Waller Financial Planning Group

LegacyPress

LIFESTYLE & LEGACY CHOICES BY DESIGN℠

Fall2018

Fact

A Merrill Lynch/Age Wave study finds that 76% of married retirees would not be financially prepared for retirement if their spouse died.

Source: Merrill Lynch / Age Wave Widowhood Research, 2018

"The habit of saving is itself an education; if fosters every virtue, teaches self-denial, cultivates the sense of order, trains to forethought, and so broadens the mind."

T.T. Munger

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Financial Planning Month

October was financial planning month. Each week, we released a series of informative videos on why financial planning is beneficial for everyone. The partners of Waller Financial discuss how our resource center can help you. Please check out waller.com/blog to find our financial planning month articles and videos.

The Value of Financial Planning

Financial planning is valuable for everyone. It's about creating structure to live the life you want while leaving a legacy behind. To create structure, you need a sound plan that works for you, which is why choosing the right advisor is essential.

www.waller.com/financial-planning-month/

Property Management

Real estate can be a great investment; however, it can come with plenty of unintended perks and pitfalls.

www.waller.com/property-management/

Estate Planning

Getting your estate plan together shouldn't be done lightly. It requires time, patience and much thought. Having your estate plan together ensures that your wishes are met in the case of injury or death.

www.waller.com/estate-planning/

Investing

Investing is a great way to maximize your assets. Without a clearly defined strategy, you are bound to make emotional and irrational decisions.

www.waller.com/investing/

Philanthropy And The QBID

By: Chris Olsgard, CFP®

Not all of our clients are naturally born philanthropists. For those who have accumulated wealth, the thought of giving away their hard-earned savings seems unthinkable. For those who are currently accumulating, the fear of not having enough to meet their needs in the future can be overwhelming. For others, it might just be a matter of principal. Whatever the reason, we recognize that philanthropy is not always at the top of every client's priority list. With that being said, occasionally there comes along a catalyst to philanthropy-in-disguise.

We believe the **qualified business income deduction** (QBID) may be the best disguise we've seen since Chevy Chase's award-worthy role in Fletch. For those who aren't Chevy Chase fans, let me explain: The Tax Cuts and Jobs Act of 2017 introduced us to IRC Section 199A. This new section of the tax code offers a deduction of up to 20% on qualified business income for pass-through entities, as long as the aforementioned business income is not classified as coming from a specified service business. Specified service businesses include accountants, attorneys, consultants, dentists, doctors, financial service professionals and many others. Such businesses will be subject to a phase-out based on taxable income between the ranges of $157,500 to $207,500 for single taxpayers; and $315,000 to $415,000 for married taxpayers filing jointly.

To see how the potential tax savings of a large charitable gift might entice an otherwise resistant donor, let's take a look at an example.

Example Scenario

Suppose Alan & Gail Stanwyk are the sole employees of a jointly owned specified service business and they each have a base salary of $100,000 for combined wages of $200,000. Let's also suppose the business produces profits of $365,000 for a gross income of $565,000 (well above the phase-out to qualify for the QBID). After deducting $50,000 for their itemized deductions, their taxable income drops to $515,000 but is still too high to be eligible for any QBID. Now consider a charitable donation of $200,000 to Alan's favorite charity. This significant donation will drop their taxable income down to $315,000 for purposes of the QBID calculation, then another $73,000 after applying the QBID, for total taxable income of $242,000. The net effect of the $200,000 charitable gift is tax savings of $85,000 or 42.5%. Put another way, Alan and Gail could pay the federal government $131,650 in taxes this year; or instead, choose to pay $46,650 to the government and gift $200,000 to charity. The net effect will be a drop of $115,000 to their net worth, but maybe the thought of doing $200,000 of good by avoiding $85,000 of additional tax will lead to the birth of two new philanthropists.

The QBID calculation is much more complicated than we've outlined here, and we could complicate this example further by assuming Alan and Gail donate $200,000 of highly appreciated stock instead, but that's probably best left for another article.

New Tax Considerations for Divorcing Couples

By: Jason Eliason, CFP®, ChFC®, CFA®

People who are contemplating divorce could be surprised by some provisions of the new tax law—and should be including it in their separation plans. The new laws affect the taxation of alimony payments, and also the valuation of certain assets that are usually part of a divorce agreement.

In the most significant change, as of January 1, 2019, alimony payments will not be tax-deductible to the paying ex-spouse. Instead, the receiving ex-spouse will no longer have to include the payments received as income on his/her tax return. For most couples, this will tend to have a negative economic impact, since typically the person paying alimony is in a higher tax bracket (and therefore gets more benefit from the deduction) than the recipient.

What to do? Couples who want to preserve the old way of managing the deductibility of alimony might want to finalize their divorce prior to the end of the year, which means the deduction for the alimony payer will be grandfathered. Of course, this is not always easy in an acrimonious divorce. If the divorce takes place in 2019, then the couple should probably expect to negotiate a different arrangement—in many cases, lower alimony payments since they will now be received tax-free by the receiving ex-spouse.

That's not all. The new tax law lowers the effective tax rate of certain pass-through entities—those businesses where the taxes on the earnings are paid by the owner, rather than the company. This should theoretically increase their cash flow and raise the value of those companies, which could be an issue in negotiating a division of shares or revenues in divorce settlements.

Finally, and most insidiously for many divorcing couples, the tax law caps the total deductibility of state and local taxes—including property taxes—at a hard ceiling of $10,000. Traditionally, the spouse who spends the most time raising the children will also want to own the house and will give up comparable value in the family IRA or ex-spouse's pension plan. Now that house, in some high-tax regions and/or at relatively high tax valuations, will be a more expensive property to own than it was before the new tax law. This might require some accommodations for any divorce agreement to even out the financial implications of the split.

The lesson here is that tax law changes can have consequences far beyond what the framers intended. Spouses who are negotiating a divorce are going to experience more complexity thanks to elected officials in Congress.

Source:
www.nytimes.com/2018/07/27/your-money/divorce-tax-law.html

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News and Notes

In September, we celebrated our Client Appreciation event at COSI.

In observance of the upcoming holidays, our offices will be closed:

Holiday Closures

NOVEMBER 2018

S	M	T	W	T	F	S
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Holiday Closures

DECEMBER 2018

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Holiday Closures

JANUARY 2019

S	M	T	W	T	F	S
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