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EPIC CAPITAL

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Teaching Your Heirs to Value Your Wealth

Values can help determine goals & a clear purpose

Some millionaires are reluctant to talk to their kids about family wealth. Perhaps they are afraid of what their heirs may do with it.

If a child comes from money and grows up knowing they can expect a sizable inheritance, that child may look at family wealth like water from a free-flowing spigot with no drought in sight. It may be relied upon if nothing works out; it may be tapped to further whims born of boredom. The perception that family wealth is a fallback rather than a responsibility can contribute to the erosion of family assets. Factor in a parental reluctance to say "no" often enough, throw in a penchant for racking up debt, and the stage is set for wealth to dissipate.

How might a family plan to prevent this? It starts with values. From those values, goals, and purpose may be defined.

Create a family mission statement. To truly share in the commitment to sustaining family wealth, you and your heirs can create a family mission statement, preferably with the input or guidance of a financial services professional or estate planning attorney. Introducing the idea of a mission statement to the next generation may seem pretentious, but it is actually a good way to encourage heirs to think about the value of the wealth their family has amassed, and their role in its destiny.

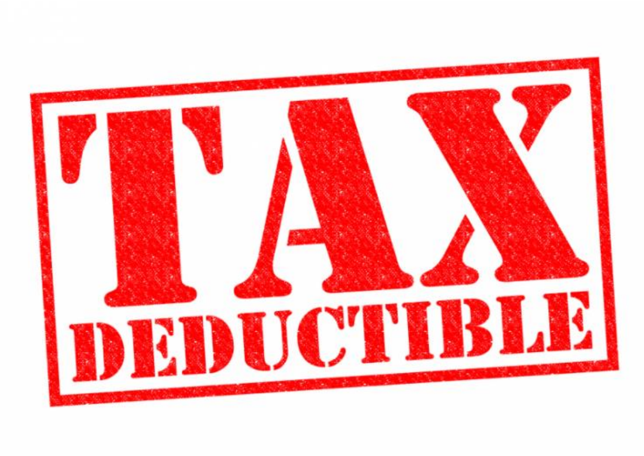
This mission statement can be as brief or as extensive as you wish. It should articulate certain shared viewpoints. What values matter most to your family? What is the purpose of your family's wealth? How do you and your heirs envision the next decade or the next generation of the family business? What would you and your heirs like to accomplish, either together or individually? How do you want to be remembered? These questions (and others) may seem philosophical rather than financial, but they can actually drive the decisions made to sustain and enhance family wealth.

You may want to distribute inherited wealth in phases. A trust provides a great mechanism to do so; a certain percentage of trust principal can be conveyed at age X and then the rest of it Y years later, as carefully stated in the trust language.[1]

By involving your kids in the discussion of where the family wealth will go when you are gone, you encourage their intellectual and emotional investment in its future. Pair values, defined goals, and clear purpose with financial literacy and input from a financial or legal professional, and you will take a confident step toward making family wealth last longer.

Six Most Overlooked Tax Deductions

Six overlooked tax deductions to help you manage your tax bill.



Who among us wants to pay the Internal Revenue Service more taxes than we have to? While few may raise their hands to voluntarily pay more taxes, Americans regularly overpay because they fail to take tax deductions for which they are eligible. Are you one of them? Let's take a quick look at the six most overlooked opportunities to manage your tax bill.

Reinvested Dividends. When your mutual fund pays you a dividend or capital gains distribution, that income is a taxable event (unless the fund is held in a tax-deferred account, like an IRA). If you're like most fund owners, you'll reinvest these payments in additional shares of the fund. The tax trap lurks when you sell your mutual fund. If you fail to add the reinvested amounts back into the investment's cost basis, it can result in double taxation of those dividends.[1,2]

Self-Employment Taxes. If you are a sole proprietor, you can claim 50% of what you pay in self-employment tax, as an income tax deduction. This only makes sense, since you are actually paying both the employee and employer share of Social Security and Medicare taxes at your business.[3]

Out-of-Pocket Charity. It's not just cash donations that are deductible. Any time you donate goods or use your personal car for charitable work, these are potential tax deductions. Just be sure to get a receipt for any amount over $250.[4]

State Taxes. Did you owe state taxes when you filed your previous year's tax returns? If you did, don't forget to include this payment as a tax deduction on your current year's tax return. The Tax Cuts and Jobs Act of 2017 placed a $10,000 cap on the state and local tax deduction.[4]

Medicare Premiums. If you are self-employed (and not covered by an employer plan or your spouse's plan), you may be eligible to deduct premiums paid for Medicare Parts B and D, Medigap insurance, and Medicare Advantage plans. This deduction is available regardless of whether you itemize deductions.[4]

Income in Respect of a Decedent. If you've inherited an IRA or pension, you may be able to deduct any estate tax paid by the IRA owner from the taxes due on the withdrawals you take from the inherited account. Be sure to check with a tax professional on your specific situation.[5]

The information in this material is not intended as tax or legal advice. It may not be used for the purpose of avoiding any federal tax penalties. Please consult legal or tax professionals for specific information regarding your individual situation.

Mutual funds are sold only by prospectus. Please consider the charges, risks, expenses, and investment objectives carefully before investing. A prospectus containing this and other information about the investment company can be obtained from your financial professional. Read it carefully before you invest or send money.

Charitable Contribution Limits

What are the limits for Donor-Advised Funds and Private Foundations?

Among the big changes in the 2017 Tax Cuts and Jobs Act (TCJA) were new limits on standard and itemized deductions. These limits and restrictions created new hurdles when planning deductions with tax advantages in mind. An exception was charitable deduction, which remained an option for high-income individuals looking to create a donation for the charity of their choice.

Donor-Advised Funds and Private Foundations. When making a charitable donation, two avenues to consider are donor-advised funds (DAFs) and private foundations (PFs). DAFs are established by public charities as a philanthropic vehicle; the donor can allow the donation to potentially grow over time and advise on grants from the fund (assuming compliance approval), all while having an immediate tax benefit for that initial contribution. Private foundations offer total control in terms of the grants you've made and their distribution.[1,2]

In contrast, a private foundation tends to be larger in size (sometimes in the millions of dollars) in comparison to DAFs (which can be set up with as little as $5,000) and generally represent a larger and less-flexible method of charitable giving.[3]

"There are advantages to both private foundations and donor-advised funds, both in terms of tax deductions"

How much can you give? There are different tax considerations to keep in mind. Your limit in contributing to a private foundation is 30% of your adjusted gross income (AGI) in the year you make that donation. On the other hand, the same limit for a DAF is up to 60% of your AGI.[1]

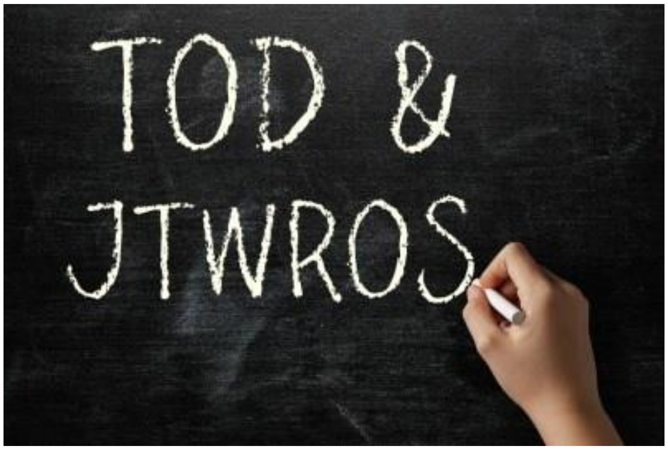
What about long-term appreciated marketable securities? Your limit to a private foundation is 20% of AGI for the year of the donation. For a DAF, it's 30% of AGI.[1]

Advantages to consider. There are advantages to both private foundations and donor-advised funds, both in terms of tax deductions and the control that you may exercise over how the funds are dispersed.[1,4]

However, you should also be aware that the I.R.S. is on the lookout for those who may use the flexibility of donor-advised funds to create improper distributions, which may, for instance, directly benefit a donor's family. For this reason, among others, it's best to have several conversations with a trusted tax and financial professional, who can both assist you in the creation of any such entity as well as help you manage your charitable giving.[1,4]

The Importance of TOD & JTWROS Designations

A convenient move that could ward off probate on your accounts.



TOD, JTWROS – what do these obscure acronyms signify? They are shorthand for *transfer on death* and *joint tenancy with right of survivorship* – two designations that permit automatic transfer of bank or investment accounts from a deceased spouse to a surviving spouse.[1]

This automatic transfer of assets reflects a legal tenet called the *right of survivorship* – the idea that the surviving partner should be the default beneficiary of the account. In some states, a TOD or JTWROS beneficiary designation is even allowed for real property.[2]

When an account or asset has a TOD or JTWROS designation, the right of survivorship precedes any beneficiary designations made in a will or trust.[3]

There are advantages to having TOD and JTWROS accounts – and disadvantages as well.

TOD & JTWROS accounts usually avoid probate. As TOD and JTWROS beneficiary designations define a direct route for account transfer, there is rarely any need for such assets to be probated. The involved financial institution has a contractual requirement (per the TOD or JTWROS designation) to pay the balance of the account funds to the surviving partner.[4]

In unusual instances, an exception may apply: if the deceased account owner has outlived the designated TOD beneficiary or beneficiaries, then the account faces probate.[5]

What happens if both owners of a JTWROS account pass away at the same time? In such cases, a TOD designation applies (for any named contingent beneficiary).[4]

To be technically clear, *transfer on death* signifies a route of asset transfer, while *joint tenancy with right of survivorship* signifies a form of asset ownership. In a variation on JTWROS called *tenants by entirety*, both spouses are legally deemed as equal owners of the asset or account while living, with the asset or account eventually transferring to the longer-living spouse.[4]

Does a TOD or JTWROS designation remove an account from your taxable estate? No. A TOD or JTWROS designation makes those assets non-probate assets, and that may save your executor a little money and time – but it doesn't take them out of your gross taxable estate.

In fact, 100% of the value of an account with a TOD beneficiary designation will be included in your taxable estate. It varies for accounts titled as JTWROS. If you hold the title to a JTWROS account with your spouse, 50% of its value will be included in your taxable estate. If it is titled as JTWROS with someone besides your spouse, the entire value of the account may go into your taxable estate, unless the other owner has made contributions to the account.[6]

How about capital gains? JTWROS accounts in common law states typically get a 50% step-up in basis upon the death of one owner. In community property states, the step-up is 100%.[6]

"TOD or JTWROS accounts are not cheap substitutes for wills or trusts."

Could gift tax become a concern? Yes, if the other owner of a JTWROS account is not your spouse. If you change the title on an account to permit JTWROS, you are giving away a percentage of your assets; the non-spouse receives a gift from you. If the amount of the gift exceeds the annual gift tax exclusion, you will need to file a gift tax return for that year. If you retitle the account in the future, so that you are again the sole owner, that constitutes a gift to you on behalf of the former co-owner; they will need to file a gift tax return if the amount of the gift tops the annual exclusion.[6]

TOD & JTWROS designations are designed to make account transfer easy. They simplify an element of estate strategy.

TOD or JTWROS accounts are not cheap substitutes for wills or trusts. If you have multiple children and name one of them as the TOD beneficiary of an account, that child will get the entire account balance, and the other kids will get nothing. The TOD beneficiary can of course divvy up those assets equally among siblings, but in doing so, that TOD beneficiary may run afoul of the yearly gift tax exclusion.[6]

As you create your estate, respect the power of TOD & JTWROS designations. Since they override any beneficiary designations made in wills and trusts, you want to double-check any will and trust(s) you have, to make sure that you aren't sending conflicting messages to your heirs.[6]

That aside, TOD & JTWROS designations can represent a convenient way to arrange the smooth, orderly transfer of account balances when original account owners pass away.

The A, B, C, & D of Medicare

Breaking down the basics & what each part covers.

Whether your 65th birthday is on the horizon or decades away, you should understand the parts of Medicare – what they cover and where they come from.

Parts A & B: Original Medicare. There are two components. Part A is hospital insurance. It provides coverage for inpatient stays at medical facilities. It can also help cover the costs of hospice care, home health care, and nursing home care – but not for long and only under certain parameters.[1,2]

Seniors are frequently warned that Medicare will only pay for a maximum of 100 days of nursing home care (provided certain conditions are met). Part A is the part that does so. Under current rules, you pay $0 for days 1-20 of skilled nursing facility (SNF) care under Part A. During days 21-100, a $170.50 daily coinsurance payment may be required of you.[2]

Part B is medical insurance and can help pick up some of the tab for physical therapy, physician services, expenses for durable medical equipment (hospital beds, wheelchairs), and other medical services, such as lab tests and a variety of health screenings.[1]

Part B isn't free. You pay monthly premiums to get it and a yearly deductible (plus 20% of costs). The premiums vary according to the Medicare recipient's income level. The standard monthly premium amount is $135.50 this year. The current yearly deductible is $185. (Some people automatically receive Part B coverage, but others must sign up for it.)[3]

Part C: Medicare Advantage plans. Insurance companies offer these Medicare-approved plans. To keep up your Part C coverage, you must keep up your payment of Part B premiums as well as your Part C premiums. To say not all Part C plans are alike is an understatement. Provider networks, premiums, copays, coinsurance, and out-of-pocket spending limits can all vary widely, so shopping around is wise. During Medicare's annual Open Enrollment Period (October 15 - December 7), seniors can choose to switch out of Original Medicare to a Medicare Advantage plan or vice versa; although, any such move is much wiser with a Medigap policy already in place.[4,5]

"During Medicare's annual Open Enrollment Period, seniors can choose to switch out of Original Medicare to a Medicare Advantage plan."

How does a Medigap plan differ from a Part C plan? Medigap plans (also called Medicare Supplement plans) emerged to address the gaps in Part A and Part B coverage. If you have Part A and Part B already in place, a Medigap policy can pick up some copayments, coinsurance, and deductibles for you. You pay Part B premiums in addition to Medigap plan premiums to keep a Medigap policy in effect. These plans no longer offer prescription drug coverage.[6]

Part D: prescription drug plans. While Part C plans commonly offer prescription drug coverage, insurers also sell Part D plans as a standalone product to those with Original Medicare. As per Medigap and Part C coverage, you need to keep paying Part B premiums in addition to premiums for the drug plan to keep Part D coverage going.[7]

Every Part D plan has a formulary, a list of medications covered under the plan. Most Part D plans rank approved drugs into tiers by cost. The good news is that Medicare's website will determine the best Part D plan for you. Go to medicare.gov/find-a-plan to start your search; enter your medications and the website will do the legwork for you.[8]

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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