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Leaving a Legacy

For millions of Americans, "charity begins at home." Many have decided to make a difference by donating money to local religious, educational, social, or cultural organizations. In addition to the immense satisfaction that comes from giving to others, charitable giving can provide tax benefits for the donor and his or her heirs when done as part of an overall estate plan.

Charitable Gifts of Life Insurance

Gifts of **life insurance** have unique advantages, including the following:

- The proceeds are generally received income- and estate-tax free by the charity.
- Under certain circumstances, the proceeds may pass to the charity outside the will, avoiding **probate** proceedings.
- In combination with a wealth replacement trust, assets may be kept intact for the donor's family, as described below.

Gifts of life insurance can be made in one of two ways:

- The **insured** is the owner of the policy, and the charity is the beneficiary. This arrangement is used when an insured/donor wishes to retain control over the insurance policy. Because the insured owns the policy at death, the death benefit will be included in his or her estate for tax purposes, but it will be 100% deductible, since it is payable to a charity. However, premiums are *not income tax deductible*.

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Maintaining a Healthy Credit Report

Your credit report is an accumulation of information about your bills and loans, your repayment history, your available credit, and your outstanding debts. These reports are typically used by lenders when deciding whether or not to accept a loan or credit application. A healthy credit report can help you secure the funding you need to purchase a new home or car, pay for a child's education, or start your own business. The following guidelines can help you maintain a healthy credit report:

Establish and maintain a good credit history. Your ability to pay off debt over time can help paint a more complete picture for a lender inquiring about your financial habits. Therefore, you may want to consider maintaining your oldest credit card. Credit companies often suggest that you also maintain a few accounts to demonstrate your commitment to managing multiple debt sources.

Close extra accounts. After receiving your new customer gifts offered by credit card companies, you may forget about these accounts. However, having numerous open accounts on a credit report may be a red flag to a lender, indicating that you could find yourself in financial danger due to the large amount of readily available credit. Consider closing any accounts that you do not use. This may also minimize your risk of identity theft. Remember, cutting up the credit card itself or simply not using it does not mean the account is closed. To officially close an account,

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- The **charity** is owner *and* beneficiary. Unlike the situation in which the insured retains ownership, the premiums are considered a charitable gift and may be income tax deductible to the donor according to Internal Revenue Service (IRS) guidelines.

If the donor gives an *existing* policy to a charity, the fair market value of the policy (generally, its full cash value) is allowable as an income tax deduction. The tax consequences of future premium payments for the gifted policy would be the same as the situation described above, in which the charity is both owner and beneficiary.

Charitable Remainder Trusts

If the prospective charitable donor is seeking a way to increase income, reduce estate and income taxes, avoid taxes on gains, and make a significant charitable contribution without reducing his or her family's inheritance, a charitable remainder trust (CRT) or a wealth replacement trust may be appropriate. A CRT can allow an individual to make a gift to a charity while retaining a current income interest in the gifted asset during his or her lifetime.

In general, it may be best to fund a CRT with an asset that, if sold outside the trust, would produce substantial long-term capital gains tax. After the trust is executed, the donor may transfer this appreciated, low- or non-income-producing asset to the CRT. The CRT can then sell the asset and provide the donor an income for life, for a term of years, or for joint lives. Upon the death of the donor or the donor's named non-charitable-income beneficiary, the remaining trust assets will pass to the charity. Here are some of the benefits of this strategy:

- When the trust is created, the donor may get a current income tax deduction based on the present value of the future amount passing to the charity.
- No tax on the gain is paid by the trust when it sells the asset, since the trust is exempt from such tax.
- The donor may get increased income, since the trust may invest in assets paying a higher rate of return than the contributed asset was producing, and the trust may have more to invest, since it doesn't pay tax on the gain.
- Estate taxes are reduced, since the asset placed in the trust has been removed from the estate.

After the donor's death, the remaining assets in the trust pass to the charity, not to the donor's heirs. However, the tax savings produced by the charitable donation and the income generated by the trust can be used to pay premiums on a life insurance policy owned by an **irrevocable life insurance trust (ILIT)—**sometimes known as a "wealth replacement" trust. The life insurance policy in this trust replaces the value of the assets that pass to the charity in the CRT. Since the life insurance is purchased and owned by the irrevocable trust, the proceeds are free of income tax, as well as estate tax.

There are a variety of charitable giving tools and techniques that can provide generous donors with certain tax benefits. For specific guidance, consult your qualified tax and legal professionals. $

Updating Your Will Can Contribute to a Relaxing Retirement

Whether you are decades or months away from retirement, it may be prudent to review your will whenever there is a significant change in your family circumstances or finances. To stay current, revisit your will at least once every five years to help ensure your estate tax strategies are on track, and that your assets will be distributed according to your wishes.

Seek Counsel

Legally, you could draft a will on your own. However, it is recommended that a will be drawn up by a lawyer. The reasons include the inherent complexity of estate planning and that states have different standards and often require specific language for a will to be deemed valid. If you draft your own, have your will *reviewed* by a lawyer so you can be assured that all statutory requirements are met.

A married couple may draft a will jointly or separately as individuals. Separate wills may help specify *who* owns *what* property. The portion of your estate covered by a will includes *tangible* assets, such as your home or car, as well as *intangible* assets, such as savings accounts held in your name. (Property owned jointly with right of survivorship will pass directly to the surviving owner, while other assets, such as life insurance death benefits, will automatically pass to your designated beneficiaries.)

Be Thorough

Whenever you update your will, the new document should include the date, a statement

revoking all previous wills, provisions for trusts (if any), names of guardians and alternates for minor children (if necessary), and specific bequests. A specific bequest calls for the transfer of *a particular piece* of property to a named beneficiary, while a general bequest does not specify from which part of an estate the property is to be taken. Be sure that the updated and signed document also includes your full name, a statement that the document is a will, and the names of the executor and substitute executor.

Once you have reviewed and updated your will, make copies for yourself and family members, or others who may need the information. Be sure the original is kept in a secure place, such as a bank safe-deposit box or lawyer's office. Also, make sure your family and friends know where the will is located. Once these tasks are completed, you can feel confident, knowing that your wishes will ultimately be fulfilled. $

Cover All Bases with Policy Ownership

Although many people think of **life insurance** planning as choosing the type and amount of coverage, a more complete analysis should include decisions about **policy ownership**. Ownership of an individual insurance policy can generally be transferred to anyone in or out of your family who is old enough to handle money. Depending on your circumstances, it may be advisable to give a policy directly to a beneficiary or, in the case of a minor, to a **trust** that is designed for the benefit of a child.

The paperwork involved in changing insurance policy ownership is relatively simple, requiring a form provided by the insurance company. You should be aware, however, that when you change policy ownership, you sign away all rights to your policy. That means the gift must be *absolute* and *irrevocable*. You cannot change your beneficiaries, and in the case of policies with a **cash value**, you no longer have the right to borrow against them or sell them.

For those in higher tax brackets, one option for sheltering large policies from estate taxes—and protecting the interests of beneficiaries who are minors—is to transfer ownership to an **irrevocable life insurance trust (ILIT)**. When you die, the **trustee** you designate distributes policy benefits to your beneficiaries or, if necessary, uses them to pay estate taxes.

Be sure to consult with a qualified insurance professional to meet all your objectives. $

Cash, Castles, Future Compensation—What's the Value of Your Estate?

Although you may not own a castle, do you know which of your "treasures" will be included in your estate? Federal estate taxes can take a chunk out of the assets you hope to leave your heirs—up to 40% in 2015. Federal estate taxes are generally due if the sum of your net taxable estate at your death exceeds your individual estate tax exemption ($5.43 million in 2015).

Regulations relating to the taxation of property owned at death contain a catch-all definition stating that the "gross estate of a decedent who was a citizen or resident of the United States at the time of his death includes the value of all property—whether real or personal, tangible or intangible, and wherever situated—beneficially owned by the decedent at the time of his death." What does this mean? The first step in understanding the potential implications of the Federal estate tax is to understand some of the major items that may or may not comprise your estate:

- **Personal assets.** Many people are aware that their personal property, savings, real estate, and retirement plans, as well as the proceeds of any life insurance policies they own, are included in their estates.
- **Rights to future income.** What may be less well known is that rights to *future* income, such as rights to payments under a deferred compensation agreement or partnership income continuation plan, may be includable in your estate. These rights are commonly referred to as "income in respect of a decedent (IRD)" and may be includable at their present computed value.
- **Business interests.** Likewise, interests in any business you own at death, whether as a proprietor, a partner, or a corporate shareholder, may be includable in your gross estate.
- **Social Security benefits.** The value of Social Security survivor benefits received as either a lump sum or a monthly annuity is not includable in your gross estate.

Stay Current

Estate planning can help *minimize* estate taxes and *maximize* the amount you transfer to your heirs. It is important to accurately itemize an inventory of your estate to project your potential liabilities, as well as to perform periodic reviews to make sure your plan is up to date. By developing strategies early on, you may be able to make the most of your tax-saving opportunities and make sure that your assets are distributed according to your wishes. $

You've Graduated: Now It's Payback Time

It takes four years, on average, to graduate from most colleges and universities. During that time, students can accumulate a large amount of debt. For most, the degree is worth the burden of paying off student loans long after graduation. However, these questions remain: How should the debt be repaid? Are there any plans that can help make payback easier? What if a student can't find a job right away?

Several options make it easier to pay off Federal student loans. For example, some plans offer flexible payment schedules. Students applying for a Federal student loan can choose a **graduated repayment plan** that will allow them to start with lower payments after graduation that increase every two years. This schedule is good for those graduates who are likely to make more money in the workplace as they acquire experience.

Students also have the choice of several types of **income-driven repayment plans**, which are designed to lower monthly payments. The payments under such plans vary, but generally they are based on a percentage of the graduate's discretionary income.

A third choice is an **extended repayment plan** that offers either fixed or graduated monthly payments and allows graduates to extend their loan payment schedules from the standard of 10 years to 25 years.

To save money over the long run, a graduate may opt for the **standard repayment plan**. It requires a loan to be paid in up to 10 years, but payments are of a fixed amount and interest on the loan is likely to be less under this plan than under some of the other plans.

Deferment or forbearance may also be a temporary option for graduates in a financial bind due to unemployment or other extreme hardship. In select situations, borrowers

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Preparing for a Small-Business Conference

Are you looking for an opportunity to network and acquire new techniques, strategies, and ideas that could benefit your small business? If so, consider attending a small-business conference. The following tips can help you get the most out of your next business conference:

Do your research. It's important to research the event before you register to make sure it's right for you. Find out who is hosting the conference to get an idea of what to expect. Once you decide on a conference, be sure to take a look at the schedule ahead of time to choose which sessions to go to. Undoubtedly, there will be some sessions you won't want to miss, so try to plan your day around them. In addition, if there will be key people attending who you would like to connect with, you may want to contact them in advance to coordinate schedules.

Plan ahead. Working on projects while you're out of the office can be difficult. So try to get as much done before the conference as you can, to avoid a stockpile on your desk when you return. If possible, assign your work to others, to maintain your productivity. Also, be sure to let your clients know in advance that you'll be traveling. Showing your clients consideration goes a long way. Inform them of your availability—or inaccessibility—while you're away; for example, tell them whether you'll be checking your email or voicemail a few times during the day, or not at all, during the conference.

Bring business cards. Whether you're attending the conference as a speaker, participant, or vendor, passing out business cards is an absolute must in conference networking situations. Bring plenty of cards with you. Remember, a good business card can help make a strong first impression. If your cards need updating, have them revised before the conference.

Pack smart. In addition to your business cards, here are a few other items to bring along:

- **Itinerary.** Keep travel documents with you, particularly your hotel confirmation, conference registration ticket, car service information, and a photo ID.
- **Wireless devices.** Most conference venues provide Wi-Fi access, so consider bringing a laptop, iPad, and/or smartphone with you for taking notes and staying connected with your colleagues back at the office.
- **Chargers.** Regardless of which mobile devices you bring, don't forget to also bring their chargers for optimal performance wherever you are.

Taking some time to properly prepare for a small-business conference before you leave can help free you up to make the most of your time there. $

You've Graduated: Now It's Payback Time

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may qualify for other repayment alternatives through their loan servicers.

Although students are required to repay loans even if they don't finish their education or are unable to find a job, in certain select circumstances loans are forgiven, canceled, or discharged. Examples include the following: your school closes while you are enrolled; you suffer a permanent disability; or you are a teacher who has taught in a low-income elementary or secondary school for five consecutive years (in this case up to $17,500 of your loans may be forgiven).

For students with multiple loan balances, **consolidating** different student loans is an option that offers flexibility. The Student Loan Reform Act of 1993 allows different Federal education loans to be consolidated into a direct consolidation loan from the government: the loans are brought together into one loan, with a single monthly payment. This plan offers a variety of repayment terms, and the interest rate of the loan is fixed for the life of the loan.

For more information, contact the Federal Student Aid Information Center at 800-433-3243, or visit online at www.studentaid.ed.gov. $

Negotiating a Lease for Your Business

Leasing commercial space is quite different from renting residential property. In general, commercial leases have far fewer consumer protections than commonplace residential leases. Therefore, it is especially important to negotiate and understand the terms of any commercial lease before you sign it.

In general, there are two types of commercial leases: "gross" and "net." A gross lease stipulates that the landlord is responsible for paying expenses such as utilities, taxes, repairs, insurance, and other costs. With a net lease, the renter assumes responsibility for all or some of these costs. Depending on the circumstances, you may prefer a gross or net lease. Before making a decision, be sure you understand all the costs involved.

Once you have chosen a lease type and found an appropriate property, it is time to hammer out an agreement. To start, landlords generally will present a preset-form lease. These forms may favor the landlord, so business owners are advised to review the lease carefully with their personal legal counsel and then earmark the areas that require negotiation. Before you begin lease negotiations, be sure to research the current rates and availability of commercial space in the area. Statistical information provides you with support for your negotiation terms.

Two of the most important elements of the commercial lease are the rent amount and the term (length of time) of the contact. These factors are to some degree intertwined. The length of your lease will likely influence the amount of rent to be paid. A longer term may mean a lower monthly payment.

It is important to keep in mind that a commercial lease is a binding contract that cannot be broken. If your business is location-sensitive, as a restaurant or retail store might be, a long-term lease may be preferable. On the other hand, a short-term lease may be desirable for your business if you anticipate future growth that would require relocation. For new businesses, whose future success is unknown, a short-term lease may be the most appropriate choice.

In some cases, with a short-term lease, you can negotiate an option to renew. With this option, you may also have to negotiate the cost of renewal. The landlord may expect a rent increase if the renewal option is exercised.

In addition to the rent amount and term of the lease, there are other items to consider:

- **Security deposit.** What amount is required for a security deposit? How and under what conditions will it be returned?
- **Improvements.** Will the landlord pay for building improvements, such as adding walls or lighting? Typically, the landlord owns these once they are installed.
- **Allowable signage.** Are you allowed to install necessary signs to draw attention to your business?
- **Repairs to building systems.** Will the landlord assume all responsibility for repair to systems, such as ventilation and heating? Even if you have a gross lease, be sure to reaffirm the landlord's responsibility for these costs.
- **Sublet rights.** Are you allowed to sublet all or part of the premises to another tenant?
- **Dispute resolution.** How will disputes be mediated, if necessary?

Before you sign a lease for your next commercial property, be sure to do your homework and consider all the factors involved in order to make the choice that is most appropriate for your business. $

Tips for Sealing the Deal When Lending Funds to Your Child

Have you ever considered lending money to help your child with a down payment on a new home, to bankroll a business venture, or for some other major expense? Many adult children seek financial assistance from their parents if they encounter difficulty securing a bank loan because they lack a credit history or collateral. Often, parents want to help their children succeed in life and are willing to give them a financial boost. In general, parent-to-child business loans tend to go smoothly. However, if a loan is not paid back as agreed upon by both parties, it could affect family relations. So, here are four points to consider before lending funds to your child:

1. Document the loan. If you expect the money to be repaid, consider treating the loan as seriously as a bank would by requiring the proper documentation. You must be able to demonstrate to the Internal Revenue Service (IRS) that you made a *bona fide* loan in order to deduct it as a bad debt. For tax purposes, request the following:

- A note and *written* loan agreement
- Collateral or other form of security
- A repayment schedule and repayment records
- A plan indicating that the loan will be repaid as scheduled
- Proof that a business was solvent when the loan was made, if applicable

Proper documentation may also help you avoid other complications. For instance, if your child were to divorce, a written loan agreement identifying who is responsible for repayment, and on what terms, could prevent a former spouse from refusing responsibility for the debt or claiming that the money was a gift. It could also keep an ex-spouse from obtaining—through the division of marital assets a controlling interest in a company you funded.

2. Know the rules. The IRS allows you to deduct bad debts only *after* you have tried to collect them by legal means, if necessary. So if you want to write off the loan, you must be prepared to take legal action to collect it.

If legal action is appropriate in your situation and you are still unable to collect the loan, you may write it off as a **short-term capital loss** by subtracting the outstanding loan balance from your total short- and long-term capital gain for the year. If the loss exceeds your total capital gain, you may deduct it in $3,000 increments each year until it is entirely written off.

3. Treat the bad debt as a gift. Instead of a lawsuit, you may have the option of treating the bad debt as a gift. In 2015, the IRS allows each taxpayer to give up to $14,000 per person per year free of gift and estate taxes. Thus, both parents together could offset an uncollectable debt with a combined gift of up to $28,000 per year with no tax consequences. (Any amount exceeding this limit may be subject to gift and estate taxes.)

4. Use common sense. Lending money to a child may have certain tax consequences for you, so it is important to consider the odds of a successful follow-through on your child's part. Think twice before lending money for a risky venture unless you are willing to part with it as a gift with possible tax consequences, if needed.

Helping a child to succeed in life can be an exciting and rewarding experience for a parent. But, be aware of potential tax traps and legal pitfalls *before* opening your checkbook, and remember to seek professional advice beforehand. $

Maintaining a Healthy Credit Report

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you must call or write to the company with your request.

Make the minimum payments. Delinquencies on payments remain on your credit report for seven years, even if you have since settled the account balance and paid the debt. Therefore, always try to make at least the minimum payments by the due date requested by the creditor or lender.

If you are in a tight financial situation and decide to ignore an account for a period of time, be aware that accounts sent to collection agencies or charged off by creditors (meaning the debt is written off as a loss) also remain on your credit report for seven years. So, if you are unable to make the minimum payments, you may want to contact your creditor, rather than ignore the problem.

Pay down and keep your debt in line with income. Determine your debt-to-income ratio by adding up the balances of all your loans and credit cards, and comparing that with the amount of income you receive annually. If your total debt exceeds your income, lenders may be hesitant to grant you more credit. If you have a large amount of debt, develop a strategy to pay it off gradually within your budget. In the meantime, curb excess spending and avoid further debt.

Control your number of credit inquiries. A large number of inquiries on your report may signal to a lender that you are in need of a lot of credit or are preparing to take on a large debt. Neither situation bodes well for your ability to take on additional debt. Keep in mind that each time you apply for a new credit card, even if it is only to receive a free gift, an inquiry will appear on your credit report and remain on your report for two years.

Opt-out of inclusion on marketing lists. While soft inquiries, those made by marketers and others wishing to sell you something, do not usually appear on the version of your credit report shown to lenders, these inquiries indicate that your personal information may be available and used by the companies listed, increasing your exposure to identity theft. Many marketers receive lists of potential customers directly from credit bureaus. You can "opt out" of being included on lists sold to these companies by either writing to each of the three credit bureaus or calling 1-888-5-OPT-OUT. Doing so will remove your name from marketing lists for two years.

According to the **Fair Credit Reporting Act (FCRA)**, you can request a free copy of your credit report from each of the three major credit bureaus (Equifax, Experian, and TransUnion) once a year. For your convenience, you can access all three agencies through a single website at www.annualcreditreport.com. To maintain healthy credit, monitor your credit report regularly and take actions toward building and maintaining good credit. $

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