

FINANCIAL IDEAS FOR TODAY AND TOMORROW

Footnotes

Estate Planning Basics

We receive many inquiries from our clients on financial and estate planning needs. We would like to use this opportunity to discuss key items in the estate planning process and how Hogan - Hansen, P.C. can assist you. An estate plan is a way to legally ensure your wishes will be carried out in the event of your incapacity and/or at the time of your death. Hogan - Hansen, P.C. can assist you in this process so you are prepared when you meet with your estate planning attorney. Through our partnership with HK Financial Services, Inc., we utilize our planning software, Guidance Planning Strategy (GPS), to create an easy to understand summary of your assets and liabilities. We will illustrate how your assets will flow to your heirs in a variety of “what if” scenarios. This information is useful when you meet with an estate planning attorney for legal advice on how to implement your desired plan and to develop the appropriate legal documents.

Determine your legacy goals

A key component of an estate plan is outlining what happens to your assets at the time of your death. Do you want to pass your assets to your children and/or other family members? Do you have philanthropic interests? It is important to properly document what you want to transpire at the time of your death. This will provide guidance to both your family and your estate planning team. You should include the names, birth dates and contact information for family members and any other named individual or entity.

It is also recommended that individuals create a listing of personal property items and who should receive them to avoid disputes among family members. This is called a

“personal property memorandum”. It is referenced by your will, but is kept as a separate document to allow for periodic changes and updates.

Determine your agents and representatives

Who do you want to have handle your affairs if you become incapacitated and/or at the time of your death? You will need to designate the following agents and representatives:

- Attorney-in-fact to handle financial affairs in the event you become incapacitated
- Health care representative/agent to make medical decisions for you if you are incapacitated
- Personal representative (an executor) who handles all the financial affairs of your estate and the distribution of assets at your death
- Trustees and successor trustees if you establish a revocable or irrevocable trust
- Guardian for your minor children
- Trusted contact (for those over 65) to help your investment advisor protect you if fraudulent activity or financial exploitation is suspected in your accounts

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Identify all your assets

Utilizing GPS, we will work with you to identify your assets, where they are held and how they are owned. This will be used by your executor at your passing. This information will include: bank accounts; investment accounts; retirement accounts [401(k), IRA, Roth IRA, etc.]; pension and deferred compensation documents and accounts; business ownership and buy/sell agreements; life insurance policies and annuity contracts; real estate holdings; mortgages and other loans; savings bonds; stock certificates; high-value artwork or collections; and vehicles.

Review your current beneficiaries

Once you have all your assets identified, those with beneficiary designations, such as retirement accounts and life insurance policies, should be reviewed on a regular basis to assure the beneficiary designations are consistent with your wishes. Your estate planning attorney may provide specific guidance on beneficiary designation wording that should be implemented for your accounts and/or policies.

Determine the best estate plan to meet your legacy goals

Once you have determined your legacy wishes and have gathered all your information, we recommend that you meet with your team of financial professionals, including your financial advisor, CPA and estate planning attorney. Each will bring his or her expertise to your situation and help you develop the best plan for your needs. Through our wealth management services, we will be able to model your proposed estate plan in GPS to show you the projected net worth and cash flow over your lifetime, which is critical in this planning process.

Execute the plan

Once all of your details are finalized, your estate planning attorney will finalize the process. At the end of the process, you should have the following legal documents:

- A will
- A durable power of attorney designating who will handle your financial affairs in the event of your incapacity
- A power of attorney for health care - This document will designate the person you want to make health care decisions for you if you are unable to do so. It may also indicate your wishes with respect to life-saving measures and treatments, your funeral or memorial service and burial.
- A revocable living trust may be needed to transfer, manage and distribute assets while you are alive and that will avoid probate after your death

It is important to provide your CPA and financial advisor with a copy of your final, executed documents for their files. Your attorney will store a copy, and it is recommended that you keep a copy in your secure location.

Annually review your plan

Finally, it is likely your personal situation will change over time. Your relationship with your agents and representatives may change, and the estate tax laws also change. We recommend an annual review to ensure everything is still appropriate for your legacy wishes.

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I Owe Tax on That?

Five Surprising Taxable Items

Wages and self-employment earnings are taxable, but what about the random cash or financial benefits you receive through other means? If something of value changes hands, you can bet the IRS considers a way to tax it. Here are five taxable items that might surprise you:

1 Scholarships and Financial Aid. Applying for scholarships and financial aid are top priorities for parents of college-bound children. But be careful - if any part of the award your child receives goes toward anything except tuition, it might be taxable. This could include room, board, books, travel expenses or aid received in exchange for work (e.g., tutoring or research). **Tip: When receiving an award, review the details to determine if any part of it is taxable. Don't forget to review state rules as well. While most scholarships and aid are tax free, no one needs a tax surprise.**



2 Gambling Winnings. Hooray! You hit the trifecta for the Kentucky Derby. But guess what? Technically, all gambling winnings are taxable, including casino games, lottery tickets and sports betting. Thankfully, the IRS allows you to deduct your gambling losses (to the extent of winnings) as an itemized deduction, so keep good records. **Tip: Know when the gambling establishment is required to report your winnings. It varies by type of betting. For instance, the filing threshold for winnings from fantasy sports betting**



Smart Tactics to Manage Student Debt

payment flexibility and how the interest is calculated. **Suggestion:** Create a spreadsheet with a student loan in each column. Then note the terms under each loan. This will create a strong visual of your situa-

tion and show you which loans are most important.

Avoid accruing interest. Some student loans accrue interest while you are in school. With the compounding of this interest, your student loan amount continues to grow with each passing year before repayment begins. Banks love this - you should not. **Suggestion:** Figure out how to make some or all of the interest payments while in school. This will not only lock the amount you owe, it will reduce the amount of overall loan payments.

Pay a little extra in the early days. The math of loans benefits banks in the early years of the repayment period. This is because the vast majority of interest is paid in the first years of repayment. By the time you get to the last

year of repayment, payments are primarily the principal balance and interest is nil. **Suggestion:** Pay extra every month as soon as payments start. While this seems impossible as you enter the workforce, even \$25 extra per month can dramatically reduce the amount of total payments you make over the life of your loan. For example, a \$25 extra payment on a ten-year \$50,000 student loan with 5% interest would cut six months off the loan, save \$834 in interest AND save \$3,180 in future loan payments!

Make small cuts elsewhere. Having a hard time finding a few extra dollars to make extra payments? Consider observing and then changing your spending habits. **Suggestion:** Purchase one less latte a week. Drop one monthly service from a bill. Eat in more often. Then use these savings as a bonus payment on your student loan principal.

While student debt is often an unavoidable outcome of getting a college education, it can be minimized if actively managed. Small changes can yield results if planned for in advance.

According to the Federal Reserve, U.S. student loan debt is now \$1.5 trillion with more than 44 million borrowers. Only mortgage debt currently has bigger numbers among types of consumer debt. Even worse, more than 10% of these loans are past due. Here are some tactics to help make student debt easier to manage:

Know the loan terms. Not all student debt is created equal. Understanding the terms of all your student loans is important. With this knowledge, select the correct loan option and know which loan to pay first. Things you should know about each loan include: the interest rate, term of the loan, amount of any up-front fees, prepayment penalties (if any), when interest and payments start, payment amounts,

and horse racing is \$600, while slot machines and bingo are typically \$1,200. But beware, the gambling facility and state requirements may lower the limit.

3 Unemployment Compensation. Unfortunately the IRS doesn't give you a break on the taxes for unemployment income. Unemployment benefits you receive are taxable. **Tip:** If you are collecting unemployment, you can either have taxes withheld and receive the net amount

or make estimated payments to cover the tax liability.

4 Crowdfunding. A popular method to raise money for new ventures or to support a special cause is crowdfunding through websites. Whether or not the funds are taxable depends on two things: your intent for the funds and what the giver receives in return. Generally, funds used for a business purpose are taxable and funds raised to cover a life event (e.g., special causes or medical assistance) are consid-

ered a gift and not taxable to the recipient. **Tip:** Prior to using these online tools to raise money, review the terms and conditions and ask for a tax review of what you are doing. If you need to account for taxes, reserve some of what you raise for this purpose.

5 Cryptocurrency. Cryptocurrencies like Bitcoin are considered property by the IRS. So if you use cryptocurrency, you must keep track of the original cost of the coin and its value when you use it. This information is needed so the tax on your gain or loss can be properly calculated. Remember, the tax rate on property can vary if you own the cryptocurrency more than a year, so record all dates. **Tip:** For those considering replacing cash with things like Bitcoin, you need to understand the gain or loss complications. For this reason, many people using cryptocurrency do so for speculative investment purposes.

When in doubt, it's a good idea to keep accurate records so your tax liability can be correctly calculated and you don't get stuck paying more than what's required. Please call if you have any questions regarding your unique situation.



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If opportunity
doesn't knock,
build a door.

- MILTON BERLE

Spread love everywhere
you go. Let no one ever
come to you without
leaving happier.

- MOTHER TERESA

NOTABLE QUOTES

With your head full of brains
and your shoes full of feet,
you're too smart to go down
any not-so-good street.

- DR. SEUSS

Dreaming,
after all, is a form
of planning.

- GLORIA STEINEM

This newsletter is issued quarterly to provide you with an informative summary of current business, financial and tax planning news and opportunities. Do not apply this general information to your specific situation without additional details and/or professional assistance.

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