The Wealth Advisor

Winter 2011

An Estate Planning Checklist

Estate planning is a task that people tend to put off since the topic can be unpleasant, however, avoidance of these issues can only result in difficulty for your heirs. No matter your age, here are some estate planning ideas you may want to accomplish this year if you haven't already.

Create a will if you don't have one. Who doesn't have a will? You might be surprised. Some tremendously wealthy people, for instance Pablo Picasso and Howard Hughes, have passed away without leaving a valid will. A recent Lawyers.com survey of 1,022 Americans found that just 35% had wills and only 18% had some kind of trust.[1] A solid will drafted with the guidance of an estate planning attorney may cost you more than a will-in-a-box from a stationary store, but can prove to be some of the best money you ever spend. A valid will can save your heirs from the expensive headaches linked to probate and ambiguity.

Complement your will with related documents. Depending on your estate planning needs, this could include some kind of trust (or multiple trusts), durable financial and medical powers of attorney, a living will and other items.

You should know that a living will is not the same thing as a durable medical power of attorney. A living will makes your wishes known when it comes to life-prolonging medical treatments, and it takes the form of a directive. A durable medical power of attorney authorizes another party to make medical decisions for you (including end-of-life decisions) if you are unable.

Review your beneficiary designations. Who is the beneficiary of your IRA? How about your 401(k)? How about your annuity or life insurance policy? If your answer is along the lines of "Mm … you know … I'm pretty sure it's…" or "It's been a while since …", then be sure to check the documents and verify who the designated beneficiary is.

When it comes to retirement accounts and life insurance, many people don't know that beneficiary designations take priority over bequests made in wills and living trusts. If at one point you named a child now estranged from you as the beneficiary of your life insurance, he or she will receive the benefit when you die - regardless of what your will states.[2] Time has a way of altering our beneficiary decisions which is why some estate planners recommend that you make a point to review your beneficiaries every two years.

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To provide comprehensive wealth management solutions tailored to meet the unique needs of our clients that emphasizes value added services aligned with our clients' best interests. We are committed to our clients' success.

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The Prosperity Consulting Group, LLC
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The Bush-Era Tax Cuts Live On

With the President's signature, most of them will remain in place through 2012.

After a 277-148 passage in the House and an 81-19 approval in the Senate, President Obama signed the 2010 Tax Relief Act into law on December 17, extending the Bush-era tax cuts.[1] Here are just a few of the ways this new legislation could impact you:

Current federal income tax rates are preserved for everyone. The federal income tax brackets will remain at 10%, 15%, 25%, 28%, 33% and 35% for 2011 and 2012.[2]

Unemployment insurance extends for 13 more months. This is retroactive, so the federal extension of long-term jobless benefits applies from December 2010 through December 2011.[2]

A payroll tax holiday occurs in 2011. The payroll taxes that employees pay will drop from 6.2% to 4.2% next year. (There will be no payroll tax cut for employers in 2011, only employees.) As envisioned, this will result in a savings of about $1,000 next year for a wage earner bringing home $50,000. This replaces the Making Work Pay credit.[3,4,5]

Estate taxes will be milder than at any time in the past 80 years. For 2011, the federal estate tax drops to 35%. The estate tax exemption rises all the way to $5 million. President Obama had earlier characterized these parameters as too generous, but he and Congressional Democrats ultimately accepted them.[2]

Tax breaks for middle-class and working-class families won't sunset. As a result of the new law, the child credit, the child and dependent-care credit, the EITC, and a $2,500 tax credit for higher education expenses will all be around in 2011.[5,6]

No marriage penalty. The new law wards off the comeback of the marriage penalty so that married couples may take a more generous standard deduction.[6]

Taxes on capital gains and dividends top out at 15%. Passage of the 2010 Tax Relief Act means rates will top out at 15% through 2012.[7]

Businesses may expense 100% of their investments in 2011. In fact, qualified investments made after September 8, 2010 and before January 1, 2012 are eligible for this bonus depreciation. In addition, 50% expensing will be available for qualified property placed in service during 2012, and so-called "long-lived" property and transportation property may be eligible for 100% expensing if it goes into service prior to 2013.[7]

The tax break for IRA gifts to charity returns. The IRA charitable rollover, as it was informally called, was much beloved by non-profits and IRA owners, but it went away in 2010. In basic terms, it allowed someone 70½ or older donate up to $100,000 in IRA assets annually to one or more qualified charities. This opportunity is back for 2011 – and the especially good news is that Congress included a special rule in the new tax bill allowing IRA gifts made in January 2011 to count for 2010.[8]

An AMT patch, of course. Congress decided it might as well take care of that. It passed an AMT (Alternative Minimum Tax) fix as part of the 2010 Tax Relief Act, thereby exempting about 20 million middle-income households from a potential $3,900 average leap in federal income taxes.[6]

What's the price tag of all this short-term tax relief? It is sizable. The federal deficit is projected to increase by about $858 billion over the next two years as a consequence.[5]

Citations.

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7 –tax.cchgroup.com/downloads/files/pdfs/legislation/bush-taxcuts.pdf [12/16/10]

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An Estate Planning Checklist Continued...

Create asset and debt lists. Does this sound like a lot of work? It may not be. You should provide your heirs with an asset and debt "map" they can follow should you pass away, so that they will be aware of the little details of your wealth.

• One list should detail your real property and personal property assets. It should list any real estate you own, and its worth; it should also list personal property items in your home, garage, backyard, warehouse, storage unit or small business that have notable monetary worth.

• Another list should detail your bank and brokerage accounts, your retirement accounts, and any other forms of investment plus any insurance policies.

• A third list should detail your credit card debts, your mortgage and/or HELOC, and any other outstanding consumer loans.

Think about consolidating your "stray" IRAs and bank accounts. This could make one of your lists a little shorter. Consolidation means fewer account statements, less paperwork for your heirs and fewer administrative fees to bear.

Select a reliable executor. Who have you chosen to administer your estate when the time comes? The choice may seem obvious, but consider a few factors. Is there a stark possibility that your named executor might die before you do? How well does he or she comprehend financial matters or the basic principles of estate law? What if you change your mind about the way you want your assets distributed – can you easily communicate those wishes to that person?

Your executor and any loved ones referenced in these documents should have copies of your will, forms of power of attorney, any kind of healthcare proxy or living will, and any trusts you create.

Talk to the professionals. Do-it-yourself estate planning is not recommended, especially if your estate is complex enough to trigger financial, legal and emotional issues among your heirs upon your passing.

Many people have the idea that they don't need an estate plan because their net worth is less than X dollars. Keep in mind, money isn't the only reason for an estate plan. You may not be a multimillionaire yet, but if you own a business, have a blended family, have kids with special needs, worry about dementia, or can't stand the thought of probate delays plus probate fees whittling away at assets you have amassed … well, these are all good reasons to create and maintain an estate planning strategy.

Citations.
1- financial-planning.com/news/Schenkman-lawyers-estate-2665998-1.html [3/1/10]
2- sfgate.com/cgi-bin/article.cgi?f=/g/a/2010/11/02/investopedia6151.DTL [11/2/10]

2010: The Financial Year in Brief

2010 was a very nice year on Wall Street. At the closing bell on December 31, the Dow Jones Industrial Average was sitting just eight points beneath a two-year high recorded two days earlier. The S&P 500 finished up 12.78% for the year and the Dow, NASDAQ and S&P all posted double-digit yearly gains. The Dow finished 2010 at 11,577.51, the NASDAQ at 2652.87 and the S&P at 1257.64.[1]

The economy grew, but instead of a V-shaped recovery we saw a shallow U-shaped one. The Fed did not touch the benchmark interest rate all year but did embark on another round of monetary easing. The unemployment rate stayed consistently above 9%. On Capitol Hill, you had the passage of health care reforms and the Dodd-Frank Act, the surprisingly easy extension of the Bush-era tax cuts, and a resolution to the estate tax question. The real estate sector stumbled along; mortgage rates fell remarkably before rising a bit at the end of the year. Consumer spending increased, though not impressively; inflation was barely on the radar. The bull market in commodities continued. Foreign economies struggled with problems much greater than ours.

1 - cnbc.com/id/40865401 [12/31/10]

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