ROSEMONT
FINANCIAL GROUP

*Quarterly*Newsletter
Gain Through Confidence

# Key Components Of A Post-Divorce Estate Plan

Even the best-laid plans can go astray if you get divorced from a long-time spouse. Especially if you go your separate ways after raising children and acquiring property together, your estate plan may need to be revised, and pronto.

Frequently, the main objective in a divorce is to keep assets away from the ex-spouse while preserving wealth for the children. But this can become complicated when one or more of the children are still minors. Typically, your kids will be next in line to receive assets under your will.

What are the potential problems? Although a divorce generally erases the rights of an ex-spouse under a will, property going to minors will be held in a conservatorship until the age of majority in the state where you reside—usually, age 18. And, if your ex-spouse is the conservator, he or she may have more control over your assets than you would have liked. A court will supervise the conservator, but that person still has considerable discretion over what happens to property.

Other problems may arise if a child doesn't have the financial knowledge and expertise to manage assets after reaching the age of majority. A good chunk of your accumulated wealth could be squandered through spending sprees or bad investments.

But you don't have to stand pat and just let things play out. You can update your estate plan by creating or modifying one or more trusts. You also might eliminate or revise other trusts that had your ex-spouse playing a pivotal role. If the trust allows it, you might simply replace your former spouse with another person.

With a trust that you create, you get to name the person you want to be in charge as the trustee. This person will be responsible for managing investments in the trust, distributing funds as needed, and other related financial duties. The trustee you choose should be someone you trust—a family member, friend, or a financial advisor or institution.

A trust may have one principal purpose—for example, to limit the ability of children to withdraw funds—or several, and a main goal may be to minimize taxes under federal estate tax rules (as well as state inheritance taxes in some cases). These five types of trusts could be helpful as part of your estate plan—but may need to be modified if you get divorced.

1. Revocable living trusts: You can be the sole trustee during your lifetime and designate a successor upon incapacity or death. Thus, you'll retain a high level of control while you're

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## *Best Wishes From Rosemont Financial For The Holiday Season*

Hello! Thanks for taking the time to read our fall newsletter. Like you usually read here, we love to comment on the recent weather and this year we had a very nice fall season in the Northeast. While that seems to be ending, we are on to the holiday season. If we don't see you, have a great Thanksgiving, hopefully spent with family or friends.

As you also usually read here in the year's last newsletter, we like to give some basic tips and thoughts on tax and estate planning. Look over the section on preserving tax benefits - many of the strategies there you may already use.

In light of the Equifax data breach, the article on "Grandparent Scams" is also very good. Remember, never email or text any personal information, especially your social security or account numbers. Keep an eye on your credit reports, and never give any personal information over the phone or by email unless you are certain who you are talking to. An added safeguard could be an identity protection service - they monitor credit scores, consumer reports, and make sure your social security number doesn't appear anywhere unusual. A credit freeze can be another, more extreme, safeguard.

Feel free to contact us about any of these topics and thanks for your continued partnership!

# Watch Out For "Grandparent Scams"

It started innocently enough. Bill Frielander picked up the phone one recent morning at around 10 am. The person on the line said, "Hi Grandpa, it's Jason." To Bill, the voice sounded close enough to his grandson's that he didn't worry. The two chatted amiably a few minutes about family and school and nothing else in particular.

But then "Jason" dropped the hammer. He told Bill that he had been in a drunk driving accident in a neighboring state. Someone else had been injured and Jason needed $1,950 to keep his name out of the records. An attorney who was supposedly advising him could make it all go away for that fee. But Jason said he needed the money right away and that he was afraid to tell his parents. And he asked that Bill not tell anyone else about it because he was ashamed.

Bill was almost convinced and ready to ante up. But when the caller requested the money, there was something about his voice that made Bill pause. He had his wife call Jason's personal cellphone from her own phone while Bill was still talking to the person asking for money. It turned out Jason was safely at home, hadn't left the state in weeks and had not been in any accident. When Bill confronted the caller with this information, the imposter quickly hung up.

Bill was fortunate that he didn't fall for this "grandparent scam," but many others haven't been as lucky. Scammers are able to find out personal information and sound enough like the people they are impersonating to be believable. They target elderly people and pull on their heartstrings with a story about needing cash in a hurry.

If you get a call that sounds suspicious, the worst thing you can do is to help out the caller by referring to other confidential information (for example, the names and locations of other family members). Here's what the Federal Trade Commission (FTC) advises:

- Resist the urge to act immediately no matter how desperate the caller's plight appears to be.
- Verify the person's identity by asking questions a stranger couldn't answer.
- Call a phone number for your grandchild that you know is legitimate.
- Check out the story with trusted family members or friends even if you've been told to "keep it a secret."
- Don't wire money, send a check or money order, or use an overnight delivery service or courier to get cash to your "grandchild."
- Finally, the FTC advises consumers to report the incident at ftc.gov/complaint or call 877-FTC-HELP. ●

# Five Steps When You Inherit Assets

During the next 30 years or so, an estimated $30 trillion is expected to change hands, and many offspring of older Baby Boomers may inherit a small fortune. Here are five practical suggestions for handling the windfall:

**1. Give yourself time to grieve.** If you're like most people, the loss of a loved one will come at an emotional cost. So you're probably not going to run out and buy a luxury car or book a cruise the day after the funeral. Allow yourself enough time for your grief to pass before you make any major decisions. Don't let your heart overrule your head.

**2. Consider the limitations.** Just because you've come into some money doesn't necessarily mean you'll be living on Easy Street. So try to resist the impulse to splurge on items you still can't afford. You might consider using some of the money for a one-time "treat" for your family and use the rest to invest for long-term goals.

**3. Pay down debt.** If you owe a lot of money, this could be a good opportunity to pay off some of your obligations. While you don't have to rid yourself of *all* of your debt—you might decide to keep your mortgage and perhaps a car loan—it could make sense to retire credit card and other debt that has high interest rates.

**4. Set goals.** In considering how to use your windfall, you might divide your objectives into short-, medium-, and long-term goals. For instance, in the short term you may decide to move to a bigger home. A medium-term goal might be to save money for a child's college education through a Section 529 plan. And a long-term objective for many is to secure a comfortable lifestyle in retirement.

**5. Create an estate plan.** If you haven't done this already, your

# 17 Year-End Moves To Preserve Your Tax Benefits

Barring any tax legislation that takes effect this year, your best overall tax strategy in 2017 is much as it would be in any year: To postpone receiving income that will be highly taxed and increasing deductions to offset current income. The less income you realize, the lower your bill. In that vein, here are 17 smart year-end tax moves to consider.

1. Harvest capital losses. If you sell securities at a loss before 2018, you can use those losses to offset gains from other sales—including those from selling stock or other holdings you've owned for a year or less. Those would otherwise be taxed at the high rates for ordinary income. Losses that exceed your gains can offset up to $3,000 of ordinary income, and you can deduct additional amounts in future tax years.

2. Harvest capital gains. Meanwhile, if you decide to take profits on securities you've owned for more than a year, the maximum tax rate on these long-term gains is 15%, or 20% if you're in the top tax bracket for ordinary income.

3. Max out on the 0% rate. Even better than the usual 15% or 20% tax rate on long-term gains, you can benefit from a 0% rate on long-term capital gains that applies to income in the 10% and 15% tax brackets. If you suffered a business loss this year or received less income than usual for another reason, there may be no tax pain on your long-term gain.

4. Buy dividend-paying stocks. Most dividends are taxed at the same favorable tax rates as long-term capital gains. However, to qualify for this tax break, you have to have held the stock for at least 61 days.

5. Watch out for the "wash sale rule." Under this rule, you're prohibited from deducting a loss from a securities sale if you acquire substantially identical shares within 30 days. The easiest way to stay out of trouble is to wait at least 31 days to buy similar holdings.

6. Minimize the NII surtax. A 3.8% surtax applies to 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, whichever is less. Keep those thresholds in mind as you consider ways to minimize your income for the year.

7. Give 'til it hurts. As long as you keep proper records, you generally can deduct charitable donations made as late as December 31, even if you use a credit card and aren't billed until next year. Special rules could limit this deduction.

8. Seek a Roth conversion. If you have funds in a traditional IRA, you could transfer the funds to a Roth IRA. You'll pay income tax on the amount you convert but future withdrawals are generally tax-free. So, you pay tax now to save later. Stretching out conversions over several years can reduce the tax bite.

9. Bulk up 401(k) contributions. By increasing deferrals to a 401(k) plan, you reduce your taxable income. For 2017, you can defer up to $18,000 ($24,000 if you're 50 or older). Your contributions accumulate without current tax.

10. Avoid RMD penalties. If you're over age 70½, you usually must take required minimum distributions (RMDs) from employer retirement plans and traditional IRAs each year. The penalty is 50% of the required amount if you miss the December 31 deadline.

11. Donate stock to charity. You can deduct the fair market value of stock donated to charity if you've owned it more than a year. That can be a good way to sidestep taxes on shares that have appreciated.

12. Sidestep the AMT. Certain types of "tax preferences" may increase what you owe under the alternative minimum tax (AMT) calculation. If it otherwise makes sense, try to postpone preferences to 2018.

13. Bunch medical expenses. Generally, you can deduct medical expenses only to the extent that they exceed 10% of your adjusted gross income (AGI). When possible, shift expenses to the tax year you expect to clear the AGI hurdle.

14. Shift family income. If you transfer taxable investments to a child taxed at a lower rate, your family may pay less overall. However, investment income of more than $2,100 received by a dependent child in 2017 may be taxed at your top tax rate.

15. Use the installment sale method. You can normally defer tax on the sale of real estate if you take payments over two years or longer.

16. Pay next semester's tuition. If you qualify, college tuition paid in 2017 may result in one of two higher education tax credits, depending on your situation. But these tax breaks are phased out for high-income parents.

17. Get in the holiday spirit. Finally, you can give each family member up to $14,000 this holiday season without owing any gift tax. Using this annual exclusion also reduces the size of your taxable estate. ●

windfall could provide an excellent opportunity to prepare for the eventual transfer of your own wealth, including the assets you've just inherited, to other family members. You might decide to establish a trust for the benefit of minors or make other arrangements to help ensure financial security for a surviving spouse or grandchildren.

Fortunately, you don't have to do all this on your own. With the help of experienced professionals, you can develop a plan that makes sense. Don't hesitate to contact us for assistance. ●

# How To Spell Estate Tax Relief

Here's an acronym you've probably never heard of: DSUE, pronounced D-Sue, it stands for deceased spouse's unused exemption, and it could be a crucial component of your estate plan.

Frequently, a plan relies on two key tax-saving provisions—the unlimited marital deduction and the unified estate and gift tax exemption. Under the marital deduction, a spouse normally doesn't have to pay estate or gift tax on any property transferred from a spouse. The estate and gift tax exemption covers transfers to your children or other non-spouses up to $5.49 million in 2017.

That means that a married couple together can transfer almost $11 million to others without a penny of tax liability. Even better, the exemption is "portable" between spouses—so when the estate of the spouse who dies first doesn't exhaust all of that person's exemption, it can be used by the estate of the second spouse.

Normally, an estate tax return has to be filed only if an estate is worth more than the maximum exemption. However, a return will also have to be filed to take advantage of DSUE.

Consider this hypothetical example. A husband died early in 2017 with assets valued at $8.49 million. He left $5 million to his wife and the other $3.49 million to their children. Thus, the amount of the DSUE—the $5.49 million exemption minus the amount given to non-spouses—is $2 million.

Now say that the wife dies late in the year with an estate valued at $7.9 million ($5 million from the husband and $2 million of her own assets). Thanks to DSUE, her estate can add that $2 million to the $5.49 million of her own exemption to cover her entire estate. Without DSUE, her estate would owe estate tax of 40% of $2 million, for an estate tax bill of $800,000.

Even if a surviving spouse remarries, he or she maintains the DSUE from the previous spouse. However, you can't use a DSUE from more than one spouse. So, if your second spouse dies before you do, your estate forfeits the DSUE from your earlier spouse.

Finally, keep in mind that the $5.49 million exemption gets higher every year to account for inflation, but the DSUE remains locked into the amount that was available when the first spouse died. ●

## A Post-Divorce Estate Plan

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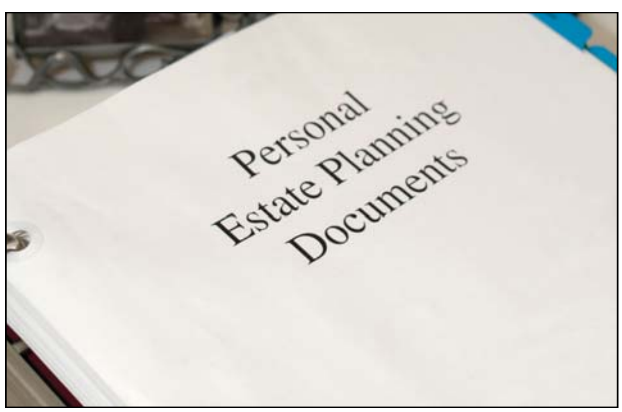
alive. You may sell trust assets, amend the terms of the trust, or revoke it entirely. Generally, the trust becomes irrevocable when you die.

2. Life insurance trusts: Life insurance proceeds paid out from a policy that has you as the insured person are exempt from estate tax only if you don't possess any "incidents of ownership" (for example, the right to change beneficiaries) in the policy. To avoid dire tax results, you could set up an irrevocable life insurance trust (ILIT) and transfer complete ownership of the policy to the ILIT.

3. Bypass trusts: As the name implies, a bypass trust (also called a "credit shelter trust") is established so that funds can bypass your spouse's estate on their way to your children. Because the trust effectively can use the full estate tax exemption for each spouse, it enables a married couple to transfer millions of dollars without paying any federal estate tax.




4. Q-Tip trusts: With a qualified terminable interest property (Q-tip) trust, a surviving spouse must receive all the income, but not principal, and the children can receive the remainder upon the surviving spouse's death. This trust is often used to defer estate tax until the second death.

5. Spendthrift trusts: This type of trust is designed to protect against creditors (including a spouse you have divorced or are divorcing).

Finally, you may also use a trust for your own benefits, in lieu of a prenuptial agreement, to protect your own interests in the event you remarry. ●