



## A Primer On Setting Up a Trust Fund

**T**rust funds used to be the realm of the wealthy, providing a tool to pass money to heirs and charities. Nowadays, though, they are becoming a means for more people to engage in smart estate planning.

Trusts are legal arrangements allowing you to put assets into accounts that benefit another person or an organization, like a charity or college. They are often complicated and require a lawyer to put together — although there are online alternatives if you want to attempt to do it yourself.



The basic idea is to control who gets your assets, either when you're alive or afterward. A trust can help you lower estate taxes and avoid probate, the often-arduous legal procedure that proves a will is valid.

**First Steps.** As you set up a trust, you need to settle a few key questions:

1. What assets go into the trust: stocks, bonds, mutual funds, cash or property?
2. Who are the beneficiaries, meaning the people who receive the trust's benefits?
3. Who will be the trustee, the person who manages the assets and oversees the

trust? The best thing is to appoint someone you know, who also is familiar with your financial situation and your beneficiaries. Plus, this person should be financially astute, and knowledgeable about taxes and investing.

4. How will the assets be invested and managed, and when will they be paid out? For instance, you might not want your children to receive the benefits until they're 35, as an established adult.

5. What is the duration of the trust, and under what conditions will it end operations? Is it paid out over time, or all at once?

6. Can its conditions be changed? Some trusts are irrevocable, meaning they are chiseled in stone. Others are revocable, meaning for instance you can shift the beneficiary to be your daughter instead of your younger brother.

7. What stipulations do you want? Maybe the money will go to your son for everything except paying off his creditors. Or your daughter, but not your son-in-law if she should die.

Beyond these considerations, it's wise to find a good, experienced estate attorney. The lawyer will craft a document called a declaration of trust, which will set up the trust fund and establish its conditions.

**Timing.** Next, the trust fund is registered with the IRS, allowing it to file its own tax returns and legally open financial accounts at banks or other institutions. Then, you transfer the assets

## ETFs Can Provide Some Other-Worldly Benefits To Investors

**E**TFs may sound like aliens from the "Star Wars" movies. But they're actually an increasingly popular investment that offers several potential benefits to investors. The acronym stands for exchange-traded fund. We utilize ETFs to complement our strategies in the portfolios.

ETFs are securities that normally track an index, such as the well-known Standard & Poor's (S&P) 500. They are traded on a public stock exchange, so prices fluctuate throughout each trading day. Because of this liquidity, and the fact that fees associated with the investment are typically lower, more investors are opting for ETFs.

Technically, the ETF owns underlying assets—such as stocks, bonds, commodities, or foreign currencies—and this ownership is divided into shares for investors. Therefore, you own the ETF's investments indirectly and your shares represent their market value.

What's more, ETFs let you diversify across a wide range of underlying investments, while providing investors with other advantages. Also taxable gains aren't generally passed through to shareholders, although you will be taxed on any gains under the usual rules when you sell an ETF.

We are happy to discuss how we utilize ETFs in your portfolio and how they benefit you.

Kim Scott, CFP®  
Senior Financial Advisor

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## Prepare For A Sweeping New Law On Retirement Account Taxes

A sweeping new law changing retirement investing tax rules was passed by the House of Representatives on May 29th. It is in the Senate to be voted on and has the support of President Donald J. Trump. Although the legislation may not be signed into law, individuals with retirement accounts should consider how its enactment could affect them and their beneficiaries. Here's what you need to know now:

**Secure Act Misnomer.** The legislation is referred to as the Secure Act. Often buried or unmentioned in coverage is the full name of the legislation, "Setting Every Community Up for Retirement Enhancement Act of 2019."

**Kills Stretch IRAs.** A popular strategy for stretching tax deferral would be eliminated by the proposed law. The legislation's sweeping changes would kill stretch IRAs and represents a move to higher taxes on IRA beneficiaries. Non-spouse beneficiaries of Individual Retirement Accounts (IRAs) would no longer be permitted to defer taxes on payouts of inherited IRA over their expected lifetime after 2019. Under

current rules, you could leave an IRA to your children and your heirs who can take distributions from that IRA based on their life expectancy. This allows those inheriting IRAs to stretch deferral of taxes over many decades, and the IRA account compounds without being taxed in this period. Under the proposed change, heirs would be required to distribute an inherited IRA over 10 years.

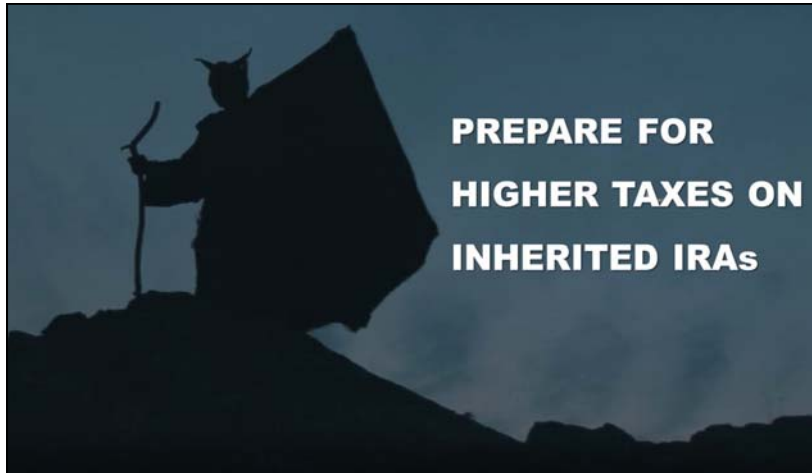
by the new 10-year payout rule.

**Beginning Date Of Required Minimum Distributions (RMDs).** The new law would push back the age at which you must begin withdrawing money from an IRA. Under current law, you are required to begin taking distributions on the 1st of April following the year you turn age 70½. Under this new statute, that's going to be pushed back to age 72.

### Stay Tuned.

Waiting till the legislation is signed into law may not leave enough time to adjust your plans and minimize taxes for yourself and loved ones, and the legislation makes changes so sweeping and so new that its effects on long-term financial plans are still being researched. Please watch this space to learn details about ways to

shield yourself and your beneficiaries from higher taxes on IRA payouts in the months ahead. Tax planning requires a qualified tax professional and personal attention. This is an early warning about an important issue affecting strategic long-term tax planning and not intended as tax or legal advice. ●



**Exceptions.** The proposal carves out an exception for minors — 18 or 21 in most states — until they reach the age of majority, and then they would be required to distribute the assets in the IRA over 10 years. A surviving spouse, those who are chronically ill or disabled are among those not affected

## Sidestepping A Life Insurance Trap

Life insurance can be a lifesaver for a family whose main breadwinner unexpectedly passes away. But there may be steps you should consider that go beyond buying sufficient coverage to protect your family.

A primary goal is to keep life insurance proceeds from being included in your taxable estate, which could reduce their value. Normally, that will happen if the proceeds are payable to the estate or are received by someone else for the benefit of the estate. So the first step in avoiding this trap is to designate beneficiaries such as a spouse or a

child who don't fall into those categories and to grant them full control over those assets. But that may not be the entire solution.

Even if proceeds aren't made payable to the estate, they count as assets of the insured person's taxable estate if he or she possessed "incidents of ownership" in the policy on the date of death. Furthermore, this rule applies to any incidents of ownership transferred during the final three years before death.

What is an "incident of ownership"? The definition goes beyond mere legal ownership and rights to the economic benefits of a

policy. The list includes items such as the power to change beneficiaries; to revoke assignments of benefits; to obtain loans against the policy's cash value; to pledge the policy as collateral for a loan; and to surrender or cancel the policy. But the right to receive dividends and the right to veto the sale of an insurance policy by a trustee of an irrevocable life insurance trust aren't considered incidents of ownership.

If you buy life insurance and transfer all incidents of ownership in the policy more than three years before your death, all of the proceeds will be exempt from

# Education Tax Credits Primer

**T**he American Opportunity Credit (for college students) and the Lifetime Learning Credit — for undergrad, graduate and vocational students — are the two education tax credits available from the federal government. Students can claim either of the two credits for schooling costs, or their parents can — provided they don't opt for married filing separately.

Even if you paid education costs with a student loan, you are eligible to take these credits. You can claim both benefits on the same return but not for the same student or the same expenses.

The benefits aren't huge, but a tax credit reduces your tax bill dollar for dollar, making it much more valuable than a mere deduction. Some key details about the two credits:

## **American Opportunity Tax Credit (AOTC)**

Worth up to \$2,500, you can take the AOTC credit if you paid at least that much in undergrad education expenses in 2019: tuition, fees, books and equipment. Expenses not included in the qualifying formula: transportation, living and

medical expenses.

With a credit, should you owe \$4,000 in taxes, then you need to pay just \$1,500 to Uncle Sam.

What's more, this benefit is better for college students than the lifetime credit because it is refundable. Meaning, if the amount of the AOTC exceeds the tax you owe, then up to 40% of the credit (to a maximum of \$1,000) will be refunded to you.

You can claim the credit for up to four years. Parents take the credit if they ponied up for a student's education costs and the student is listed on their tax return as a dependent.

It does have income limits: To get

the full credit, your modified adjusted gross income (MAGI) must be \$80,000 or less, and \$160,000 if you're married filing jointly. You get a reduced benefit if the MAGI is up to \$90,000, or \$180,000. Above those top levels, you get zilch.

MAGI is the total of your household's adjusted gross income — income minus deductions — with any tax-exempt interest income added back.

## **Lifetime Learning Credit (LLC)**

This one is worth a little less, \$2,000, and there's no ceiling on the number of years you can take the LLC. That's why it makes great sense

for a grad student, who faces years of course work. Ditto for someone who goes back to school to develop new aptitudes, even if the person took the AOTC in previous years.

Like the AOTC, the LLC also doesn't cover living expenses,

medical care or transit, but does allow you to claim supplies and books that the school requires.

The MAGI ceilings are a little lower than with the AOTC. Namely, \$57,000 for singles and \$114,000 for marrieds for the full benefit, and \$67,000 and \$134,000 for the reduced credit. Another downside: The LLC doesn't have a refundable feature.

The real cost of education has risen for decades, and these two federal tax credits are a single instrument in a strategy to pay for private school or college costs. For information about other tax breaks and advice on strategically planning to finance education, call our office, as financial planning is highly dependent on your personal situation. ●



federal estate tax. Although the transfer is subject to gift tax, in most cases you can shield the transfer from tax through the annual

gift tax exclusion and generous unified estate and gift tax exemption. Or you might create an irrevocable life insurance trust, which also can help shield proceeds from estate tax.

Big changes in the estate and gift tax laws could be coming, but now is an opportunity to protect your interests under current law without risking future harm. ●





# Be Prepared For Tax Policy To Swing Back

**F**or business owners, professionals, and wealthy families, tax rules are about as favorable as they've been in decades, but the tax policy pendulum could swing back again. Be prepared to make some important financial decisions much sooner than had been expected.

For example, the lifetime tax exemption for gifts made in 2019 is \$11,400,000, up from \$11,180,000 in 2018. It doubled over the \$5.43 million in effect in 2017 and is scheduled to ratchet higher through 2025, as a result of the enactment of the Tax Cuts & Jobs Act (TCJA). In 2026, the exemption reverts back to the level in effect before the TCJA became effective in December 2018.

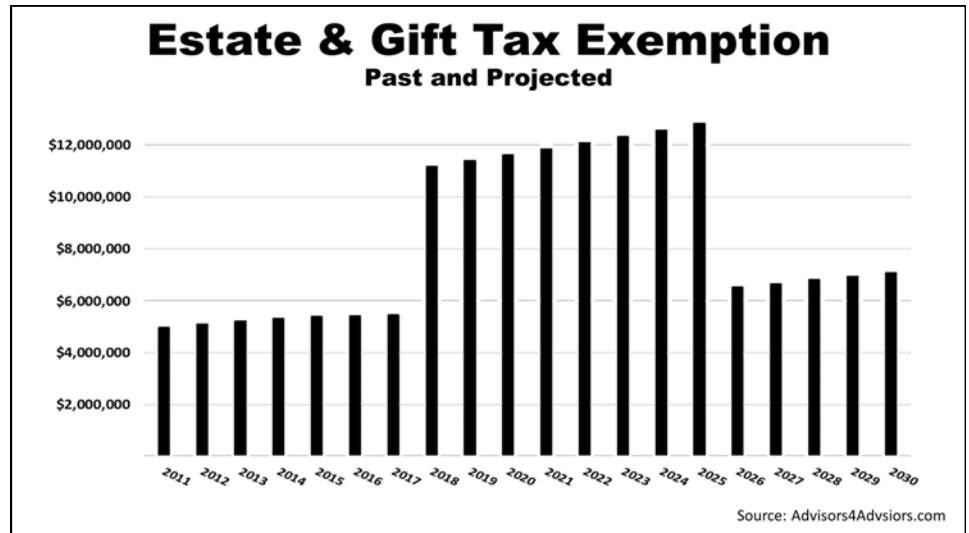
That means families should have many years before they would be forced to decide whether to make gifts in 2025 to maximize their exemptions from tax in passing their wealth to family members. The 2025 peak in the exemption amount forces a decision about whether to give assets to loved ones while you're still alive or hold onto your assets and give them away after you die. In 2025, you use

the \$12-million-plus exemption or lose it, and the exemption reverts back to a much lower amount in 2026 and beyond.

However, the tax policy pendulum — a politically charged issue — could swing in the other direction in the months ahead. Business owners, professionals, and other high-net worth individuals may need to make decisions about gifting assets much sooner. There is no assurance that you will have until the

end of 2025 to make this important strategic decision about passing on your family wealth.

Point is, if tax policy changes, business owners, professionals and individuals benefiting from strategies enabled under the TCJA, may be forced to make decisions about income tax as well as estate and gift tax strategies much sooner than they might have expected. It's not an issue you want to fall behind on and will require personal and professional tax advice. ●



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into the trust, a process called retitling.

Do you want the trust to take effect now or at your death? And should it be revocable or irrevocable? The argument for revocable is that your beneficiary, perhaps a young person, may not grow into someone who deserves your generosity. The case for irrevocable is if you want to earmark the assets to support an activity whose necessity won't likely change, such as educating a child or supporting a charity.

The question of how long the trust will stay around, before its last assets are paid out, is a tricky one. Common law is structured against letting trusts persist indefinitely. But many states let you get around that by setting up a so-called

dynasty trust, which permits the wealth to grow for a long time without being taxed.

**Types of Trusts.** Aside from whether the trust is revocable or not, its structure can be very complex and carry advantages and disadvantages. Some examples:

- Generation-skipping trust, aka a dynasty trust. This lets you transfer money tax-free to beneficiaries who are two generations younger than you. The goal is to avoid the assets being taxed twice: once when they go to your grown children, and again when that generation passes the assets along to their own kids — namely, your grandchildren.

- Bypass trust. Here, you bequeath an amount up to the estate tax exemption (in 2019, that's up to \$11.4 million from a single giver or double that from a couple). The rest goes to your spouse tax-free.

After your spouse dies, you can stipulate that what's left goes to the kids.

- Qualified terminal interest property (QTIP) trust. This is best at singling out which particular relatives to direct your gifts to. A QTIP is often helpful in families where there are divorces, remarriages and stepchildren. Your surviving spouse can receive income from it, and once that spouse dies, the remaining principal goes to specific younger relatives.

For you, the donor, creating a trust fund gives you peace of mind that the legacy you want to leave is well-constructed and wisely directed. This article is not intended as personal advice, but rather as an educational resource about planning techniques available. Please contact us if you'd like to discuss your specific situation. ●