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FINANCIAL CONCEPTS INC
A MEMBER FIRM OF M FINANCIAL GROUP
Executive Compensation ■ Succession ■ Wealth Transfer Planning

Patrick J. McNamara, MSFS
President & CEO
pmcnamara@finconcepts.com

Kathy H. Barnett, CLU®, ChFC®
Vice President, Client Services
kbarnett@finconcepts.com

Kathleen M. Garber, CLU®
Vice President, Case Design
kgarber@finconcepts.com

24 Frank Lloyd Wright Drive
Suite 3050 H - PO Box 554
Ann Arbor, MI 48106-0554
Tel: (734) 214-9770 • Fax: (734) 214-9771
info@finconcepts.com

finconcepts.com

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How Charitable Giving Can Benefit Donors

Ann and Chris regularly set aside a small portion of their budget for charitable donations. In addition to feeling good about supporting a number of worthy causes, they've been able to deduct the value of their charitable gifts from their Federal income tax return. Now, the couple thinks it is time to make a larger charitable contribution. Their intention is to donate some stock they purchased years ago for $1,000 that has since increased in value to $50,000.

Before Ann and Chris move ahead, they realize that there are a couple of issues that need to be resolved. For instance, Chris is reluctant to make the donation because, by doing so, he realizes their children will not reap the benefits of the stock. On the other hand, Ann wants to make sure the donation is advantageous to both them *and* the charity. Upon careful review, the couple has come up with a plan that helps alleviate their concerns. Here's a closer look.

The first step for the couple is to address Chris's concerns. They can do this by purchasing a **life insurance policy** in an amount that is equal to the value of the stock—that is, $50,000. Through the life insurance, they can help ensure that their children ultimately receive a benefit that is generally commensurate with the value of the donated stock. They will increase their expenses because of the policy's premiums, but, as you'll soon see, donating the stock may actually help pay for the policy.

Next, the couple can address Ann's concern by donating the *actual stock* to the charity, rather than selling the stock and then donating the proceeds. There are two reasons for this decision.

First, if they sold the stock, they'd realize a gain of $49,000 ($50,000 - $1,000), that would, in turn, result in capital gains tax of $7,350 ($49,000 x 15%). Therefore, the couple's donation would be reduced from $50,000 to $42,650, if they choose to pay the tax from the proceeds. Or, they would need to cover the tax with other funds. By donating the stock directly to the charity, any appreciation in the stock's value is not taxed (either to the couple or to the charity).

Second, the income tax benefit generated by a deduction for a charitable gift is based on the **fair market value (FMV)** of the gift and the couple's Federal income tax bracket if the stock being donated is appreciated, qualified, publicly traded stock (if not, the amount eligible for the charitable deduction is limited to the cost basis of the property donated). So, assuming the couple is in the 24% Federal income tax bracket, a gift of $50,000 would result in

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Take the Long View for a Successful Retirement

You have worked a lifetime to reach retirement. But, planning does not come to an end when retirement begins. How you handle the various tax issues and regulatory pitfalls that you may encounter on the road to retirement can make a difference in the long-term success of your retirement strategy.

Here are some important concerns associated with retirement planning you may want to consider *now*:

Early retirement and early withdrawals. For many people, early retirement represents a lifelong dream. However, if you take withdrawals from your retirement vehicle savings before age 59½, you may be subject to a 10% Federal tax penalty. To avoid this penalty, you can elect to take your annual withdrawals in a series of substantially equal periodic payments. The payments must continue for at least five years, or until you reach age 59½, whichever comes later.

There are a few exceptions in which early withdrawals may be taken without penalty (e.g., death and disability). At 10%, the penalty tax can be significant, so it is important to plan accordingly.

Waiting too long. You must begin taking required minimum distributions (RMDs) from your traditional **Individual Retirement Account (IRA)** by April 1 of the year after you reach age 70½. (Distributions from an employer-sponsored qualified plan can be postponed until retirement if you continue working past age 70½, provided you are not an owner-employee.)

If you ignore the RMD or do not take out enough from your IRA, you may be subject to a 50% penalty tax. The tax will be incurred on the difference between what you should have taken out of your IRA and the actual withdrawal amount. Your minimum withdrawal amount is based on the previous December 31 balance, divided by your life expectancy (or the joint expectancy of you and your spouse, if applicable).

Working while receiving Social Security. If you receive Social Security and also continue to work, a portion of your benefits may be taxable. For more information, you can refer to Internal Revenue Service (IRS) Publication 915, *Social Security and Equivalent Railroad Retirement Benefits,* or consult with your tax professional.

You may also be subject to the so-called Social Security "give-back." The law requires a give-back of $1 for every $2 earned above $17,640 in 2019 for individuals who are between the ages of 62 and full retirement age and are receiving a reduced Social Security benefit. For the year in which an individual attains full retirement age, the give-back is $1 for every $3 earned in excess of $46,920 for 2019. Starting in the month in which the individual attains full retirement age, the give-back is eliminated. If you are under full retirement age and thinking about taking Social Security benefits while still working, it is important to understand the potential tax consequences and plan accordingly.

Where you live can make a difference. While some retirees prefer to remain in their community, surrounded by the familiarities of home and long-term friendships, others seek a fresh start in a new location with more cultural activities and recreational opportunities. Upon deciding where you would like to live in retirement, remember that each state has its own rules on income, estate, sales, and property taxation. Your tax professional can help you determine potential tax advantages and disadvantages of your retirement destination.

It's Not Over When Retirement Begins

Your retirement savings plan of building a nest egg over time will need to continue. You can benefit from maintaining a financial strategy consistent with your changing goals during your golden years. Consult your qualified financial and tax professionals for specific guidance according to your unique circumstances. ■

Dividing Your Estate: A Practical Approach

When planning the division of your assets, you may believe in a policy of "share and share alike." This is perhaps the easiest method to avoid conflicts or complaints of favoritism. But does *equality* necessarily equate with *fairness*? Especially when you consider such factors as age, talents, skills, interests, needs, and degrees of material success.

An alternate approach to estate equalization is a division of assets that recognizes and supports the uniqueness and differences in the abilities and needs of your children, even at the risk of creating conflict. Through your estate plan, you have a chance to provide a degree of thoughtful and calculated support that your children may not otherwise experience.

Let's look at the following scenarios:

1. Disparity in Age: Assume you have two children, ages 22 and 14. Should you split your estate in half, even though your 22-year-old son has a private school education and college degree, while your 14-year-old son has just started high school?

2. Income and Net Worth: Your daughter becomes a partner in an investment banking firm and quickly builds up significant assets, while your son becomes an artist who is dependent on the sale of his artwork to make a living. Should you leave your estate in equal parts to your son and daughter?

3. Previous Giving: You have given your 24-year-old daughter $100,000 worth of stock in your business as an inducement for her to work with you. You have not, however, given your 18-year-old daughter a similar gift. Should you still divide the assets in your estate equally?

4. Investments Given to Children: You have given one child stock in Company ABC that has risen in value to $300,000, and another child stock in Company XYZ, which has gone bankrupt. How should you then allocate the balance of your assets?

In all of the above examples, an equal division of property has the potential to create or perpetuate unequal results. Of course, you may choose to divide your assets equally; however, it's important to be aware of all your options in estate planning.

Listen First

There are ways for you to achieve more equitable results. First, communicate with your children. You may choose to speak with each child individually or hold a family meeting. (You may serve as proxy for your young children.) Help them to express their hopes, dreams, and expectations, as well as their concerns and frustrations. By listening, you may gain the valuable insight needed to divide your estate without causing undue conflict or resentment. The decisions may be difficult, but in the long run, your estate plan may provide a certain degree of thoughtful support for your children. ■

how charitable giving can benefit donors

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a decrease in their income taxes of $12,000 ($50,000 x 24%). On the other hand, a gift of $42,650 would only result in a $10,236 decrease in their taxes ($42,650 x 24%). In effect, donating the appreciated stock outright produces a greater current year tax deduction and results in a greater tax savings than selling the stock and donating the proceeds after taxes.

Ultimately, the money saved from the tax deduction can be used to help offset the costs associated with the life insurance policy. The end result truly is a "win-win-win" situation. The charity wins because it receives the full value of the stock, Chris and Ann win because they get a maximized charitable income tax deduction, and their children win because they eventually receive a life insurance death benefit that replaces some, or all, of the value of the stock.

Making the Most of It

If you would like to maximize the tax benefits of charitable giving, be sure to consult a qualified tax professional. There are some limitations on charitable giving based on the type of gift, the type of organization receiving the gift, and your **adjusted gross income (AGI)** for Federal income tax purposes. In addition, a charitable deduction is only available to taxpayers who itemize their deductions as opposed to taking a standard deduction. Nevertheless, the ability to receive an income tax deduction and possibly replace some of the donated wealth with life insurance makes charitable giving pay off for you *and* for the organizations you wish to support. ■

Keeping Tabs on Your Competition

To be successful in business, you have to stay on top of your competition. That holds true for large corporations and small business owners alike. By knowing what your competition is up to, you may be better able to position your own business.

When keeping tabs on your competition, there are three main areas to focus on:

Internet Research. The Web has made it infinitely easier to check out your competition. You can find out what the local competition is offering plus get big picture perspectives on trends in your particular industry.

Here are some useful ways to conduct online research:

1. Googling your competition is the first step. You will see links to company websites and possibly find out other interesting facts, such as previous business associations or civic involvement. If you visit regularly, you will keep informed of any special discounts, products or services your competition offers, which may stimulate you to think about how your business can expand and improve.
2. If your competition has a blog, read it religiously. Look for other content your competition may publish at other websites.
3. Follow your competition on social media sites, such as LinkedIn, Twitter, Instagram, and Facebook. Often, this is where new aspects of their business will be announced, even before it is added to websites. If possible, connect with your competition on these social networking sites. You can also set up alerts at these sites so you are automatically notified when something new related to your competition is posted.
4. Look for customer reviews of your competition at any online sites. You may also want to consider ordering the competition's products online to measure customer satisfaction.

Local Networking. It is also important to make a personal connection with your competition. Join any local business groups that your competition belongs to and attend meetings, or any kind of special event your competition may be hosting, like a seminar or open house, if appropriate. Be sure to get your company's name on the mailing list to receive new product catalogs.

Stay on top of your competition's marketing and advertising efforts—newspapers, Internet sites, radio, local TV, etc. Identify outlets where you could create a stronger public image than your competition.

However, instead of imitating your competition, think about how you can differentiate your business based on what you know. If the competition is discounting a product or service, then come up with a different type of special offer for new customer referrals. Ask your own customers about their preferences. Why are they doing business with you instead of the competition? Customers can be a great source of information.

The Big Picture. It is a good idea to periodically review your company's strategies to ensure a forward-looking perspective within the context of your industry. By attending conferences or events, joining professional trade associations, and keeping tabs on your competition, you can gain insights about emerging trends affecting your business. ■