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7 Financial Steps Forward In A Second Marriage

Marrying again after divorce or the death of a spouse may offer great personal benefits. But it also can lead to financial complications, especially if you have children from your first time around.

However, the blessed event doesn't have to be ruined by family squabbles. Discussing matters openly and deploying a range of estate planning strategies can help you develop a plan that meets your needs. Here are seven steps to help move you along:

1. Open the lines of communication. Before you tie the knot, be up-front about your concerns and preferences. Talk to each other about your intentions and how you expect to pass along assets to other family members, including any children and grandchildren. You might find it helpful to include an impartial person, such as your financial advisor, to "broker" the talks.

Consider this checklist of points to discuss:

- Existing financial obligations (for example, a promise to pay for a grandchild's education);
- Plans for future support and funding for retirement;
- Guardianship of any minor children; and
- A prenuptial agreement protecting your personal interests.

2. Conduct an inventory. Now is a good time to compile a list of your assets. This may include: stocks, bonds, mutual funds, and other investments; amounts that you've transferred to trusts; retirement plan and IRA funds; and proceeds that will be available from life insurance policies. Also, review any agreements made during the course of your first marriage. For instance, if you were required to name your then- spouse as the beneficiary of your retirement plan accounts, you may have less flexibility than you thought.

3. Consider the variables. Not everything is cut and dried. It's up to you to decide which assets, if any, you will comingle with your new spouse's. Keep in mind, though, that the laws of your state also may come into play. For instance, in community property states, the law presumes that assets will be owned jointly. But most states mandate "equitable distribution," calling for property to be distributed fairly, but not necessarily equally. Also, you'll want to factor in your age and health status, as well as those of your spouse.

4. Pay attention to titles. The way that property is titled, both prior to marriage and after, can have a profound effect. For example, setting up accounts as joint tenants with rights of survivorship (JTWROS) will make it clear that assets will go directly to the other named person, such as your spouse, when you die. But if a title names you as the sole legal owner of assets, they'll pass to your estate and not

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What Are The Main Items On Trump's Tax Reform Agenda?

President Donald Trump is making tax reform one of the top priorities in the early days of his administration. Although there are no guarantees, some or all of his proposals may be approved by a Republican-led Congress, possibly with modifications. These are among the key items on the agenda:

- Replacing the seven-tier income tax rate structure for individuals with three brackets of 12%, 25%, and 33%.
- Eliminating some itemized deductions or limiting the dollar value of deductions claimed on personal returns.
- Reducing the top corporate income tax rate from 35% to 15%.
- Repealing the estate tax and replacing the step-up in basis for inherited assets with a carryover basis rule or income tax consequence at death.
- Repealing the 3.8% surtax on net investment income.
- Repealing the alternative minimum tax.
- Curbing the benefits of stretch IRAs.
- Providing immediate deductions for investments in businesses.
- Doubling the maximum Section 179 allowance from $500,000 to $1 million and revamping depreciation deduction rules.
- Revising tax benefits for child-care expenses, including a new deduction and tax-favored savings accounts.
- Implementing a one-time 10% repatriation tax for multinational corporations.

We will provide more details if and when any of these provisions are enacted into law.

Why Would You Take Your RMDs Sooner?

Is it time for you to begin taking required minimum distributions (RMDs) from your retirement plans? The rules for 401(k)s, other employer-sponsored plans, and traditional IRAs generally call for these payments to start after you reach age 70½ and to continue each year. But you don't actually have to begin RMDs until the "required beginning date" (RBD) of April 1 of the year *after* you turn 70½.

Nevertheless, you might bypass this respite. Why would you do that? Because you still must take another RMD later that year. Thus, you would be doubling up on payouts and have to pay more tax.

Although your savings in 401(k)s and traditional IRAs grow without being taxed along the way, you eventually must start receiving RMDs, taking one each year by December 31. These RMDs generally are taxed at ordinary income tax rates.

If you're still working and don't own the company you work for, you may be able to postpone withdrawals from an employer-sponsored plan with that company until you retire. But this exception doesn't apply to traditional IRAs.

The amount of the RMD is based on IRS life expectancy tables and the value of your accounts on the final day of the previous tax year. Your financial advisers or the financial company holding your account can provide assistance in computing the amount.

The penalty for failing to take an RMD is equal to 50% of the amount that should have been withdrawn (or the difference between the required amount and any smaller amount you did withdraw). For example, if you're required to take $20,000 and you're in the 28% tax bracket, the penalty for failing to withdraw is $10,000, plus you'll owe $5,600 in federal income tax on the distribution.

If you postpone your first RMD until the following year, you'll have to take two RMDs in that year. If you remain in the same tax bracket, that will double the tax you owe, or the extra payment may push you into a higher tax bracket. Going back to our example of an annual $20,000 RMD, you'll have to take two RMDs for a total of $40,000 in the following year. Suppose that $10,000 of the extra amount is taxed at the 33% rate. Your total tax bill on RMDs for that year comes to a whopping $11,700 (28% x $30,000 + $10,000 x 33%).

Furthermore, doubling up on RMDs increases the possibility you'll have to pay the federal surtax on "net investment income," and it could hike your state income tax liability as well.

As you approach your RBD, consider your options. In many cases, you'll be better off taking your first RMD in the year in which you turn age 70½, rather than the following year. ●

Tax Rewards For Charitable Trusts

Are you thinking of giving a large gift to charity? A charitable trust can help you satisfy your philanthropic goals, preserve wealth for your heirs, and collect tax breaks, all at the same time. One of the most popular of these is the charitable remainder trust, or CRT.

A CRT requires you to give up control over the assets that you transfer into the trust and it's irrevocable. There's no going back, so make sure this charitable vehicle suits your needs before you commit to it.

Typically, you will set up a CRT with a particular charity you want to support. The charity must be approved by the IRS as a tax-exempt entity. During its term, you (or another income beneficiary or beneficiaries that you specify) receive regular payouts. The CRT may last for terms of years or for your lifetime. Finally, when the trust ends, whatever is left—the remainder—goes to the charity.

There are three main tax advantages to this setup:

1. Regular income tax: You're entitled to a current tax deduction for the projected value of the remainder that will go to the charity at the end of the trust's term. Your tax adviser and charity officials can help determine the amount of your deduction.

2. Capital gains tax: If you transfer appreciated assets into the trust you won't owe any tax on the appreciation. And if the charity sells property from the trust and turns it into cash, you don't have to worry about capital gains tax then, either. But you pay income tax on the annual payments you receive.

3. Estate tax: When the remainder eventually goes to the charity at the end of the trust, those assets are removed from your taxable estate. So there aren't any estate tax concerns with a CRT.

Let's not forget that you'll be receiving annual income from the CRT.

Five 401(k) Options When You Leave A Job

If you have participated in a 401(k) plan where you work, you may have accumulated a tidy nest egg for retirement. But what happens to those funds if you switch jobs or retire? Typically, you will have at least five options:

1. Take a lump-sum distribution. If you have a pressing need for the money, you can arrange to have your investments sold and the proceeds paid to you in a single sum. However, beyond depleting your savings, this also may have negative tax consequences. Most or all of the money may be taxed at ordinary income rates, which can reach as high as 39.6%, and a large payout may result in other tax complications, including a 3.8% surtax on net investment income (NII).

And if you're younger than age 59½, you also may owe a 10% early withdrawal tax, unless an exception applies. You might not have to pay this penalty if you need the money for a divorce settlement or medical expenses, for example.

2. Arrange a series of payments. If your plan allows it, you might set up a system of periodic payments you receive on a monthly, quarterly, or annual basis. You also can simply withdraw money when you need it.

By taking distributions gradually, you spread out your tax payments and may pay less. For example, suppose that a lump-sum distribution would push you into the top 39.6% bracket—whereas with a series of payments, you may be taxed at a 35% rate or lower. This also could reduce your exposure to the NII surtax.

3. Roll over to an IRA. Another option is to transfer funds from a 401(k) to a traditional IRA in your name. As long as the rollover is completed within 60 days, you won't owe tax on the distribution, and you also won't be subject to the 10% penalty tax. In effect, you can take an interest-free loan from your savings for two months, although 20% of any money you withdraw will be withheld for potential taxes. If you repay the funds on time you can recoup that money when you file your tax return. If you miss the 60-day deadline, however, you'll owe income tax on the full amount.

A safer approach may be to use a trustee-to-trustee transfer, in which your funds go directly from the 401(k) to the IRA—your hands never touch the money—and there are no taxes.

If you roll over funds from your 401(k) to a Roth IRA instead of a traditional IRA, you'll owe tax on the amount of the conversion, just as if you'd transferred money from a traditional IRA to a Roth.

4. Roll over to a new 401(k). If you're changing jobs and your new employer provides a 401(k), you may be allowed to transfer your savings into a 401(k) account sponsored by the new employer. Your new company also might offer the option of converting to a Roth 401(k)—here, too, you would owe income tax on the amount you convert to a Roth account.

This kind of rollover also must be completed within 60 days to avoid tax liability. A trustee-to-trustee transfer may be your simplest choice.

In deciding where or whether to move your savings, you may want to compare the investment offerings of the various possibilities. For instance, you might opt to use an IRA if it provides more investment flexibility or better selections than you'd get in the new employer's plan.

5. Keep the funds where they are. Finally, your existing 401(k) might let you leave your money where it is. This option has been discouraged in the past, because you no longer work for the employer and might have concerns about access to your account, but recently it has become more common.

Once again, your preference may depend on the investment choices available through your plan. If you've had good success with the investments in your old employer's plan, you might decide to stay the course. At the very least, you can retain the status quo until you decide on your next step.

Of course, everyone's situation is different. Your financial advisor can help you analyze the particulars of each option so that you can make an informed decision. ●

It can be structured in one of two ways, which must be determined when you set up the trust. You can't change your mind later. Here are the two ways:

- **Fixed annuity method:** The CRT pays out a fixed dollar amount each year. So even if trust earnings fall, you'll still receive the same amount of money.
- **Percentage of assets method:** Another version, which is more common, is to base the annual payment on a percentage of assets. For instance, you might arrange to receive 6% of the value of the trust assets each year. Accordingly, your annual 6% payments generally will provide larger payouts over time, assuming the assets go up in value, but the amounts are based on market conditions.

In any event, the IRS requires you to receive at least 5% of the value of the trust each year and the charity's remainder value must be at least 10% to preserve the tax breaks.

This is just a brief overview of CRTs. For more information about this rewarding tax planning technique, reach out to your advisers. ●

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directly to your spouse.

5. Name your beneficiaries. If you're entering a new marriage you'll likely need to amend your existing will or replace it entirely. In particular, it's important to review the beneficiaries you've named for various assets in the will. Also, take a look at the beneficiary designations in documents for all of your retirement plans, IRAs, and life insurance policies. Those beneficiary designations take precedence over whatever may be in your will.

6. Show some trust. Your estate plan may include one or more trusts, which can be useful in transferring wealth to children of an earlier marriage while imposing some constraints on the recipients. Here are a few possibilities:

Bypass trust: This vehicle could be designed to provide income to a surviving spouse, with the remainder of trust assets going to other designated family members.

Q-tip trust: With a qualified terminable interest property (Q-tip) trust, a surviving spouse may receive income, but not principal, when the owner dies, with children receiving the remainder from the surviving spouse's estate.

Spendthrift trust: As the name implies, this trust can be helpful in restricting beneficiaries' access to assets until they reach a specified age or meet other requirements.

7. Don't forget about taxes. Last, but not least, it makes sense for both of you to consider how to minimize estate tax on the federal and state levels. That likely means use of the generous estate tax exemption ($5.49 million in 2017) as well as the "portability" provision allowing a surviving spouse's estate to benefit from the unused portion of a deceased spouse's exemption. Such provisions could be included in trust documents or other estate planning devices.

The second time around, it's more important than ever to seek expert assistance from your estate planning advisors. Don't hesitate to contact us. ●