rate of return on your investment (that is, your share of the net income paid out of the pooled income fund) varies per year.[4]

Pooled income funds often appeal to wealthier donors who don't have a pressing need for fixed annuity payments. You get an immediate income tax deduction for a portion of the gift, which may be spread over a few consecutive tax years. You can also put more assets in a pooled income fund over time, whereas a charitable gift annuity is based on one lump sum gift.[4]

**Donor advised funds.** A DAF is like a charitable savings account. You make one or more irrevocable contributions of personal assets to it, and it invests and manages those assets. Each year, the DAF makes a percentage of its assets available for grants or other programs, and you advise the fund how to donate that money. DAF contributions are tax deductible under the Internal Revenue Code. Assets in a DAF are positioned to grow tax free.[5]

**Scholarships.** These can be created at a school in your own name or in memory of a loved one, and you can set the criteria. Commonly, you and a financial professional can work directly with a school to create one.

**Life insurance and life estate gifts.** If you have an unwanted (or inadequate) permanent life insurance policy that could end up increasing the size of your taxable estate, you might want to explore gifting that policy to a charity or naming a charity as its primary beneficiary. Designating a charity as the beneficiary will route the death benefit to the charity and reduce your taxable estate by the amount of the death benefit. Gifting the policy also accomplishes this, plus it offers you a current income tax deduction for the policy's fair market value (i.e., cash value). Some policies with face values of $1 million or more now have riders that allow 1-2% of the face value to be paid to a qualified charity; often, these riders will not impact the death benefit.[7]

Life estate gifts are an interesting option allowing you to gift a paid-off home or property to a charity, university, or other non-profit, even while you live there. You may take a tax deduction based on the value of the remainder interest of the property, avoid capital gains tax that could result from its sale, and live on the property for the rest of your life.[8]

**Give carefully.** Remember that some charitable gifts are irrevocable. If you are thinking about making one, remember that the amount of your tax deduction could vary depending on the kind of assets you contribute and your individual tax situation. Trusts are drafted by licensed attorneys who will charge a fee for the service. Be sure to consult qualified financial, legal, and tax professionals for more information before you decide if, when, and how to give.

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## If you would like to further discuss any of the topics written about in this newsletter, or inquire about any of our other services, please feel free to contact us

**Citations:**

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EPIC CAPITAL
WEALTH MANAGEMENT
6135 Park South Drive – Suite 130
Charlotte, NC 28210