ROSEMONT
FINANCIAL GROUP

Quarterly Newsletter
Gain Through Confidence

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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Trusts Are Great Technique To Use At End Of Year

Hello and thanks for reading the fall newsletter for Rosemont Financial Group. As we do most years, our fourth quarter newsletter focuses on some popular tax strategies to close out the year as well as some ideas and techniques to think about implementing as we move into 2017.

While not everyone has an immediate need for trusts (both personal and charitable), for some trusts are a great technique to limit personal taxes, help protect assets, and to assist in charitable giving. We have a great network of attorneys who can assist with trust work or just to be available for questions on top of the services we provide and questions we can answer.

With the year coming to a close, there is still time to get last-minute funding into your retirement plans. Most qualified plans through your employer (401(k)s, 403(b)s, and deferred compensation) must be funded by year-end to receive the credit for 2016, but remember that IRAs can be funded up until you file your 2016 return to receive the tax break.

Feel free to give us a call or send us an email with any questions that may come up between now and the end of the year. Enjoy the great fall weather, the start to the holiday season, and we appreciate you being a part of the Rosemont family!

What's The Truth About Probate?

Have you heard horror stories from families that had to suffer through costly, protracted probate proceedings after a relative dies? The possibility is very real, especially if a will is contested. Yet while it might turn into a nightmare, sometimes probate works like a dream. Before you take drastic steps to avoid probate, it's important to know what it's likely to involve.

The first thing to know is that laws concerning probate vary from state to state. In some states, the process may be quick, while in others it's likely to take a while.

Probate is the court-supervised process of distributing the assets of someone who has died, according to that person's will. Even when there's no will, however, assets usually still have to go through probate. Among the exceptions are life insurance proceeds, which normally can go to designated beneficiaries without passing through probate.

If there's a will and an executor, that person usually handles the probate process. When there's no will, the probate court will assign someone to assume those responsibilities. The person representing the person who has died will tally up and list the assets; pay outstanding debts, bills, taxes, and fees; and distribute the assets to beneficiaries according to prevailing laws. It may be helpful to hire an attorney to assist a court-appointed representative.

Probate proceedings are open to the general public. And even if an estate is relatively simple, probate can eat up time and money, perhaps delaying the distribution of assets that family members are counting on. And the last thing grieving family members are likely to want is to be caught up in interminable meetings and legal wrangling.

One way to avoid the hassles of probate is to establish a living trust and transfer assets into it. The contents of a living trust don't have to go through probate, and the amounts and recipients of bequests remain private.

Yet in some states, probate can work to a family's benefit, especially if an estate is relatively small or someone has died without a will. State law can lay out a blueprint for ensuring that the right people receive the property. In addition, it may be better for the family to have the estate bear the cost of the probate process. The laws in some states include provisions for a relatively fast, inexpensive resolution to probate that may be preferable to using a living trust or other complex arrangements.

Your financial advisor and your attorney can explain the laws in your state and help you decide how to proceed. ●

4 Year-End Strategies For Investors

The end of the year is a great time to assess your current investments from both a tax, and a financial perspective. Depending on your situation, you might rely on four key strategies to improve your tax picture for 2016:

1. Capital loss harvesting: Capital losses can offset taxable capital gains, and if your losses for the year exceed your gains, you can use the excess to offset up to $3,000 of highly taxed ordinary income, such as the salary from your job. If you still have an excess loss, you can carry it over to use in future tax years.

This presents some tax planning opportunities at the end of the year. For instance, if you've already realized a short-term capital gain that will be taxed at ordinary income rates, you could sell a holding at a loss to offset all or part of that gain.

2. Capital gain harvesting: On the flip side, you might use an existing loss on a securities sale to absorb the potential tax from a capital gain. For example, if you've taken a loss, you might harvest a short-term capital gain that otherwise would be taxed at ordinary income rates.

If you have a long-term capital gain (from selling an investment you've held longer than a year), you benefit from a maximum tax rate of 15%, even if you're in the regular 25%, 28%, 33% or 35% bracket. Those in the top 39.6% bracket pay a maximum 20% rate on long-term capital gains. And investors in the two lowest brackets of 10% and 15% pay 0% on long-term gains.

3. Wash sales: Under the wash sale rule, you aren't allowed to deduct a capital loss on the sale of securities if you acquire substantially identical securities within 30 days of the sale. For instance, if you sell mutual fund shares at a loss and buy back shares of the same fund two weeks later, you can't claim the loss.

16 Tax-Saving Moves To Make At The End Of ‘16

The national elections in November could result in political changes and legislation that might affect tax planning in 2017 and beyond. For now, though, it pays to focus on ways to reduce tax liability before the end of this year. Consider these opportunities:

1. Give cash to charity. If you keep the proper records, you generally can deduct contributions made as late as the last day of the year. But you’ll need to know about special rules that may limit your deduction.

2. Harvest capital losses. If you sell securities at a loss before year’s end, you can use those losses to offset your gains on other sales—including profits on assets you’ve held a year or less, which are taxed at full income rates. Excess losses can offset up to $3,000 of ordinary income, and you can carry forward additional amounts to future tax years.

3. Use your capital gains. Gains you’ve already realized could be absorbed by your losses, and profits on shares you’ve held more than a year qualify for long-term capital gain treatment, with a maximum tax rate of only 15%, or 20% if you’re in the top ordinary income tax bracket.

4. Maximize the 0% rate. Even better than the usual 15% or 20% maximum tax rate, you can benefit from a 0% rate on long-term capital gains up to the top of the 15% tax bracket. If you’re in a low-tax year (perhaps because you’ve suffered a business loss), this can let you take profits painlessly.

5. Minimize the NII surtax. The 3.8% surtax applies to the lesser of your net investment income (NII) or your modified adjusted gross income (MAGI) that exceeds $200,000 for single filers and $250,000 for joint filers. Consider taking steps to reduce your NII and MAGI to limit or eliminate this tax.

6. Buy dividend-paying stocks. Most dividends are taxed at the same preferential tax rates as long-term capital gains. However, to qualify for this tax break, you must meet a 61-day holding period.

7. Avoid wash sales. Under the rule covering these sales, you can’t deduct a loss from selling securities if you acquire substantially identical shares within 30 days. To avoid this rule, you simply could wait at least 31 days to acquire similar securities.

8. Convert to a Roth IRA. If you have funds in a traditional IRA, you might transfer the funds to a Roth. Future Roth distributions are generally tax-free. You could string out taxable conversions over several years to reduce the tax bite.

9. Boost 401(k) contributions. Increasing deferrals to a 401(k) plan reduces your taxable income. There’s a generous $18,000 deferral limit in 2016 ($24,000 if age 50 or over). Assets in your account compound on a tax-deferred basis.

10. Withdraw RMDs on time. If you are over age 70½, you generally have to take required minimum distributions (RMDs) from employer retirement plans and traditional IRAs each year. There’s a penalty of 50% of the required amount if you miss the December 31 deadline.

11. Donate stock to charity. Giving appreciated stock to charity normally gives you a deduction of the fair market value of property you’ve held more than a year—letting you avoid tax on your gains.

12. Beware the AMT. The alternative minimum tax (AMT) uses a complex roster of adjustments and tax preference items to snare many high-income investors. Postponing some preferences to 2017 could help you cut or avoid the AMT.

13. Bunch medical expenses. Generally, you only can deduct medical expenses that exceed 10% of your adjusted gross income (AGI) in 2016 (7.5% of AGI if you’re 65 or older). If you might clear that threshold this year, consider adding elective services or procedures to increase your deduction.

14. Shift income within the family. If you transfer taxable investments to a lower-taxed family member, the family may save tax overall. However, investment income above $2,100 received by a young child in 2016 generally is taxed at the parents’ top tax rate.

15. Use installment sale method. Generally, you can defer tax on the sale of real estate if you receive payments over two years or longer. That also could reduce the effective tax rate by keeping you below the thresholds for capital gains and the 3.8% surtax.

16. Be generous around the holidays. Finally, you can give each family member up to $14,000 in 2016 without paying any gift tax. Using this annual exclusion reduces the size of your taxable estate. ●

In this case, all you have to do is wait at least 31 days before buying comparable securities. Alternatively, if it makes financial sense, you could buy the new shares right away and wait at least 31 days before selling the original shares.

4. NII tax: You could owe an additional 3.8% surtax that’s applied to the smaller of your net investment income (NII) or the amount by which your modified adjusted gross income (MAGI) exceeds $200,000 for single filers and $250,000 for joint filers. The definition of NII includes most taxable income such as capital gains from securities sales.

To reduce your NII tax exposure, you might defer realizing capital gains until next year. And investments producing tax-free income, such as municipal bonds, are exempt from the NII calculation. ●

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 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. 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. ●

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. ●