COLUMN DEBITS & CREDITS

Most Valuable Players

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Get your financial team together: financial planners, estate planners and tax planners work hand in hand.

At our offices at Shwiff, Levy & Polo, LLP, we've just come out of the process of helping clients meet their year-end planning needs. It's not easy to conclude the best course of action when Congress approves bills involving various tax extenders at the very last minute. For two years in a row, the tax bills were signed in late December. What a tight timeframe taxpayers have to finalize such important financial decisions.

Year-end planning is the focus of many taxpayers. This planning usually involves evaluating options for short-term benefits. Should I sell stocks to offset my gain? Will I be able to deduct state taxes if I pay before December 31st? Am I subject to Alternative Minimum Tax? Should we buy our equipment by December 31 or do it next year to utilize accelerated deductions?

When year-end planning is completed, taxpayers take a brief moment to catch their breath, and then quickly move on to evaluating whether their decisions will bring their intended results to fruition. But tax planning does not have to end on December 31.

Instead of beginning the new year with a gym membership or the latest diet craze, your New Year's resolutions can be more strategic and less exhausting. The new year is a great time to meet with your team of professionals to revisit your long-term financial goals and estate plans. Oftentimes, this team involves accountants, attorneys, financial advisors and trustees. It's important to have all your team members working together, because decisions affect all sides of your finances, and each member of the team needs to know what the others are doing in order to best meet your needs.

Financial Planning

A common misconception in regard to financial planning is that it is only for people with wealth. In fact, all taxpayers at any income level can benefit from having an ongoing financial plan. It also may be helpful if you bring your beneficiaries or successors to your next meeting with your financial planner. Who knows what will happen next? It's so vital to prepare the person you've designated to make financial decisions on your behalf in times of need. Doing so also can be a life-changing education for that person, giving them tools and knowledge they can also apply to their own lives.

The beginning of the year is an opportune time to revisit your financial plan. Meet with your financial planner to see if you are on track in achieving your financial goals. You will be asked important questions about what happened in the past year, to see if these changes have an impact on the progress of your current plan.

Are you happy with your investment diversification and how your investments are performing? Do you have concerns regarding your investment allocation? Did anything change in your personal life? Do you need to set up a college savings account? How well did you follow the current plan? Did you save enough? Were you able to maximize your IRAs? Do you need to change the beneficiaries of your retirement plan? These are the questions that we normally don't think about, but when we're asked, we realize how much has changed within a calendar year. Your financial planner will run an analysis based on the changes in your personal life and your level of satisfaction with your portfolio performance, and present you with recommendations as to how to best change or adapt the plan.

As we often see in our line of work, your financial goals may not change frequently, but your plans will always need monitoring and updates. Therefore, financial planning is not a one-time event—it's important to constantly update your vital documents.

Income Tax Planning

One of the objectives of income tax planning is to analyze your tax situations and run scenarios to see how you can minimize the taxes you pay this year, next year or the year after. Your financial planner may give you several recommendations and you will need to know what the tax impact would be if you carry out some or all of the recommendations.

One of the recommendations may be a maximization of your IRA plan. Based on your income tax projection, we can help project if you are eligible to contribute to a Roth IRA, or be able to deduct your contributions to a traditional IRA.

Another recommendation could be to convert your traditional IRA to a Roth IRA. What is the tax liability if you convert $10,000, $50,000 or $100,000? If you need to pay significant taxes on the conversion, will you be able to free up some funds from your portfolio?

If you are in a lower tax bracket this year, should you postpone or defer your income to the next year? If you are in a higher tax bracket, is there opportunity for you to accelerate deductions this year?

You may want to sell or exchange a property. What will be your gain if you just sell it? How much cash are you comfortable with receiving and paying taxes on if you do a 1031 exchange? Should you seller-finance the property?

When a financial planner and income tax planner work together, you will be able to get a complete and accurate financial picture that you can evaluate in order to make the choices that are right for you.

Revisiting Your Estate Plan

The beginning of the year is also a great time to review and update your wills and estate plans. Follow up with your estate tax attorney to make sure all the documents are current and in order. When was the last time you looked at your estate plans, wills and trust documents?

Some may ask why we need estate plans, since the maximum lifetime estate and gift exclusion is $5.4M (adjusted for inflation) for a taxpayer. For many multiunit property owners in the Bay Area, the value of their real estate holdings can easily exceed this maximum exclusion amount. This is especially true since many landlords have owned their properties for decades and paid off their mortgages. If you do not have a current estate plan, you may be leaving your valuable assets unprotected from estate taxes and probate costs, and these will be a lot for your beneficiaries to deal with.

We often find that taxpayers are not thinking about their estate plans or asset protection plans after their initial plans have been executed. Estate planning should not be a one-time event, since there are no guarantees regarding tax laws. Laws may change, making the planning opportunities that are available today unavailable tomorrow—or the change may bring better planning opportunities today than were available yesterday. Therefore, your asset protection plans should be looked over at least every few years to make sure the plans in effect are still the best available.

Are your wills updated? Whether you have a significant estate or just a few stocks, the basics of estate planning still apply. You still need to make sure your intended beneficiary receives your assets, and that you put the right person in charge of your estate. Who will make a decision for you in a health crisis? A lot may have happened since the execution of your last will. Real estate may have been added or gifted, wishes may have changed, feelings may have shifted and your family may have grown bigger or smaller. Who will get your iPhone, iPad or iMac—and what is an 8-track?

Another reason why wills and documents need updating is the consideration of a new class of assets: digital assets. Nowadays, a wealth of information is maintained electronically, whether you create it or have it created for you. Some of these digital assets may have significant monetary value, such as domain names, websites or licensing rights. Determining monetary value on digital items can be challenging; nevertheless, these are assets you own, so be sure to consider them in your estate planning. Check your contracts to see if your digital assets can be passed on to the next generation.

Estate, gift and income taxes are already complex issues for U.S. nationals. For new immigrants, they are gibberish. New immigrants move to the U.S. without any forethought to their potential asset reporting requirements or the taxes that they will be subjected to. They often have trouble understanding why their assets overseas have to be included in their estate in the U.S. or why it is important to protect their foreign assets with U.S. estate tax planning. They may be unaware of exclusion thresholds, gift limitations to nonresidents and a whole other slew of foreign asset reporting requirements that are constantly growing in magnitude.

Teamwork Makes it Happen

It is vital that your team of professionals works together to support your goals and intentions—after all, you are their mutual client. When estate planners, financial planners and income tax planners work as a team, misunderstandings and mistakes can be avoided. Bring your team together and you will find that they greatly compliment each other.

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