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Seven Good Reasons To Create And Fund A Trust

Who needs a trust? Maybe a better question is: Who doesn't? Trusts can be an essential part of an estate plan for anyone who owns significant assets. Reasons for establishing and funding a trust may range from gaining protection from creditors to saving on taxes. A trust can also create a legacy.

There are many different types of trusts, some of which are revocable—you retain certain rights over trust assets—while others are irrevocable, requiring you to cede all control. And some trusts are complex while others are simple. Although every situation is different, consider these seven potential benefits of have a trust.

1. Avoiding probate. Assets distributed according to the provisions of your will must go through a process known as probate, governed by state law. In some states, this can be extremely lengthy and costly, especially if your will is contested. What's more, your will is open to public inspection—anyone can find out what you're giving to which beneficiaries. Assets transferred to a trust, however, are exempt from probate. When you die, the trustee of a trust can quickly—and privately—distribute your worldly goods to the beneficiaries you've chosen.

2. Protecting assets from creditors. Irrevocable trusts are often used to protect personal assets from creditors. That could be helpful if you (or your beneficiaries) work in a profession in which you might be sued or if you have large debts. But keep in mind that an irrevocable trust is permanent—you can't change your mind.

3. Deterring spendthrift family members. If you would like to leave assets to a someone—perhaps a young child or grandchild—you might be concerned about what will happen when that young person gets his or her hands on the money. A trust can include restraints that may deter profligate spending. For instance, you might set up a trust to dole out amounts at regular intervals, with a lump sum coming when a minor is mature enough to handle the wealth. Or you might impose specific requirements for gaining access to the funds—for example, completing a college degree.

4. Authorizing "dead-hand" control. This basically means that the conditions that a trust imposes will remain in effect after you've passed away. So, for example, that youngster might not finish college until years down the road. But maintaining this kind of control may not have the desired effect, or the trust could be subject to legal challenges if its conditions violate public policy.

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Tie The Knot For Retirement With A Spousal IRA

In most families, one spouse does better financially than the other. For example, if you stayed home to look after the children while your spouse worked full-time, you may not have accumulated as much money for retirement as your spouse.

But having a low income doesn't necessarily mean you can't make significant contributions to a retirement account. You and your spouse might consider a spousal IRA. If at least one of you has earned income, you both can contribute to a traditional IRA for your spouse as well, within certain limits, until the working spouse reaches age 70½.

The annual limit for IRA contributions is $5,500 or $6,500 if you're age 50 or older. That ceiling is effectively doubled for a spousal IRA—for example, if both spouses are 55, they can contribute a total of $13,000.

To qualify for a spousal IRA, you must:

- Be married;
- File a joint income tax return for the year of the contribution; and
- Together have earned income of at least as much as your total contribution to all IRAs.

Your contributions might be tax-deductible, but even if your income is too high to qualify for that tax benefit, you still can benefit from tax-deferred growth within the IRA.

Finally, you might opt for a Roth IRA—your contributions won't be deductible but distributions during retirement normally are tax free. And you don't have to take money from the account during your lifetime. (Eligibility is phased out for high-income taxpayers.)

Tax Rewards For Year-End Generosity

If you're looking for ways to cut your taxes before the end of the year, consider donating cash or property to a qualified charitable organization. Besides helping out a worthy cause, you can reduce your taxes for 2016, as long as you adhere to the rules. But there are several potential obstacles to overcome.

For starters, you generally can deduct the full amount of cash contributions to charity as long as the total doesn't exceed 50% of your annual adjusted gross income (AGI). (If you give more than that, you can carry the excess forward to future tax years.) Yet the IRS insists on strict recordkeeping for cash and cash-equivalent donations.

To claim a deduction, you have to be able to provide a bank record or a written communication from a qualified charitable organization, required for gifts of $250 or more. Such a notification must show the amount of the contribution, the date it was made, and the name of the charitable organization. And you need to have it in hand by the date you file your return or the date that it's due, plus any extensions.

Things get more complicated if you give gifts of appreciated property. Generally, such donations are limited to 30% of your AGI, with any excess deducted in future years. But if you donate securities that would have produced a long-term capital gain (on investments you'd held for more than a year) if you'd sold them, you can write off the property's fair market value (FMV) on the date of the donation. Otherwise, the deduction is limited to what you paid for the property.

Suppose you donate stock to a qualified charity in December. You acquired the shares for $3,000 two years ago and the FMV is $5,000 on the date of your donation. In this case, your deduction isn't limited to $3,000—you can deduct the entire $5,000, and you avoid paying taxes on the $2,000 that the shares appreciated.

Other special rules may come into play. For instance, if you donate artwork to charity, the art must be used to further the charity's tax-exempt function. So a gift to a museum that shows the art should qualify for a deduction.

Finally, keep in mind that most itemized deductions, including those claimed for charitable contributions, are reduced for high-income taxpayers under something known as the Pease rule. Your tax advisor can tell you more.

Charitable donations can be made through New Year's Eve and still qualify for a deduction in the current tax year. And if you make an online contribution on December 31 and charge it to a credit card, it still will count as having been made in 2016—even though you won't pay the bill until 2017. ●

5 Key Documents In An Estate Plan

To do a job right, you need the proper tools. And while each and every estate plan is unique, these five documents are often integral elements:

1. Financial power of attorney. This document authorizes an "attorney-in-fact" to act on your behalf in financial matters. The most common power of attorney, a "durable" one, remains in effect if you're incapacitated. Another variation, which is known as a "springing" power of attorney, transfers control to the designated person only if you're incapacitated.

The attorney-in-fact may have broad powers, able to buy or sell personal property, for example, or the role may be limited to specified tasks. This power of attorney expires when you die.

2. Health-care power of attorney. This also authorizes another person to make decisions on your behalf if you're unable to do so—in this case, involving medical care, carrying out your end-of-life wishes, and related matters. Here, the attorney-in-fact is typically your spouse, a child, or a sibling. Like a financial power of attorney, it may be broad or limited and expires at your death.

3. Living will. While a health-care power of attorney may authorize someone to help with end-of-life decisions, establishing what will happen when you're dying is the sole purpose of a living will. Depending on the laws of your state, you may be able to use a living will to say whether or not you want life-sustaining treatment if you are terminally ill or grievously injured.

Also depending on state law, a health-care power of attorney and a living will may be able to be combined into one document. In other states, a living will may supplement a health-care power of attorney, and both documents can be coordinated with other medical directives or proxies.

4. Trusts. There are many reasons

20 Questions On Required Minimum Distributions

Do you remember playing "20 Questions" as a kid? Here are the answers to 20 questions about required minimum distributions (RMDs). Most of this information comes from the frequently asked questions section of the IRS website.

Q1. What is an RMD?

A. This is the amount you're required to withdraw from your 401(k) plans, other employer-sponsored retirement plans, and IRAs.

Q2. Which plans do the RMD rules apply to?

A. The rules cover all employer-sponsored retirement plans, including pension and profit-sharing plans, 401(k)s, 403(b) plans for nonprofits, and 457(b) plans for government entities, plus traditional IRAs and IRA-based plans such as SEPs, SARSEPs, and SIMPLE-IRAs.

Q3. When do I have to begin taking RMDs?

A. The required beginning date (RBD) is April 1 of the year *after* the year in which you turn age 70½. For example, if your 70th birthday was January 1, 2016, you must begin taking RMDs no later than April 3, 2017. (April 1 is a Saturday.)

Q4. When do I have to take RMDs in future years?

A. The deadline is December 31 of the year for which the RMD applies. Thus, if you turn 70½ in 2016, you must take the RMD for the 2017 tax year by December 31, 2017.

Q5. How do you figure out the RMD amount?

A. Divide the balances in your plans and IRAs on December 31 of the prior year by the factor in the appropriate IRS life expectancy table.

Q6. Can I withdraw more than the required amount?

A. You can withdraw as much as you like; the RMD is the least you are allowed to take.

Q7. If I take more than the RMD this year can I withdraw less in a future year?

A. No. Each RMD is calculated based on the account balance and life expectancy factor for that particular year.

Q8. Do I have to take RMDs from all of my retirement plans?

A. Although you must calculate the RMD separately for each IRA you own, you can withdraw the total amount from just one IRA or any combination of IRAs that you choose. However, for employer-sponsored plans other than a 403(b), the RMD must be taken separately from each plan account.

Q9. What happens if I fail to take an RMD?

A. The IRS imposes a penalty equal to 50% of the amount that should have been withdrawn (reduced by any amount actually withdrawn).

Q10. How are RMDs taxed?

A. Generally, the entire amount of an RMD is taxable at ordinary income rates. The exception is for amounts attributable to non-deductible contributions to an IRA.

Q11. Are there any exceptions to the RMD penalty?

A. The penalty may be waived if you can show that the shortfall was due to reasonable error and you now have withdrawn the required amount.

Q12. Is an RMD subject to the net investment income (NII) surtax?

A. Distributions from retirement plans don't count as NII. However, RMDs *will* increase your modified adjusted gross income (MAGI), and a higher MAGI could result in NII tax liability.

Q13. Can I still contribute to my plans if I'm taking RMDs?

A. Yes. If you're still working and participating in a plan, you may qualify to continue your contributions.

Q14. Do I have to take an RMD if I'm still working?

A. Generally, you have to take RMDs from all employer-sponsored plans and IRAs. However, you don't have to withdraw an RMD from non-IRAs if you still work full-time and don't own 5% or more of the business.

Q15. Can an RMD be rolled into an IRA or other plan?

A. Absolutely not. Rollovers are prohibited.

Q16. Can an RMD be donated to charity?

A. Yes. Under a recent tax law extension, if you're 70½ or older you can transfer an RMD of up to $100,000 directly from an IRA to a charity without paying tax on the distribution.

Q17. What happens if I die before my required beginning date?

A. No distribution is required for the year of death. For subsequent years, RMDs must be taken from inherited accounts. A spousal beneficiary has greater flexibility than non-spouses, including being able to treat the account as his or her own.

Q18. What happens if I die after my RMD?

A. The beneficiaries of the accounts must continue to take RMDs under complex rules. Again, spousal beneficiaries have greater flexibility than other heirs.

Q19. Do the RMD rules apply to Roth IRAs?

A. No. You don't have to take RMDs from a Roth IRA during your lifetime. After your death, however, your heirs must take lifetime RMDs from the Roth.

Q20. When should I arrange my RMD?

A. The sooner, the better. Don't wait to get caught in a year-end crush. We can help with the particulars. ●

for creating and funding trusts. A trust could be used to prevent family squabbles or impose restraints on spendthrift family members. One variation, a living trust, often supplements a will because assets in the trust don't have to go through probate court proceedings.

Though there are myriad variations, all trusts are either revocable or irrevocable. With a revocable trust, you retain control over the assets. Yet while that's not the case with an irrevocable trust, this type of trust can protect assets from creditors and remove them from your taxable estate.

5. Will. Last but not least is your will, which establishes how your assets will be distributed after you die and who will have custody of any minor children. You also could use it for other purposes such as making charitable donations and creating trusts.

If you die without a will—"intestate," in legal parlance—the laws of your state will determine who gets your assets and assumes guardianship of young children. As the centerpiece of your estate plan, this is definitely one tool you can't be without. ●

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Create And Fund A Trust

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5. Shifting responsibility for your investments. Usually, when you're investing for yourself, you shoulder most of the responsibilities. But transferring assets to a trust and placing them under the control of a trustee can relieve you of that burden. The trustee, who must meet certain fiduciary standards, then becomes responsible for managing the portfolio of trust assets and other property in the trust. Establishing a trust may also be a way to consolidate some investments.

6. Meeting charitable intentions. You can use a trust to direct donations to a charity both while you're alive and after your death. With a charitable remainder trust (CRT), your family can receive regular payments during your lifetime, with the remainder of the assets going to the charity when you die. A charitable lead trust (CLT) reverses that equation, providing current income to a charity and then directing the assets that remain at your death to your beneficiaries. In either case, establishing the trust is likely to reduce your taxes.

7. Saving estate taxes. A properly structured trust can maximize the available estate tax benefits on both federal and state levels. Federal law allows an unlimited marital deduction for transfers between spouses and a generous estate tax exemption ($5.45 million in 2016) for other transfers. Trusts can also utilize your generation-skipping exemption as well as providing future tax protection of your heirs.

There are other reasons why you might utilize a trust, but these seven are among the most common. What about you? Consult with your estate planning advisors to see which type of trust, or combinations of trusts, might best suit your needs. ●