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WEALTH STRATEGIES

For Financial Success

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Add Up The Pluses And Minuses Of A Living Trust

A revocable living trust can be a valuable tool in your estate-planning kit, but it is not without its potential drawbacks. For starters, a living trust generally should be viewed as a supplement to a will rather than a replacement. You likely will need a valid will to tie up all the loose ends of your estate. Furthermore, how well a living trust will work often depends on state laws.

The basic premise is relatively simple: You establish a living trust, transfer assets to it, and name a trustee to handle its administration. If you designate yourself as the initial beneficiary, you're entitled to receive income from the trust for the rest of your life. But you also need to designate secondary beneficiaries—typically, your spouse, your children, or your spouse and your children—who will be entitled to receive the assets in the trust when it terminates.

Unlike with other kinds of trusts, you retain some measure of control of a living trust while you're alive. You may be able to sell trust assets and keep the cash, amend the terms of the trust (for example, by changing secondary beneficiaries), or revoke it entirely if you wish. The trust only becomes irrevocable when you die.

With that basic framework in mind, consider the pluses and minuses of a revocable living trust.

Pluses of a Living Trust

• It avoids probate. This is the main reason for using a living trust. Normally, if someone dies with a will in place, surviving family members will need to go through the probate process. Probate can be lengthy or short depending on the circumstances and state law. However, probate doesn't apply to the assets you've transferred to a living trust, so your beneficiaries have immediate access to cash. (Assets transferred by joint rights of survivorship also are exempt from probate.)

• It avoids guardianships and conservatorships: This benefit often is overlooked, but a fully funded living trust can sidestep restrictive rules relating to guardianships and conservatorships. If the trust is structured properly, beneficiaries will have access to assets without interference from a judge if you are incapacitated. Otherwise, a guardianship or conservatorship can last much longer than probate.

• It provides privacy. As opposed to probate, which is open to the public, the provisions of a living trust are protected from prying eyes. A will has to be filed with the appropriate court but a living trust does not. This can be a major advantage if you treasure your privacy.

• It helps you plan ahead. When you contemplate using a living trust,

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What Do You Think Your Life Will Be Like In Retirement?

Much that is written about or spoken about retirement relates to the need to save for your life after work. How much have you accumulated? How much more do you need to save? How is your money invested? Should you downsize your home? Have you planned far enough into the future?

These are all legitimate questions you'll want to address well in advance of the day you finally call it quits. But are you also asking yourself the "other" question: What will my retirement be like? Your lifestyle is likely to change drastically when you retire, and it's a good idea to try to prepare yourself for the road ahead.

Recognize that the changes aren't just financial. Are you mentally and physically ready for retirement? Often, people who stop working wonder what to do with all of their free time. Here are some of the possibilities you might want to consider:

• Start or expand a hobby.

• Join a gym or take up golf or another sport.

• Become active in a seniors group.

• Volunteer for charity work.

• Travel extensively.

• Go back to school or otherwise learn a new skill.

• Go back to work on a part-time basis (perhaps as a consultant).

These activities may provide purpose and meaning in the years ahead as you focus on the quality of life you hope to enjoy in retirement. It's just as important to set your sights on your personal objectives as it is to save enough money to live on.

10 Easy Steps To Take If Opening A New Business

Starting a business involves planning, making key financial decisions, and completing a series of legal changes. As prepared by the Small Business Administration (SBA), these 10 easy steps can help you plan, prepare and manage your business:

Step 1: Write a Business Plan. Use the tools and resources that are offered by the SBA to create a business plan. A written guide prepared with help from the SBA will help you map out how you will start and run your business successfully.

Step 2: Get Business Assistance and Training. Take advantage of the SBA's free training and counseling services, from preparing a business plan and securing financing, to expanding or relocating a business.

Step 3: Choose a Business Location. Get advice on how to select a customer-friendly location and comply with zoning laws.

Step 4: Finance Your Business. Find government-backed loans, venture capital, and research grants to help you get started.

Step 5: Determine the Legal Structure of Your Business. Decide which form of ownership is best for you: sole proprietorship, partnership, limited liability company (LLC), corporation, S corporation, nonprofit, or cooperative. It's wise to consult an attorney and an accountant before making a final decision on the legal structure of the business you plan to open.

Step 6: Register a Business Name ("Doing Business As"). Register your business name with your state government.

Step 7: Get a Tax Identification Number. Learn which tax identification number you'll need to obtain from the IRS and your state revenue agency.

Step 8: Register for State and Local Taxes. Register with your state to obtain a tax identification number, workers' compensation, and unemployment and disability insurance.

Step 9: Obtain Business Licenses and Permits. Get a list of federal, state, and local licenses and permits required for your business.

Step 10: Understand Employer Responsibilities. Learn the legal steps you need to take to hire employees.

The SBA also points out that a number of programs are available to assist startups, micro businesses, and underserved or disadvantaged groups.

The following resources provide information to help specialized audiences start their own businesses:

- Environmentally friendly "green" business
- Home-based business
- Online business
- Self-employment
- Minority-owned business
- Veteran-owned business
- Woman-owned business

Finally, you can save money when starting or expanding a business by using government surplus. From commercial real estate and cars, to furniture, computers, and office equipment, find what you need for your business in one place.

Go to SBA.gov for help in following these 10 steps and for gaining access to the resources that are available for small businesses. You also should engage the assistance of an attorney and an accountant up front. ●

Raiding A Roth Early? No Woes

What happens if you take funds out of a Roth IRA well before retirement? The tax ramifications might not be particularly dire. Early payouts are frequently tax-free, or mostly tax-free, even if you don't meet the requirements for "qualified" distributions.

It all has to do with the "ordering rules" for Roth IRAs. It's important to get a firm grasp on these rules so you can plan your withdrawals accordingly.

Contributions to a Roth IRA are never tax-deductible, but qualified distributions are tax-free. For this purpose, "qualified" means withdrawals made from a Roth you've had for at least five years if you've reached age 59½; the payout is because of your death or disability; or you use the funds to pay qualified homebuyer expenses (up to a $10,000 lifetime limit).

But sometimes you just can't wait until age 59½ or for the Roth IRA to hit the five-year mark. In this case, and assuming you don't have another viable alternative, you can raid the Roth for the funds you need. Is it a tax disaster? Not usually. The tax is computed under generous rules that can save you from owing anything. Specifically, distributions from a Roth IRA are treated as if they occurred in the following order:

- Roth IRA contributions. Because you didn't get a tax break when you put in this money, you aren't taxed when you withdraw it.
- Contributions from converting a traditional IRA into a Roth. The same principle applies here. Because you already were taxed on the distribution from the traditional IRA that went into your Roth, you can take out those funds without being taxed again.
- Contributions from converting nontaxable traditional IRA balances into a Roth. These, too, aren't subject to regular tax when you withdraw them from the Roth.
- Roth IRA earnings. These, finally, are taxable when withdrawn unless they meet the definition of qualified distributions.

Learn Ins And Outs Of Education Tax Breaks

If you have one or more children in college, or your offspring will be heading to college or university soon, you already know about the ever-rising cost of higher education. It's not unusual for a year at an elite university to cost $50,000 or even more. Suppose you have three children who have the grades to get into top-notch colleges and each one spends four years at such a school. That's a total cost of at least $600,000!

Although federal tax laws provide some relief to parents in the form of two higher education credits and a tuition deduction, those tax breaks are phased out for upper-income taxpayers. What's more, you can claim only one of those tax benefits in a year. Here's what's available:

1. American Opportunity Tax Credit (AOTC). The AOTC, formerly known as the Hope Scholarship credit, recently was extended by Congress through 2017. The credit equals the sum of 100% of the first $2,000 of qualified tuition and related expenses and 25% of the next $2,000 of such expenses, for a maximum annual credit of $2,500. But you could claim the credit for each child who's in college, so if you have three kids in school at the same time, you could claim a maximum credit of $7,500 in that year.

Under another recent tax law change, the AOTC now applies to the first four years of a student's higher education. Previously, it was limited to just two years. Furthermore, you're allowed to receive up to 40% of the value of the AOTC as a tax refund, up to a maximum of $1,000, in the unlikely event that you have zero tax liability.

But the AOTC is phased out based on a family's modified adjusted gross income (MAGI). For 2015, the phaseout range is between $80,000 to $90,000 of MAGI for single filers and $160,000 to $180,000 for joint filers. Once you exceed the higher threshold, you can't claim the AOTC at all.

2. Lifetime Learning Credit (LLC). Unlike the AOTC, the LLC is on the books permanently, but it is generally not as beneficial as its close cousin. It is equal to 20% of the first $10,000 of qualified expenses, for a maximum of $2,000. And that limit applies to each taxpayer, not each student. So for those parents with three children in school at the same time, the maximum credit remains $2,000. What's more, unlike the AOTC , the LLC can't result in a tax refund.

Finally, the MAGI phaseout levels for the LLC are even lower than they are for the AOTC. For 2015, the range is between $55,000 to $65,000 for single filers and $110,000 to $130,000 for joint filers.

3. Tuition deduction. Finally, you may be able to deduct tuition and related fees that you pay to a college on behalf of your dependent children. The allowable deduction is either $4,000 or $2,000 depending on your MAGI for the year. For single filers, the deduction is $4,000 for a MAGI of up to $65,000 and $2,000 if your MAGI is between $65,000 and $80,000. Joint filers can deduct $4,000 for a MAGI of up to $130,000 and $2,000 if your MAGI is between $130,000 and $160,000. Exceed those upper thresholds and you don't get the deduction.

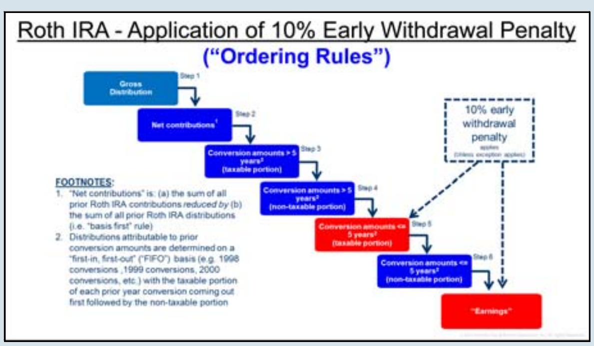
The tuition deduction officially expired after 2013. However, after much debate in Congress, it was extended retroactively one year for 2014.

Remember that you can claim only one of these three tax breaks in a given year, even if you don't exceed the phaseout limits. Because those cutoffs are relatively low, and because the tax relief they offer won't make much of a dent in the overall cost of sending a child to college, most parents will need to look elsewhere for tax benefits. Consider the advantages of college saving devices such as Section 529 plans and Coverdell Education Savings Accounts (CESAs).

Section 529 plans can prove to be especially valuable because they have very high contribution limits and the money you contribute to a plan is invested and can compound over time. You aren't taxed on investment earnings in a plan and distributions for most college expenses also aren't taxed. And if there's money left over after one child finishes school, you can transfer the account to a sibling.

CESAs aren't as attractive as 529 plans because CESAs have an annual contribution limit of $2,000, although if you begin putting in money when a child is very young it could add up to a decent amount of education savings, and the assets in these accounts also can grow without any current tax. Moreover, a CESA can be tapped to pay for private school education before a child enters college. That's not allowed with Section 529 plans. ●

These ordering rules can work in your favor. For example, suppose you have $100,000 in a Roth you established four years ago—$25,000 in contributions, $50,000 in taxable conversions, $15,000 in nontaxable conversions, and $10,000 in earnings. If you withdraw $35,000, the distribution is treated as having come from the $25,000 in contributions and $10,000 from taxable conversion contributions. So the entire payout is tax-free even though it isn't a qualified distribution.



Note that you'll have to pay tax at ordinary income rates for nonqualified distributions. In addition, there's normally a 10% tax penalty on such withdrawals made before age 59½.

Remember that withdrawing funds early from a Roth IRA isn't optimal, because it reduces the amount you'll have available in the future. However, it's comforting to know that you may be able to pull out cash tax-free if you need to. ●

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A Living Trust

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you'll need to examine your current assets to determine what to transfer to the trust. Sorting through your files can provide a snapshot of your financial picture that should have other benefits, too.

Minuses of a Living Trust

• It costs money. You'll need to use an experienced professional to set up a living trust, and in addition to that initial cost, you'll also pay annual fees if you use the professional as your trustee. (But you can be the sole trustee during your lifetime.) Generally, it costs more to create a living trust than to establish a will, but the living trust may be less expensive over the long run.

• It can be time-consuming. You're not done when you put your John Hancock on the living trust documents. You'll still need to contact financial institutions and transfer agents to change ownership of accounts; issue new stock certificates; revise business interests; sign and record real estate deeds; and re-title cars and other property.

• It isn't a panacea. Don't expect a living trust to address all of your estate-planning issues. Having an up-to-date will often is still central to an estate plan. Also, if you devise a "pour-over will" to catch the assets that don't go into the trust when you die, that will still has to be probated. For some people, these issues cancel out the benefits of using a living trust in the first place.

• It can be contested just as a will can. In fact, state laws generally allow a longer time to challenge a living trust than they do for a will. And creditors still can make claims against the assets included in a living trust.

Finally, whatever you may have heard, there are no estate tax benefits for transferring assets to a living trust.

In the end, the decision whether to a use a living trust is a purely personal one. Obtain all the information and guidance you need. ●