SLG SCHWARTZ LAW GROUP, INC.

2013 Year-End Newsletter

November 2013

One size does not fit all in estate planning. A website with preset estate planning menus for you to navigate in the dark is as ineffective as tailoring your own suit. Untailored estate plans cause a variety of problems in the form of unnecessary taxes and related issues that can last for decades. That is why at SLG, we listen to you, work with you and design your planning documents to address your unique situation, so your plan fits like a custom-made suit. SLG is a comprehensive Tax and Estate Planning, Real Estate, and Business Law firm with over 40 years of practice experience.

Tailor-made plans for each client's business, properties, families, cars and even pets

SLG attorneys all have advanced degrees such as an LLM in Taxation or PhD and are graduates of prestigious law schools such as Indiana University, UC Hastings College of the Law and Georgetown University Law Center. SLG's senior tax attorney is a tax attorney alumnus of two of the largest U.S. law firms and a Certified Specialist in Taxation Law. At SLG, we use our extensive education and experience to think outside the box and highlight opportunities for our clients that they may not even know exist. We create comprehensive plans that leave less questions unanswered in the future. We take our time to get to know our clients' goals, desires and family dynamics so that we can craft personalized plans for each client's businesses, properties, families, cars and even pets (we are in Carmel after all).

Plan Now . . .

Review Periodically

Don't have a plan? Well, why not?! It does not matter if you are 38 or 83, implementing a structured and personalized plan today may have immediate and long-term tax advantages.

<u>The main planning documents that every person needs are</u>:

1. <u>Trust</u>: Think of this as a huge container that holds all your assets. You manage your assets during your life and the Trustee you appoint manages them after that for the benefit of whoever you designate and in the precise manner you instruct them to.

2. <u>Will</u>: We use a "pour-over" Will which acts as a safety net, placing any remaining assets at death into your Trust to avoid probate.

3. <u>Certification of Trust</u>: This has the basic information of your Trust in half as many pages. You show this document to the institutions that may require proof that you can act on behalf of your Trust.

4. <u>Durable Power of Attorney</u>: An accident short of death could leave you unable to manage your finances, real estate, business operations, estate planning, taxes or similar responsibilities. This instrument allows you to designate trusted people to act on your behalf in such an event rather than have the court appoint a Conservator.

5. <u>Advanced Health Care Directive</u>: This answers in advance most of the tough questions that could arise in the event of a serious medical emergency. Don't leave family members guessing at if you want life support prolonged, cremation, organ donation, any special requirements based on religion, etc. Answer those tough questions for them now.

The Fall of Wills and the Rise of Trusts

Trusts are not just for those on the cover of Forbes. A Trust avoids probate administration which can take months or even years before the beneficiaries receive the support you provided them.

Trusts give you greater control over assets even after death. Is Jr. a little behind the curve on acting like an adult? Is there someone in the family with a bit of a shopping habit and the credit card debt to show it? Maybe there is a family member who simply has special learning or medical needs. Or maybe you would like to leave some money to ensure your dog's comfort—although probably an amount short of the $12 million Leona Hemsley left to her appropriately named Maltese, "Trouble."

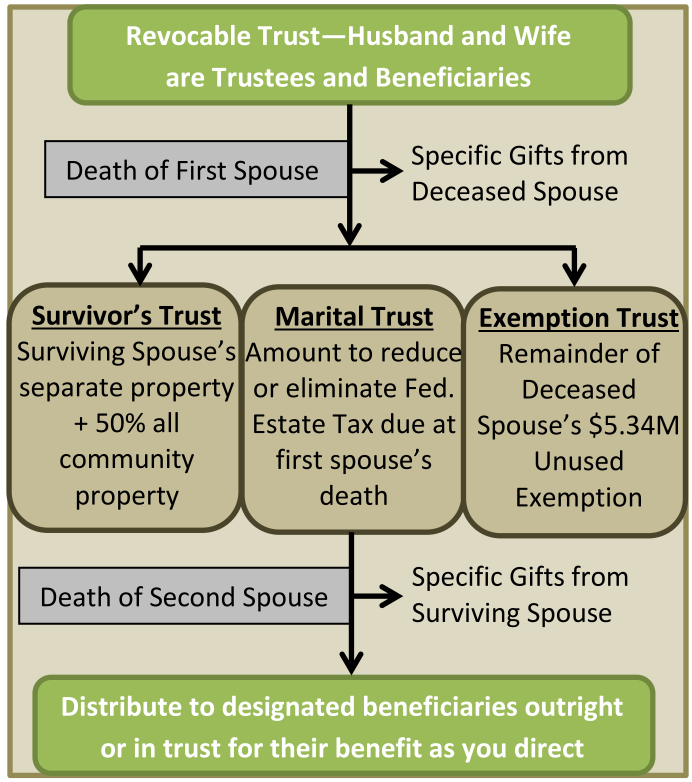
A Trust can address all of these issues and so many more—you can delay distribution of funds till Jr. abandons his rockstar dream, ensure you don't simply end up paying the creditor for those fur boots, create a financial support stream for someone with special needs and, yes, even create a pet honorary trust to ensure your fury friends are taken care of.

Further, we structure each Trust to transfer your assets in the most tax-efficient way possible. For a married couple not concerned about remarriage of their surviving spouse and with a more moderately sized estate, we may use a "Two-Trust Approach" allowing more flexibility. On the other hand, where these dynamics are not present we may instead use a "Three-Trust Approach" (pictured top right) for a married couple to ensure that tax recognition and the tax credits each person receives are aligned at the proper times to cancel the other out to the greatest extent possible so your tax bill is as low as possible.

Your Legacy

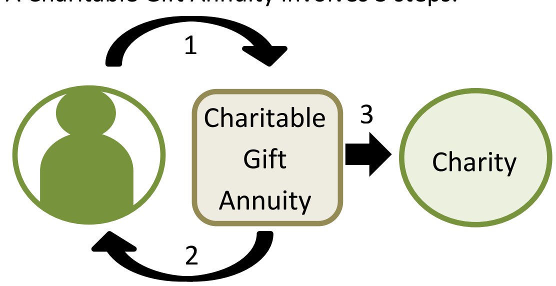
Charities play an important role in society and an important role in tax planning as well. Complex gifting techniques allow you to donate to a worthy cause and receive tax benefits at the same time. These benefits are available no matter if you are a casual donor or a serious philanthropist.

The simplest method, of course, is to gift property today for a deduction on your income tax return. You didn't need a lawyer to tell you that much. Have you ever considered a Charitable Gift Annuity though? Maybe this is the right option for you.

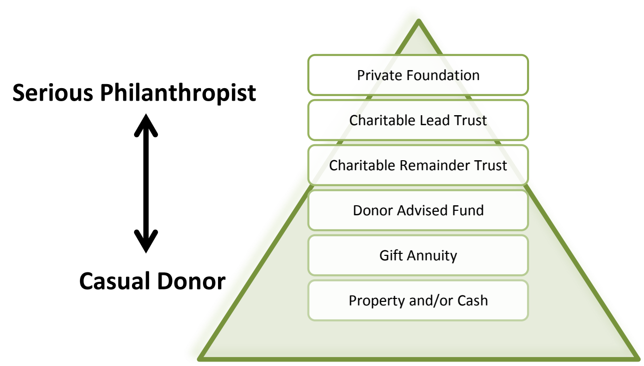


Charitable Gift Annuity

A Charitable Gift Annuity involves 3 steps:

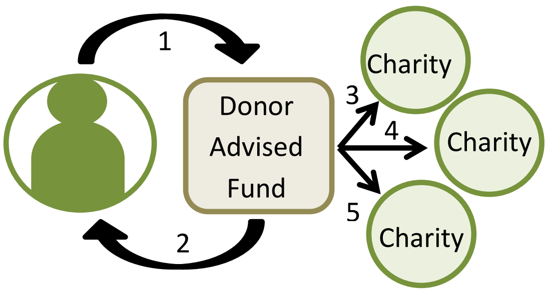


1. You make a gift of an asset
2. You receive a tax deduction and a fixed annual payment
3. The remainder goes to support the charity of your choice



Donor Advised Fund

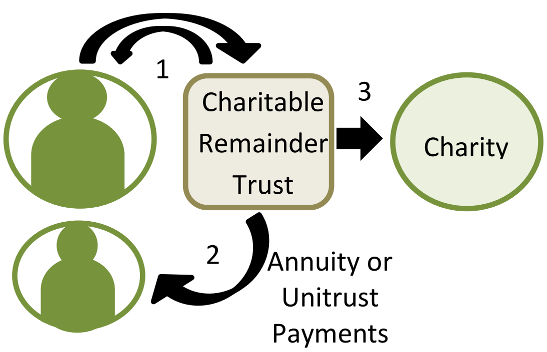
A Donor Advised Fund allows you to control the timing in which your gift is distributed and contribute to multiple charities. All this and you still receive an up-front income tax deduction.



You can avoid capital gains tax on gifted assets and take a present income tax deduction to offset your current tax bill, all while providing sustained support to your alma mater or local community foundation that administers it for you.

Charitable Remainder Trust

A Charitable Remainder Trust ("CRT") allows you reduce the value amount of a gift to your family members and support your favorite cause.



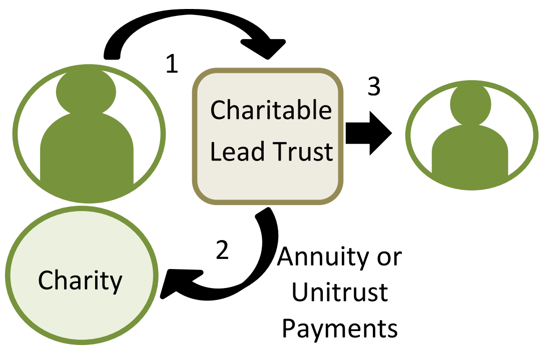
Rather than pay gift tax on the full value of the gift to Jr. you can use a CRT to (1) receive an up-front income tax deduction for the value of the charities remainder interest, (2) pay a gift tax only on the reduced value of Jr.'s annuity or unitrust interest, and (3) still support your favorite cause. You can use a CRT to provide steady incremental support to Jr. rather than place the full amount of the gift in his or her hands at once. If you fund this planning vehicle with appreciated assets, you often can take a deduction based on the remainder value of the full fair market value of the asset.

Support your alma mater, favorite cause or local community foundation in a smarter way

Charitable Lead Trust

A Charitable Lead Trust ("CLT") allows you to provide a gift to a family member in the future and pay a reduced gift tax bill on that transfer. These are especially useful with the historically low interest rates experienced today. The gifted asset first supports a charity for a specified term of years and then after that term expires, the remaining amount of value passes to your family member. You are only subject to gift tax on what the certain valuation tables predict that remaining value will be, rather than on the entire value of the gifted asset.

CLTs are often referred to as "Jackie O Trusts" because Jacqueline Kennedy Onassis, the famous former First Lady, used it as the centerpiece of her estate plan.



Reducing The Tax Bill

This year you will see noticeable increases in your tax bill. The American Taxpayer Relief Act of 2012 may be a bit of a misnomer since it increases the top marginal tax rate to 39.6% for ordinary income with an additional Medicare surtax of 3.8%, for a combined rate of 43.4% on some investment income. The top federal rate for long-term capital gains is likewise up from 15% to 23.8%. So what steps should you consider taking before the end of the year? Here a few things to think about in addition to charitable contributions and trusts.

Retirement Plans

You can contribute to your retirement plan to reduce this year's tax burden and let those contributed assets compound tax-free until they are withdrawn later.

If you are 50 or older, you can make catch-up contributions allowing even greater contributions. Further, a working spouse may be able to make a full contribution to an IRA on behalf of a nonworking spouse. Are you a business owner? Consider reducing company profits subject to tax by increasing company contributions to defined-contribution and defined-benefit plans.

Conversion of IRA to Roth IRA

Conversion of a standard IRA to a Roth IRA is advisable in certain situations but not all and since 2010, available to everyone regardless of income. The conversion will trigger a larger tax bill this year. However, the conversion avoids Required Minimum Distributions (RMDs) once you turn 70.5 years old, which may help you stay below certain tax thresholds in the future that trigger higher tax rates later in life. Once you make the conversion, your wealth held inside the Roth IRA will continue to grow tax free. This could be in the form of real estate purchased low that appreciates in value and is withdrawn in your retirement income tax free. The decision comes down to deciding if a tax-deferred IRA environment is better than paying the tax now to create a tax-free Roth IRA environment.

The lower tax rates of last year made such conversions more favorable but for certain clients, the conversion may still be a viable option. There can also be partial conversions which reduce the increased tax bill for any given year by spreading it out over several years. If you plan to spend down your IRA or expect to be in a lower tax bracket in the future, then a Roth IRA conversion is probably not for you.

Gifts To Family Members

Quite possibly the easiest way to save in taxes is to make gifts now up the annual exclusion amount. For 2013 and 2014, the annual exclusion amount for a single person is $14,000 per donee and for a married couple is $28,000 per donee. Think about how much that allows you to transfer without paying gift tax. Say you want to support your son and his family. You can provide the annual exclusion amount to your son, his wife, and each of his two children. That means you can transfer $112,000 per year to his family without paying gift tax if you wanted to. If this same amount were to transfer in a taxable manner, you may be paying 35% in gift or estate taxes.

Retirement Plan Contribution Limits:	
401(k), 403(b) or 457 plan	
Under 50	$17,500
50 or Older	$23,000 ($17,500 + $5,500 catch-up)
Traditional IRA	
Under 50	$5,500
50 or Older	$6,500 ($5,500 + $1,000 catch-up)
SEP IRA	
Self-Employed or Small Business Owner	$51,000

529 Plans

If you are going to pay for your children's college tuition anyway, you may be able to get tax benefits by putting the money aside now One of the main advantages is that you can pay up to five years' worth of annual exclusion up front. That means up to $140,000 for a married couple. The gifted funds are not subject to gift tax, can be invested and grow tax-free and are not subject to income tax when later used if they are used for qualified educational purposes. Over time, this tax-free growth can be substantial. Consider a Coverdell Educational Support Account if you want more flexibility in the types of investments made by the account.

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