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EPIC CAPITAL

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# Will Giving Decline?

***The loss of the charitable tax deduction could hurt non-profits.***

**Charities are wondering if they will lose out on millions this year.** The federal tax deduction for charitable contributions has disappeared because of the recent tax reforms.

The standard federal income tax deduction is now $12,000 – make that $24,000 for a married couple filing jointly. (The amounts rise to $13,600 for a single taxpayer 65 or older and $26,600 for joint filers 65 and older.) With these huge standard deductions, middle-class households now have far less incentive to itemize. If they elect not to itemize, there will be no tax advantage in making a charitable gift – unless that gift is large enough to send their total itemized deductions north of these respective thresholds.[1]

Charities and non-profit organizations are justifiably worried about this. Their biggest donors – corporations, long-established private foundations, and federal and state grant agencies – may sustain or even boost their level of giving in view of the 2018 tax reforms. Individual donors, on the other hand, may lose motivation. Given the choice between below-the-line deductions and the standard deduction, the standard deduction could easily win out.[2]

**Certainly, households will still make charitable donations this year.** The question is: to what degree? Will they reduce the amounts of the annual gifts they have made for years?

Whether they do or not, charities and non-profits may strengthen their appeals to businesses for help. The 2018 tax reforms lowered the corporate tax rate to 21% and positioned mid-sized corporations to reap the biggest savings. Some of those savings could be poured back into communities.[2]

**Charitable IRA gifts can still be made.** Retirees who own traditional IRAs have the chance to make significant contributions to charities and non-profits in a way that will help them fulfill their yearly Required Minimum Distributions (RMDs).[3,4]

## Inside this Issue

For some wealthy traditional IRA owners, an RMD is a bother. They may not really need the income, the income is fully taxable, and if the RMD is large enough, it could put them into a higher tax bracket. A Qualified Charitable Distribution (QCD) may be a good move in this situation, and many charities are encouraging it.[4]

A QCD works like this: a traditional IRA owner earmarks up to $100,000 in assets from the IRA for a transfer to a qualified charity or non-profit organization. As a perk for the substantial charitable gift, the Internal Revenue Service lets the donor count the amount of the gift toward his or her RMD for that year. The transfer of the assets is tax free, and the gifted amount is not added to the donor's adjusted gross income (whereas an ordinary RMD would be).[1]

The tax benefits of this gift apply even if the giver does not itemize. Yes, a traditional IRA owner older than 70½ may make a QCD of up to $100,000 this year and still take his or her $13,600 standard federal income tax deduction. (Roth IRAs never require RMDs from the original owner and qualified withdrawals from them are not taxed, so QCDs from Roth IRAs are a moot point.)[1,3]

*"Retirees who own traditional IRAs have the chance to make significant contributions to charities and non-profits."*

**Smaller gifts can still be made in a way that may be tax effective.** A household can try bunching its charitable gifts every second, third, fourth, or fifth year to amass enough itemized deductions to write off more than the standard deduction. That is, make many charitable gifts one year, and perhaps none for 1-4 years after that.

Even taxpayers who refrain from itemizing may be attracted to the potential of a donor-advised fund. Essentially, this amounts to an individual's personal charitable savings account, with the money or securities inside it one day going to a qualified non-profit organization. Taxpayers use DAFs as a vehicle to gift highly appreciated securities to charity – when they make that gift, they are able to deduct the full market value of those securities from their taxable income for the particular year and avoid the capital gains tax they would pay if they simply sold the shares.[4]

**Charities will be challenged to meet fundraising goals this year. Make no mistake.** Perhaps that challenge will be met. Creativity among non-profits, donors, and the tax professionals who interact with them may make 2018 a better year for giving than anticipated.

**On a personal note** we well recognize that clients who give to charitable organizations primarily give because they simply support the incredible work being done to improve lives of those they serve. They want to take part, and be a catalyst in that change. Most of us give simply because we care, and donations and gifts are from the heart more so than they are the wallet.

# The Importance of Equitable Estate Planning

***Have you considered the factors that may promote inequality in wealth transfer?***

Suzanne is widowed and has four adult children. Her investment portfolio is worth $1 million, and she owns a bed-and-breakfast inn worth $1 million as well. Can she conveniently and equally bequeath these assets to her kids to give each child a $500,000 share of her wealth?

This may not be as easy as it seems. "Suzanne" and her estate planning dilemma are hypothetical; the above scenario genuinely illustrates why "equal" estate planning is not necessarily equitable.

**Some estates are hard to divide fairly.** This problem often surfaces when successful individuals or families have much of their net worth in illiquid assets, such as investment properties, collectibles, or private company interests. An illiquid asset can be hard to sell, and its price may need to be reduced to make a sale or exchange work. Once sold, the illiquid asset may not represent an "equal" share of the estate, only a devalued one.

Moreover, the illiquid asset may be unwanted by the heir. An heir may have little desire to become a landlord or maintain a classic car collection.

**Life insurance can address this problem.** In the above scenario, the purchase of a $2 million life insurance policy may be a very wise move. This will boost the value of the estate to $4 million and permit "Suzanne" to bequeath $1 million in assets to each of her kids. The ownership of the $1 million bed-and-breakfast inn no longer needs to be divided. That $1 million share of the estate can be left to the heir with the most interest in real estate investment.

The division of assets is still imperfect. The $1 million investment portfolio and the $1 million inn may increase in value. The $2 million in life insurance proceeds, while tax free, may or may not end up being invested by the other two heirs after the 50/50 split. Still, the initial distribution of wealth is more equitable, and more manageable, than it would be otherwise.

*"The Blended Approach: This method promises greater rewards for heirs who have made greater contributions to family wealth."*

Buy-sell agreements can address major issues for business owners who want to hand their firms down to the next generation. A well-crafted buy-sell agreement can delineate the heir(s) in control of a company's ownership and their degree of control. It can also clearly state when and how shareholders can transfer their shares in the business to others.

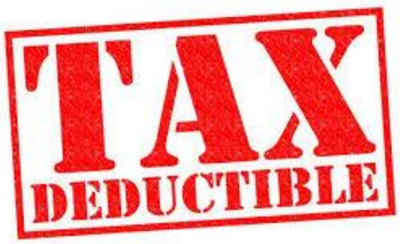
**In pursuit of equitable estate planning, some families choose the blended approach.** This method promises greater rewards for heirs who have made greater contributions to family wealth. It aims to distribute family assets equally, fairly, and equitably.

When the blended approach is used, the bulk of family wealth is divided equally among heirs in cash. Some assets are distributed fairly – select liquid or illiquid assets are handed down to this or that heir to suit individual priorities, needs, or wants. Then, a defined percentage of the estate is distributed equitably, based on involvement in the family business or similar criteria.[1]

Whether you have done much or little estate planning, the matter of equitable division of assets must be considered. In terms of asset transfer, what seems equal at first consideration may not prove equal in execution.

# The Medical Expense Deduction in 2018

***Tax reform has lowered the threshold***




**If you itemize, you should note the reduced medical deduction threshold for 2018.** This year, you can deduct qualified medical expenses exceeding 7.5% of your adjusted gross income. Next year, the threshold for the medical expense deduction returns to 10% of AGI. (The Tax Cuts & Jobs Act of 2018 also allowed the 7.5% threshold to apply retroactively to the 2017 tax year.)[1]

So, if you are considering surgery or dental work in the future that could mean sizable out-of-pocket expenses for you, it might be better from a tax standpoint to schedule these procedures for 2018 instead of 2019.

**What kinds of unreimbursed expenses qualify for the deduction?** The list is long. For a start, the Internal Revenue Service says these types of expenses may qualify as tax deductible: out-of-pocket fees to medical and dental professionals, psychiatrists and psychologists, and certain nontraditional medical practitioners; money spent to participate in a weight-loss program in response to a doctor-diagnosed condition or disease; payments for prescription drugs and insulin; payments for smoking cessation programs and prescription drugs to facilitate nicotine withdrawal; money spent on inpatient treatment or acupuncture at a rehab facility; and, money spent on inpatient hospital care or residential nursing home care.[1,2]

That last item deserves further explanation regarding nursing homes. If a taxpayer is in a nursing home first and foremost to receive medical care, the I.R.S. says that the cost of that care and any lodging and meal costs borne by the taxpayer are deductible. Should the taxpayer reside in a nursing home primarily for other reasons, the I.R.S. limits the deduction to the medical care provided.[2]

> *"So, if you are considering surgery or dental work … it might be better from a tax standpoint to schedule these procedures for 2018 instead of 2019."*

Other potential medical expense deductions are worth noting. You can of course deduct payments made for health care aids such as wheelchairs, false teeth, service animals and guide dogs, hearing aids, contact lenses, and reading or prescription eyeglasses. In addition, you can usually deduct insurance premiums that you have paid for insurance policies covering medical care or long-term care (as opposed to premiums paid on these policies by your employer). Lastly, you can often deduct transportation costs you incur related to qualified medical expenses: bus, train, and plane fares; gasoline expenses; parking and toll fees.[2]

**What kinds of expenses do not qualify?** The cost of basic toiletries and toothpaste cannot be deducted; the same goes for cosmetics. Expenses for cosmetic surgery are usually not deductible, and neither are expenses for wellness programs or vacations. Non-prescription, over-the-counter drugs or medicines are non-deductible. Nicotine patches and gum may not be deducted, unless they have been prescribed for you. Burial and funeral expenses are also ineligible for the medical expense deduction.[2]

**Talk to a tax professional about the possibilities here.** You may find it advantageous to itemize in 2018 using Schedule A so that you can claim medical expense deductions and take advantage of what could be the last year for the 7.5% threshold. Or, you might find that taking the newly enlarged standard deduction makes more financial sense. If you think your household will have significant medical expenses this year, it might be wise to compare the options.

# Avoid These Life Insurance Missteps

*Shop wisely when you look for coverage.*

**Are you about to buy life insurance?** Shop carefully. Make your choice with insight from an insurance professional, as it may help you avoid some of these all-too-common missteps.

**Buying the first policy you see.** Anyone interested in life insurance should take the time to compare a few plans – not only their rates, but also their coverage terms. Supply each insurer you are considering with a quote containing the exact same information about yourself.[1]

**Buying only on price.** Inexpensive life insurance is not necessarily great life insurance. If your household budget prompts you to shop for a bargain, be careful – you could end up buying less coverage than your household really needs.[1]

**Buying a term policy when a permanent one might be better (and vice versa).** A term policy (which essentially offers life insurance coverage for 5-30 years) may make sense if you just want to address some basic insurance needs. If you see life insurance as a potential estate planning tool or a vehicle for building wealth over time, a permanent life policy might suit those ambitions.[1]

**Failing to inform heirs that you have a policy.** Believe it or not, some people buy life insurance policies and never manage to tell their beneficiaries about them. If a policy is small and was sold many years ago to an association or credit union member (i.e., burial insurance), it may be forgotten with time.[2]

Did you know that more than $7 billion in life insurance death benefits have yet to be claimed? That figure may not shrink much in the future, because insurers have many things to do other than search for "lost" policies on behalf of beneficiaries. To avoid such a predicament, be sure to give your beneficiaries a copy of your policy.[2]

*"Did you know that more than $7 billion in life insurance death benefits have yet to be claimed?"*

**Failing to name a beneficiary at all.** Designating a beneficiary upon buying a life insurance policy accomplishes two things: it tells the insurer where you want the death benefit to go, and it directs that death benefit away from your taxable estate after your passing.[3]

**Waiting too long to buy coverage.** Later in life, you may learn you have a serious medical condition or illness. You can certainly buy life insurance with a pre-existing health condition, but the policy premiums may be much larger than you would prefer. The insurer might also cap the policy amount at a level you find unsatisfactory. If you purchase a guaranteed acceptance policy, keep in mind that it will probably take 2-3 years before that policy is in full force. Should you pass away in the interim, your beneficiaries will probably not collect the policy's death benefit; instead, they may receive the equivalent of the premiums you have paid plus interest.[3]

**Not realizing that permanent life insurance policies expire.** Have you read stories about seniors "outliving" their life insurance coverage? It can happen. Living to be 90 or 100 is not so extraordinary as it once was.[3]

Permanent life insurance products come with maturity dates, and for years, 85 was a common maturity date. If you live long enough, you could outlive your policy. The upside of doing so is that you will receive a payout from the insurer, which may correspond to the policy's cash value at the maturity date. The downside of outliving your policy? If you want further insurance coverage, it may not be obtainable – or it could be staggeringly expensive.[3]

**Take your time when you look for life insurance, and compare your options.** The more insight you can draw on, the more informed the choice you may make.

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