Financial Decisions

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How To Choose An Executor

Creating a will or trust to direct the distribution of assets upon your death requires a good deal of decision-making. For help, you can turn to your estate attorney, financial advisor and accountant.

One of the most important choices you will make is not about your possessions. Your choice of executor will determine how well—after all your careful planning—your wishes are carried out. The person you entrust with these responsibilities must not only be willing to take them on, but capable of fulfilling them. An executor's duties are legal as well as financial. Legally, the executor is a fiduciary, which means they must serve the estate's interests ahead of their own, and they can be sued if they mismanage the estate.

The executor also has emotional responsibilities. The stress of losing a loved one can strain even the most close-knit families. The executor may find that she or he spends more time calming down angry heirs than writing checks. Before selecting your executor, it's essential to learn what's involved before you make your choice. Most people consider it an honor to be selected as executor for a friend or relative's estate, but the job can be complicated and time-consuming even under the best of circumstances.

A person who dies intestate—that is, without having written a will—will be assigned an executor by the state. This person is called the administrator of the estate. Typically, the administrator is a relative or close friend of the person who has died, but the state may not select the person you would have chosen!

When you write a will, naming an executor will be part of the process. Many people name a secondary executor as well, in case the primary executor is unable to fulfill his or her duties. The executor is responsible for administering to the deceased person's property until all debts and taxes have been paid. Then, the executor makes sure that the remainder is distributed among the inheritors.

Laws regarding probate (the legal term for validating a will) vary from state to state, but the process is similar regardless of location. Typically, one of the first things the executor must do is find the deceased person's will and file it with the probate court. The executor must set up a bank account for the estate in order to pay outstanding bills and, if necessary, collect funds. The executor must also locate assets, notify

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Celebrating A Milestone Anniversary

This July, our Chief Financial Planning Officer, Florence Dupont, celebrated her 20th anniversary at Financial Decisions. She originally joined the firm as a financial planning associate in June 1997. "Little did I know that by answering an ad in the New York Times the old-fashioned way – there was no online job advertising at the time - I would find a home and have the once in a lifetime opportunity to work with Linda Schoenthaler, one of the pioneers in financial planning, and one of the best mentors I could possibly ever have," she shared.

Soon joined by Kenneth Gutwillig, and then by Krystina Brown and Kimberly Ruscigno, Florence has expressed her pride in being part of the core team that has made Financial Decisions so successful.

When asked what motivates her each day, Florence credits the chance to make a difference in people's lives. Her main objective is to help our clients "create the lives they want and to make sure they thrive, financially and emotionally."

Florence has expressed that she is very grateful to Linda for giving her a chance, to Ken for his wisdom, to Krystina and Kim for their dedication, and of course, to our clients for their continued trust and support.

We look forward to many more years of successful financial planning under Florence's guidance!

Ken Gutwillig and Linda Schoenthaler

This Tax-Free Rollover Goes Right To Charity

The tax law provides a unique planning opportunity for retirees who have to take required minimum distributions (RMDs). You're allowed to transfer funds directly from your traditional IRA to a qualified charitable organization without paying any federal income tax on the distribution. Although the contribution isn't tax deductible, it does count toward your RMD for the year.

This tax break—sometimes called a "charitable rollover"—had expired and been reinstated several times. Thanks to the Protecting Americans from Tax Hikes (PATH) Act of 2015, however, the tax provision is now permanent.

Under the PATH Act, someone who's at least age 70½—the age at which RMDs must begin—can instruct an IRA custodian to move up to $100,000 of funds from that person's IRA to a favorite charity. A married couple can transfer up to $200,000, assuming they are both old enough to begin taking RMDs.

Can't you accomplish the same result by taking a taxable IRA distribution and then donating that amount to charity? Not exactly. There are several other factors to consider, including annual limits on deductions for donations to charity, plus potential tax return complications. What's more, the direct rollover is valuable to non-itemizers who aren't eligible to deduct charitable contributions. And this method is simpler.

There are, however, a few more details to consider with this approach. To qualify for the tax exclusion, the distribution must be made directly from the IRA trustee to a qualified charitable organization. You're not allowed to use the funds temporarily before transferring them to the charity's coffers.

In addition, the contribution must otherwise qualify as a charitable donation. If the deductible amount decreases because of a benefit received in return — for example, the value of a dinner at a fundraiser — or the deduction would not be allowed due to inadequate substantiation, you can't take the exclusion.

A bonus is that you're required to start taking RMDs in the year after the year in which you turn age 70½. If you take a charitable rollover, you can meet this obligation without paying the usual tax on an IRA distribution.

This tax law provision also applies to Roth IRAs, though it is generally not advisable to take this approach with a Roth. Roth IRA distributions to account holders over age 59½ are usually tax-free, so it doesn't make sense to use money that isn't taxed to make a donation that isn't deductible. Instead, you should consider making the charitable contribution from a taxable account, like a brokerage. You can then take a deduction for the donation. ●

How You Can Manage Risk Aversion

During the early part of 2017, the stock market was rolling merrily along, with the Dow Jones Industrial Average (DJIA) breaking through the 20,000-point barrier for the first time. But the "Trump bump" won't last forever and some prognosticators are forecasting eventual doom and gloom. In all likelihood, the stock market will continue to experience ups and downs, just like it has throughout its history.

Regardless of whether the market is going up or down, or staying relatively stable, your portfolio should reflect your personal aversion to risk. Primarily, there are three types of risk to address in this overall philosophy:

1. Risk of loss of principal: This is the risk of losing the money you initially invested. Say you buy a stock for $1,000 that jumps to $1,200 before it falls back to $900. If you sell the stock at that point, you will have lost $100 of principal.

2. Risk of loss of purchasing power: You may be willing to limp along with modest returns, but you're losing money if the inflation rate exceeds your rate of return. For instance, if you acquire a bank CD paying a 2% annual rate and inflation rises to 3.5%, you're losing 1.5% in the purchasing power of that investment.

3. Risk of outliving your savings: Is your investment plan overly conservative? Remember that the stock market historically has outperformed most comparable investments over long periods, although there are no absolute guarantees. Therefore, you're likely to fare better with a well-devised investment plan than you would if you stuffed your money under a mattress. Otherwise, you might outlive your savings, especially given recent increases in life expectancies.

Risk assessment surveys can provide some insights. Typically, an analysis will reveal that you tend to be

The Secrets Of Cost Basis - Revealed!

Before making a large purchase, you probably spend a lot of time analyzing the cost, and whether you are getting a good value for your money. When you sell an asset, it's important to make sure you know about **cost basis**, and what records both you and your financial institutions need to keep with respect to tax reporting. Understanding cost basis can save you money come April; misunderstanding it, though, can cost you a bundle.

The general concept of cost basis is simple. Calculating it is more complicated. Cost basis refers to the original price you paid for an asset—a house, for example, or stocks, bonds, ETFs, even mutual funds. Conceptually, by subtracting the cost basis from the sale price, you know how much profit you made and therefore can calculate any taxes you may owe.

But certain events or transactions that occur after purchasing an asset can affect your cost basis. With real estate, for example, you can raise your cost basis by making capital improvements to the property. If a homeowner builds a $150,000 addition, say, the cost basis of the home will rise by $150,000. Not all changes to a house affect the cost basis, though. Basic repairs do not count. Check with your tax advisor before assuming that your renovation will bump up your property's cost basis.

If you own investment property, the cost-basis calculation becomes even more complex. Investment properties are subject to depreciation, an accounting term that covers an asset's gradual loss of value because of age—and real-estate investors deduct depreciation from their income. When an investment property is sold, the depreciation is "recaptured," which affects both your cost basis and subsequent capital gains.

Here's a surprise: the cost basis of investments in stocks, bonds or mutual funds can change, too, making recordkeeping more complex and your taxable profits tougher to calculate. Your financial advisor can help you keep track. Here are five things that can influence the calculation and reporting of investment profits:

1. Length of ownership.

When you sell a security you've owned for a year or more, the profits are considered capital gains—and are subject to a lower tax rate than regular income.

2. Dividends, particularly when dividends are reinvested.

Many long-term investors request that their dividends be automatically reinvested. This is great for compounding your investment, but requires a lot of bookkeeping, as your account will hold shares acquired at many different prices. Since Jan. 1, 2012, financial institutions have been tracking cost basis for investors so any purchases after that time—including reinvested dividends—will be recorded, making your job much easier.

3. Stocks or mutual funds that were gifted or inherited.

The good news is that inherited shares receive a "step-up" in cost basis, which means that, as an heir, your cost basis becomes the value of the securities when you inherit, not when they were bought. In contrast, shares you receive by gift keep their original basis.

4. Stocks that split.

Some corporations "split" their stock when it becomes very valuable, in order to make the stock easier to trade. When the stock splits, a shareholder will own a larger amount of shares at a lower value; the owner of 500 shares, after the split, will own 1,000 shares. This requires extra bookkeeping. The original cost basis is now split between the 1,000 shares.

5. Shares purchased before Jan. 1, 2012.

If you bought securities before that date, your financial institution is not required to provide cost basis information.

Investors need to know the cost basis of their securities for three reasons—to understand whether or not their investments are profitable, to employ tax planning strategies, and to calculate the taxes owed after a sale. It is an investor's responsibility to keep track of the dates of purchase, the purchase price, and any other factor that would affect your taxes when the asset is sold.

Knowing your cost basis allows you to make decisions to minimize taxes before you sell. If you have bought a stock over time and want to reduce your holdings, you may be able to sell the highest cost basis shares first—that is, the ones with the least amount of taxable profit. You could consider gifting or donating low basis stock, to avoid being taxed on the gain entirely. You may even have some shares to sell at a loss, which can offset other investment gains or even a small amount of regular income (up to $3000 per year). We are happy to discuss how these strategies can minimize the tax impact of diversifying your portfolio. ●

either a conservative, moderate, or aggressive investor, within certain ranges. Your portfolio should reflect this characterization.

If you indicate a more conservative bent, it is important to fine-tune your investments accordingly, taking into account asset allocation and diversification methods. Again, these strategies do not offer any guarantees, nor do they protect against losses in declining markets, but they remain fundamentally sound.

Other potential ideas are to weight your portfolio more heavily to bonds than you did in your younger days. The technique of "bond laddering," with bonds maturing at different dates, is a variation on this theme. Similarly, conservative investors may emphasize dividend-paying stocks and blue chips, as well as mutual funds offering diversification.

Every situation is different. Reach out to us to address your specific concerns. ●

What Would Estate Tax Repeal Mean?

If President Trump and the Republican-led Congress get their way, the federal estate tax will be repealed. This could be good news for wealthy families that were facing a hefty estate tax bill in the near future. However, if certain changes accompanying the estate tax repeal are also enacted, other families may encounter an unpleasant income tax surprise.

Normally, an unlimited marital deduction shields transfers between spouses from federal estate and gift taxes, while a separate, finite exemption shelters gifts and bequests to other beneficiaries, including your children. The current exempt amount, which is indexed for inflation, is \$5.49 million in 2017. The top tax rate on additional amounts is 40%.

In addition, heirs can benefit from a "step-up" in basis when they inherit investment assets—they're valued on the date of death rather than what was paid for them. So if someone acquired securities for \$1 million and they were worth \$5 million when that person died, the beneficiary's adjusted basis for income tax purposes is \$5 million. The \$4 million of appreciation that occurred before the death would avoid income tax!

Assuming the estate tax is repealed effective for 2017, there would be no federal estate tax burden for estates worth more than \$5.49 million. However, under the latest proposals, Congress also would eliminate the step-up in basis (with a \$10 million exception for farms and small business interests), and that could result in income tax consequences for many families.

Returning to the example of leaving \$5 million of assets with a basis of \$1 million to non-spouse beneficiaries, no estate tax would be due under the current law, thanks to the \$5.49 million exemption. But under the proposed reforms (and barring any exemptions), if beneficiaries carry over the basis on those shares and sell the assets for \$5 million, they will have a taxable gain of \$4 million, subject to the prevailing tax rates for capital gains.

Of course, this is just a hypothetical example and other rules (e.g., a \$1 million exemption) could apply, but the potential for major income tax liability is real. Also, state estate taxes may still be a factor. Once it becomes clear whether estate tax reform will be enacted, and what shape it will take, we can review your estate plan and help you map out a strategy. ●

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government agencies and any pension or insurance plans and close credit-card accounts. If the deceased person had a business, the executor is responsible for overseeing a smooth transition or sale. Property will have to be managed, appraised and potentially disposed of to pay debts, and relatives with unrealistic expectations may have to be dealt with diplomatically.

The executor is typically empowered to hire experts—such as an attorney, appraisers, an accountant and an investment advisor—who will be paid by the estate. Appraisers can determine the value of businesses, collections, boats and other assets. An attorney should be involved in the probate process, as well as in filing any estate tax returns if needed. An accountant can help with any tax issues and file the deceased's income taxes. The financial advisor can manage the investment portfolio until it is distributed; probate can take a long time.

While executors are entitled to a fee, sometimes a friend or family member serving in this role will waive it. However, your executor may prefer to collect the fee, especially if he or she is stepping away from job responsibilities to handle the estate. People with sizeable estates or complex family concerns may want to engage a banker or attorney to serve as executor or co-executor. This can be a pricey alternative that eats into the final value of an estate, but also alleviates anxieties.

If a friend or family member asks you to be their executor, think carefully before you agree to take on this important role. If you would want to be paid by the estate, say so. If you don't get along with certain people who will inherit, you could ask for a partner as a co-executor, so that person can handle relationships that are difficult for you. Also, in case you are not able to serve when called upon, make sure that the will names a secondary executor as backup.

One of the greatest gifts you can give your heirs is to have a solid will or estate plan in place and a carefully chosen executor capable of fulfilling your instructions and legal obligations. ●