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EPIC CAPITAL

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An Executor Checklist

The steps you may need to take to fulfill a major responsibility.

If you are an executor to an estate, you must carry out your duties responsibly. Fulfilling these duties is not only a measure of your ability, but a measure of your character. You can approach these tasks methodically. In fact, it is probably best if you do. Here are the common steps required of executors, before and after the death of a testator.

What should you do now, before having to assume the role of executor? The most important thing you can do is to communicate with him or her. Ask where the will and other foundational estate planning documents are, so you can locate them when the time comes. See if they want an elaborate funeral, a simple service, or no service at all – and yes, ask whether burial or cremation is preferred. Ask for the contact info of the key financial, insurance, tax, and legal professionals connected to the testator's financial situation, plus contact info for business partners, creative collaborators, and any relatives you may not know well.

There is merit in compiling and confirming certain things. Many married people choose to leave the bulk of their assets to their spouse. To facilitate that, assets should be jointly titled where appropriate. Is the testator okay with the named beneficiaries of their retirement plans and life insurance policies? Who should receive this or that item of sentimental value? (Make a list.) Ideally, an executor assumes their responsibilities with an up-to-date list of all the testator's assets and a sealed document (prepared by the testator, to only be opened upon death) containing logins and passwords for digital accounts, so the executor can close them or claim balances belonging to the estate.[1]

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When the time comes, what steps need to be taken? The first step is to determine whether you require assistance in carrying out your executor duties. You may want it, particularly if the deceased had notable tax or legal problems, significant business or real estate investments, or disputes with intended or potential heirs.

Does that mean hiring an attorney? Maybe, maybe not. Attorneys can be hired for a lump sum, an hourly fee, or a consulting fee payable from the estate. They can take on all the work or serve as consultants. (If someone challenges the legality of the will, hiring an attorney is a must.) Did the deceased have a simple estate? Then a lawyer's advice may not be necessary. Your questions might be adequately answered through a chat with a probate court clerk. Or, you might find them online or in a guidebook.[2,3]

Speaking of probate, the next step is figuring out the degree of probate for the estate. Many assets do not require probate. Assets with designated beneficiaries, jointly owned assets, assets held within trusts, and securities and bank accounts with "payable on death" transfer forms are commonly exempt from the process.[2]

In most states, probate is necessary to legally validate a will and close an estate. That means filing the will in probate court. As you do that, you must ask the court to confirm you as executor, and you must also notify the actual and potential beneficiaries of the estate's assets: the named beneficiaries as well as immediate family members who could be in line to receive assets should the probate court rule the will invalid. Next, you must compile an inventory of all the assets of the deceased, those subject to probate and not. (Non-probated assets, of course, may be distributed well before the end of the probate process.)[2,3]

Probate may go on for many months. During this time, you will have more duties to carry out. You must manage assets on behalf of the estate. You must contact Social Security, Medicare, and other state and federal government agencies, and perhaps past employers.[2]

Payments must be made from the estate, too: tax payments, mortgage payments, homeowners insurance premiums, and utility bills related to a primary residence. Outstanding consumer debts have to be addressed, and state laws will tell you how to notify any creditors who should be told of the testator's death. Typically, they have up to six months to file a claim for collection of a debt; as executor, you make the call whether that claim is valid or not.[2]

"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."

There will also be inflows to the estate, not just outflows – setting up a bank account on behalf of the estate may be very useful. It may come to hold dividends, royalties, rents, and forms of work-related income.[2]

Finally, the executor oversees the distribution of assets per the instructions in the will or other estate planning documents. Once you follow through on that task, the last step is to ask the probate court to formally settle the estate.[2]

It is no small responsibility to serve as an executor, especially for a complex estate. Prepare for the tasks ahead of you, so that you may do them well.[2]
This can be a good thing because sometimes the beneficiaries of legacy assets are not necessarily the best candidates to manage them.

Why You Might Want to Create a Donor-Advised Fund

A DAF can be a great way to give, with potentially great tax breaks.

Do you regularly donate to charities and other non-profit organizations? Then you may want to open a donor-advised fund.

Donor-advised funds are becoming popular. It is easy to see why. They offer potential tax perks, and in some instances, a chance to grow money set aside for charitable gifting.[1,2]

It is all too easy to think of charitable gifting in either very small or very large terms: that "Norman Rockwell" moment when someone puts a few dollars into a metal box during the holiday season, and that big moment when a billionaire CEO donates millions to a college or hospital through a private foundation. Donor-advised funds represent a middle ground, a way for you to make significant gifts without having to deal with a private foundation's paperwork and time commitment.

Financial institutions manage some of these accounts; others are overseen by community organizations. DAFs can be started with relatively small sums: a minimum of $5,000 is not unusual. Please note that contributions to DAFs are irrevocable.[1]

"Donor-advised funds also allow you to easily track your charitable gifting."

These funds offer you a tax break and a degree of flexibility. You can claim an immediate charitable tax deduction for the amount you direct into a donor-advised fund, and you advise the fund where the money should go. It can go to multiple charities, not just one.[1,3]

You decide when you want donations to be made; you can go years without making any if you wish. (In contrast, private family foundations must distribute 5% or more of their net investment assets each year, by law.) You may make ongoing contributions to your DAF, and you can often choose to have the assets invested and professionally managed once the account balance hits a certain (high) level.[1,2]

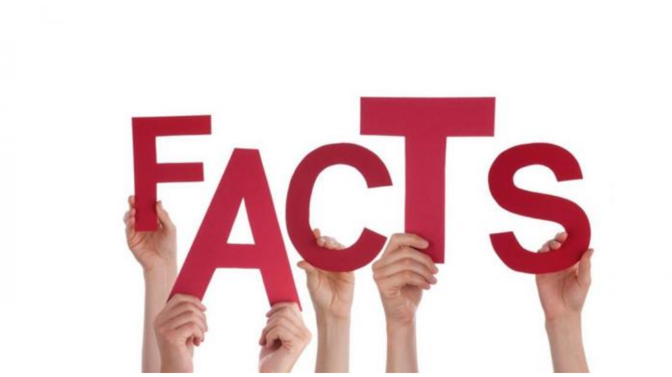
A donor-advised fund may even provide a triple tax break. Besides the upfront charitable deduction, there are two other opportunities for tax savings here. When you transfer highly appreciated securities into a DAF, you avoid the capital gains tax you would pay if you simply sold them (and that could mean saving thousands of dollars). In addition, those securities have the opportunity to benefit from tax-free growth once they are in the DAF.[3]

If you are wealthy enough to initially fund a DAF with a big lump sum, it may be better to itemize and take a large charitable deduction in the year of its creation rather than simply take the standard deduction. Additionally, thanks to the fund's flexibility, you do not need to plan how that lump sum should be distributed to charities in that first year. Perhaps $0 comes out of the DAF in the first year, with charitable distributions beginning in successive years.[1,3]

Donor-advised funds also allow you to easily track your charitable gifting. By using one of these financial vehicles, the assets you earmark for charity can be distributed from a single source.[1]

A Retirement Fact Sheet

Some Specifics about the "second act"



Does your vision of retirement align with the facts? Here are some noteworthy financial and lifestyle facts about life after 50 that might surprise you.

Up to 85% of a retiree's Social Security income can be taxed. Some retirees are taken aback when they discover this. In addition to the Internal Revenue Service, 13 states levy taxes on some or all Social Security retirement benefits: Colorado, Connecticut, Kansas, Minnesota, Missouri, Montana, Nebraska, New Mexico, North Dakota, Rhode Island, Utah, Vermont, and West Virginia. (It is worth mentioning that the I.R.S. offers free tax advice to people 60 and older through its Tax Counseling for the Elderly program.)[1]

Retirees get a slightly larger standard deduction on their federal taxes. Actually, this is true for all taxpayers aged 65 and older, whether they are retired or not. Right now, the standard deduction for an individual taxpayer in this age bracket is $13,600, compared to $12,000 for those 64 or younger.[2]

Retirees can still use IRAs to save for retirement. There is no age limit for contributing to a Roth IRA, just an inflation-adjusted income limit. So, a retiree can keep directing money into a Roth IRA for life, provided they are not earning too much. In fact, a senior can potentially contribute to a traditional IRA until the year they turn 70½.[1]

"There is no age limit for contributing to a Roth IRA, just an inflation-adjusted income limit."

A significant percentage of retirees are carrying education and mortgage debt. The Consumer Finance Protection Bureau says that throughout the U.S., the population of borrowers aged 60 and older who have outstanding student loans grew by at least 20% in every state between 2012 and 2017. In more than half of the 50 states, the increase was 45% or greater. Generations ago, seniors who lived in a home often owned it, free and clear; in this decade, that has not always been so. The Federal Reserve's recent Survey of Consumer Finance found that more than a third of those aged 65-74 have outstanding home loans; nearly a quarter of Americans who are 75 and older are in the same situation.[1]

As retirement continues, seniors become less credit dependent. GoBankingRates says that only slightly more than a quarter of Americans over age 75 have any credit card debt, compared to 42% of those aged 65-74.[1]

About one in three seniors who live independently also live alone. In fact, the Institute on Aging notes that nearly half of women older than age 75 are on their own. Compared to male seniors, female seniors are nearly twice as likely to live without a spouse, partner, family member, or roommate.[1]

Around 64% of women say that they have no "Plan B" if forced to retire early. That is, they would have to completely readjust and reassess their vision of retirement, and redetermine their sources of retirement income. The Transamerica Center for Retirement Studies learned this from its latest survey of more than 6,300 U.S. workers.[3]

Few older Americans budget for travel expenses. While retirees certainly love to travel, Merril Lynch found that roughly two-thirds of people aged 50 and older admitted that they had never earmarked funds for their trips, and only 10% said they had planned their vacations extensively.[1]

What financial facts should you consider as you retire? What monetary realities might you need to acknowledge as your retirement progresses from one phase to the next? The reality of retirement may surprise you. If you have not met with a financial professional about your retirement savings and income needs, you may wish to do so. When it comes to retirement, the more information you have, the better.

Tax Changes That May Be Overlooked

Some alterations to the Internal Revenue Code were less publicized than others.

Late last year, federal tax laws underwent sweeping changes. Nearly a year later, you can be forgiven for not keeping up with them all. Here is a look at some important (yet underrecognized) adjustments that may affect the numbers on your 2018 federal return.[1]

First, most miscellaneous itemized deductions are gone. The Tax Cuts & Jobs Act of 2017 eliminated dozens of them through the year 2025. Tax preparation expenses? You can no longer deduct those. Expenses linked to a hobby that made you some income? In 2018, no deduction available. Legal fees you paid that were related to your work as an employee? No, you cannot deduct them. Chat with a tax professional; if your tax situation is complex, chances are some deduction, which you may have relied on, is history.[1]

"Chat with a tax professional; if your tax situation is complex, chances are some deduction, which you may have relied on, is history."

Can you still claim a deduction for continuing education expenses? No. Some taxpayers used to present the cost of classes or training designed to expand or maintain their job skills as an unreimbursed employee business expense. Some would even claim a deduction for tuition paid toward their MBA. This is now disallowed.[1]

Employee vehicle use deductions are gone. You can no longer deduct unreimbursed travel expenses related to the performance of your job, and that includes mileage expenses stemming from the use of your car or truck. In response, some employees have asked their employers to set up "accountable" plans allowing them to receive tax-free reimbursements. (You will still find the deduction for certain types of business mileage on Schedule C, and you may still deduct miles you drive for medical purposes and in the service of qualified charitable organizations.)[1,3]

Speaking of mileage, the moving expense deduction has all but disappeared. Only active duty members of the military may take this deduction now, and only if the move is made in response to a military order.[3]

You can no longer claim personal casualty losses as itemized deductions. There is an exception to this. You can still deduct these losses in tax years 2018-25 if they occur due to an event that becomes a federally declared disaster (FDD). Unfortunately, most fires, floods, and storms are not defined as FDDs, and most theft has nothing to do with natural or manmade disasters.[3]

Fortunately, the standard deduction has almost doubled. It was slated to be $6,500 for single filers, $9,550 for heads of household, and $13,000 for joint filers; thanks to tax reform, those respective standard deduction amounts are now $12,000, $18,000, and $24,000. (The personal exemption no longer exists.)[4]

How have things changed regarding charitable donations? There is less of a tax incentive to make them, because many taxpayers may just take the higher standard deduction, rather than bothering to itemize. The non-partisan Tax Policy Center estimates total U.S. charitable gifting will fall to $20 billion this year, a 38% drop, due to the 2017 federal tax reforms. That said, there are still paths toward significant tax breaks for the charitably inclined.[5]

A traditional IRA owner aged 70½ or older can arrange a qualified charitable distribution (QCD) from that IRA to a qualified charity or non-profit. The QCD can be as large as $100,000. From a tax standpoint, this move may be very useful. The donated amount counts toward the IRA owner's annual mandatory withdrawal requirement and is not included in the IRA owner's adjusted gross income (AGI) for the year of the donation.[5]

Some wealthy retirees are now practicing charitable lumping. Instead of giving a college or charity say, $75,000 in increments of $15,000 over five years, they donate the entire $75,000 in one year. A single-year charitable contribution that large calls for itemizing.[5]

Turn to a tax professional for insight about these changes and others. The revisions to the Internal Revenue Code noted here represent just the tip of the proverbial iceberg. Additionally, you may find that the changes brought about by the Tax Cuts & Jobs Act have given you new opportunities for substantial tax savings.

Making a Charitable Gift from Your IRA

What all homeowners need to know

Is your annual IRA withdrawal a bother? If you are an affluent retiree, that might be the case. The income is always nice, but the taxes that come with it? Not so much.

If only you could satisfy your yearly IRA withdrawal requirement minus the attached taxes. Guess what: there might be a way.

If you gift traditional IRA assets to charity, you could see some big tax savings. The Internal Revenue Service calls this a Qualified Charitable Distribution (QCD), and you may want to explore its potential. Some criteria must be met: you need to be at least 70½ years old in the year of the donation, the donation must take the form of a direct transfer of assets from the IRA custodian to the charity, and the charity must be "qualified" in the eyes of the I.R.S. Any 501(c)(3) non-profit organization meets the I.R.S. qualification, as do houses of worship.[1]

The amount you gift can be applied toward your Required Minimum Distribution (RMD) for the year, and you may exclude it from your taxable income. If you are retired and well-to-do, a charitable IRA gift could be a highly tax-efficient move.[1,2]

Just how much could you save? That depends on two factors: how much you gift, and your federal income tax bracket. As an example, say you are in the 35% federal income tax bracket, and you donate $40,000 from your traditional IRA to a 501(c)(3) non-profit organization. That $40,000 will be gone from your taxable income, and the donation will cut your federal tax bill for the year by $14,000 (as 35% of $40,000 is $14,000). Yes, the savings could be significant.[2]

You can donate as much as $100,000 to a qualified charity this way in a single year. That limit is per IRA owner; if you are married, and you and your spouse both have traditional IRAs, you can each donate up to $100,000.[1,2]

"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."

What about the fine print? There is plenty of that, and it is all worth reading. You may be curious if you can make a QCD from a SIMPLE or SEP-IRA; the answer is no. You can make a QCD from a Roth IRA, but there is little point in it: Roth IRA withdrawals are commonly tax-free.[1]

Regarding the asset transfer, the critical detail is that you cannot touch the money. The distribution must be payable directly to the non-profit organization or charity, not to you. (Income tax does not need to be withheld from the distribution since the amount withdrawn will not count as taxable income.) In addition, your tax preparer must identify the distribution as a QCD on your federal tax return. This is crucial and must not be overlooked, because the custodian of your IRA will probably report your QCD as a normal IRA distribution.[2]

If you itemize your deductions, you should know that a charitable IRA gift does not count as a deductible charitable contribution. (That would amount to a double tax break.) Of course, fewer taxpayers have incentive to itemize now, since the standard deduction is so large, thanks to the Tax Cuts & Jobs Act.[1,2]

If you want to make a charitable IRA gift, start the process before the year ends. If you try to make the gift in late December, your IRA custodian might not be able to move fast enough for you, and the asset transfer may occur later than you would like (i.e., after December 31). Talk with a tax or financial professional before the year ends, so that you can plan a charitable IRA donation with some time to spare.

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

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