



# The Mosaic Financial Group LLC

Your Wealth Management Partner

## Five Tax-Smart Ways To Transfer Your Wealth

If you're like most well-to-do people, one of your main financial objectives is to transfer wealth to your heirs with a minimum of tax erosion. Several estate planning techniques could help you move closer to that elusive goal. Consider these five opportunities:

**1. Lifetime gifts.** One of the simplest wealth transfer methods also can be one of the most effective. By giving away property to other family members during your lifetime, you remove those assets from your taxable estate. If you plan carefully, you can make direct gifts without incurring any gift tax liability. And you also may be able to leave assets to your heirs under favorable tax conditions.

The primary tax breaks are:

- An annual gift tax exclusion covering transfers of up to \$14,000 per year per recipient (\$28,000 for gifts by a married couple). You can make these gifts to as many people as you like.
- In addition, everyone is entitled to transfer a total of \$5.45 million in 2016 (the amount is indexed to inflation) in lifetime gifts and bequests without tax consequences.
- Inherited property benefits from a "step-up" in basis—the value of the assets, for calculating taxable investment gains, is what they're worth at the death of the person who made the bequest, rather than when he or she acquired them. That can reduce future taxes. (But note that lifetime gifts don't

get a step-up.)

**2. Intra-family loans.** Usually, you can lend up to \$10,000 to a child or another relative with no strings attached—and no questions asked by the IRS. You don't even have to charge interest. However, if the borrowed amount exceeds \$10,000 and you don't charge a reasonable interest rate, the IRS will consider the amount you didn't charge as interest income to you. One exception is that on loans of \$100,000 or less, the amount of interest you're treated as receiving annually for tax purposes is limited to the child's net investment income for the year.

**3. Dynasty trusts.** This type of trust is designed to span several generations. You transfer selected assets—say, a combination of stocks, bonds, and real estate—to a trust managed by an independent trustee, usually a professional or financial entity. The trust may be created during your lifetime or through your will. Once the trust is established, it is irrevocable, so you give up control over the assets and the right to change beneficiaries. Depending on the terms, income may continue to accumulate within the trust or be paid out to beneficiaries. The trustee also may have discretion to use part of the principal for the health, education, support, and maintenance of the beneficiaries, or under other circumstances.

## Spotlight On... Chuck Kudia

Hello, my name is Chuck Kudia and I am a tax consultant at The Mosaic Financial Group.

I started working at Mosaic as an intern and later joined their full-time staff in the summer of 2015.

I can honestly say Mosaic has been a fantastic experience and I am pleased to have had this opportunity over the past two years.

I grew up in Oak Lawn in the southwest suburbs of Chicago. I graduated from Marist High School in 2011. During high school, I was a member of the track and field team and played basketball recreationally. After high school, I attended DePaul University where I earned a Bachelor's degree in accounting with a minor in finance. I am currently studying for the CPA exam.

I enjoy biking along the lake, visiting different restaurants, and attending special events and concerts around the Chicagoland area. An interesting fact about me is that I had never been on an airplane until this past summer. I have been making up for lost time by traveling to California, Nevada, New York, and Florida, all in the past year. I hope to continue my travel this year after tax season has ended!



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# Is This A Good Time For A GRAT?

In these uncertain times, as Congress debates sweeping tax reforms, you might consider taking advantage of a proven method for transferring wealth to future generations: a grantor retained annuity trust, or GRAT. This estate planning technique can be particularly helpful while interest rates remain relatively low. And, depending on how your GRAT is constructed, the grantor—the person funding the trust—may be able to transfer assets to beneficiaries with little or no estate or gift tax consequences.

With a GRAT, the grantor first transfers assets to the trust while retaining the right to receive annual annuity payments for a specified number of years. Then when the trust term ends the remainder is distributed to the trust beneficiaries—typically your children or grandchildren. Typically, GRATs are funded with securities or shares in closely held business interests.

The amount of the annuity payments is based on the IRS-approved Section 7520 rate. This rate, adjusted every month, has been particularly low in recent years, and in January 2017 it was 2.4%.

A lower Section 7520 rate can be beneficial in reducing gift and estate taxes. One approach to establishing a GRAT sets the rate for annuity payments to match the Section 7520 rate when the trust is created. That “zeroes out” its impact for gift tax purposes by theoretically returning to the grantor all of the money originally placed in the

trust—if there’s no gift, there’s no gift tax.

But if the trust assets appreciate at a rate faster than the Section 7520 rate, there *will* be something left for the beneficiaries, and it will go to them without any gift or estate tax implications. And the lower the Section 7520 rate—sometimes known as a hurdle rate—the more likely that outcome may occur.

That may not happen, of course, and there are at least two other possible drawbacks. If the grantor dies during the GRAT term, the assets transferred to the trust will

revert to the grantor’s taxable estate. In addition, GRATs have been unsuccessfully targeted by past administrations and could be subject to future tax reforms. In particular, the “zero out” technique has raised the ire of some legislators. So the benefits of GRATs could be curtailed or eliminated. ●



# Why Would You Take Your RMDs Sooner?

Is it time for you to begin taking required minimum distributions (RMDs) from your retirement plans? The rules for 401(k)s, other employer-sponsored plans, and traditional IRAs generally call for these payments to start after you reach age 70½ and to continue each year. But you don’t actually have to begin RMDs until the “required beginning date” (RBD) of April 1 of the year *after* you turn 70½.

Nevertheless, you might bypass this respite. Why would you do that? Because you still must take another RMD later that year. Thus, you would be doubling up on payouts and have to

pay more tax.

Although your savings in 401(k)s and traditional IRAs grow without being taxed along the way, you eventually must start receiving RMDs, taking one each year by December 31. These RMDs generally are taxed at ordinary income tax rates.

If you’re still working and don’t own the company you work for, you may be able to postpone withdrawals from an employer-sponsored plan with that company until you retire. But this exception doesn’t apply to traditional IRAs.

The amount of the RMD is based on IRS life expectancy tables

and the value of your accounts on the final day of the previous tax year. Your financial advisers or the financial company holding your account can provide assistance in computing the amount.

The penalty for failing to take an RMD is equal to 50% of the amount that should have been withdrawn (or the difference between the required amount and any smaller amount you did withdraw). For example, if you’re required to take \$20,000 and you’re in the 28% tax bracket, the penalty for failing to withdraw is \$10,000, plus you’ll owe \$5,600 in federal income tax on the distribution.

# Don't Let Scam Artists Ruin Your Retirement

**Y**ou work hard for many years in order to reach that wonderful goal at the end of your career: retirement. But when you do finally retire, danger can lurk behind many of the phone calls and emails you may receive. Scams may be targeted at senior citizens and are the work of crooks who will try to rob seniors of the money they have saved to enjoy their retirement years.

You don't have to be retired very long before these problems can begin. You may even start getting come-ons before you retire. To enjoy your retirement years, you need to understand how scam artists operate, who they target, and the many types of scams they operate. Scam artists even buy and sell "sucker" lists of the names of people who have been taken in once or more by scams.

Many of the scams attempt to extract personal information from you, such as your bank account and Social Security numbers, which can be used to steal your identity and money. Never give that information in response to an email or a phone call.

Here are six of the more frequent scams as reported by the National Council on Aging:

**1. Medicare/health insurance fraud.** Every U.S. citizen or permanent resident age 65 and over qualifies for

Medicare, and for these scams, perpetrators may pose as a Medicare representative to get personal information, or they will provide bogus services at makeshift mobile clinics and then use the personal information the seniors provide to bill Medicare and pocket the money.

**2. Counterfeit prescription drugs.** Counterfeit drug scams tend to operate on the Internet, where seniors increasingly go to find better prices on specialized medications. This scam is growing in popularity—since 2000, the FDA has investigated an average of 20 such cases per year, up from five a year in the 1990s. The danger is that besides paying money for something that won't help your medical condition, victims may purchase unsafe substances that can inflict even more harm.

**3. Funeral and cemetery scams.** The FBI warns about funeral and cemetery fraud perpetrated on seniors. In one such approach, scammers read obituaries and call or attend the funeral service of a complete stranger to take advantage of the grieving widow or widower. Claiming the deceased had an outstanding debt to them, the scammers will try to extort money from relatives

to "settle" the fake debts.

**4. Telemarketing.** Perhaps the most common scheme is when scammers use fake telemarketing calls to prey on older people, who as a group make twice as many purchases over the phone than the national average. With no face-to-face interaction, and no paper trail, these scams are incredibly hard to trace.

**5. Internet fraud.** While using the Internet is a great skill at any age, the slower speed of adoption among some older people makes them easier targets for automated Internet scams that are everywhere on the web. Pop-up browser windows simulating virus-scanning software will fool victims into either

downloading a fake anti-virus program (at a substantial cost) or an actual virus that will open up whatever information is on the user's computer to scammers. Many of these scammers falsely claim they are calling about "Windows," the Microsoft operating system used by the majority of computers. Don't believe it. Hang up the phone.

**6. Sweepstakes and lottery scams.** Here, scammers inform their target that he or she has won a lottery or sweepstakes of some kind and needs to make a payment to unlock the purported prize. Often, seniors will be sent checks that they can deposit in their bank accounts. The scammers know that while the deposits show up in the seniors' accounts immediately, it will take a few days before the fake checks are rejected. During that time, the criminals will collect money for supposed fees or taxes on the prize, which they pocket while the victim has the "prize money" removed from his or her account as soon as the check bounces.

If you suspect you've been the victim of a scam, call the Eldercare Locator, a government-sponsored national resource line, at 1-800-677-1116, or visit its website at [www.eldercare.gov](http://www.eldercare.gov).



If you postpone your first RMD until the following year, you'll have to take two RMDs in that year. If you remain in the same tax bracket, that will double the tax you owe, or the extra payment may push you into a higher tax bracket. Going back to our example of an annual \$20,000 RMD, you'll have to take two RMDs for a total of \$40,000 in the following year. Suppose that \$10,000 of the extra amount is taxed at the 33% rate. Your total tax bill on RMDs for

that year comes to a whopping \$11,700 (28% x \$30,000 + \$10,000 x 33%).

Furthermore, doubling up on RMDs increases the possibility you'll have to pay the federal surtax on "net investment income," and it could hike your state income tax liability as well.

As you approach your RBD, consider your options. In many cases, you'll be better off taking your first RMD in the year in which you turn age 70½, rather than the following year. ●



# IRS Adjusts Retirement Plan Limits

Every year, the Internal Revenue Service (IRS) adjusts the amounts you can contribute to employer retirement plans and IRAs, based on inflation indexing. For 2017, the limits are slightly higher in some cases, while others stay the same. Here's a rundown on the key limits for participants:

## Limits that will change for 2017

**Defined contribution plans** – The limit on total annual additions to 401(k), profit-sharing plans, and other such vehicles is increased to \$54,000 for 2017 (up from \$53,000).

**Defined benefit plans** – The maximum size of the annual benefit for traditional pensions and related retirement plans increases to \$215,000 for 2017 (up from \$210,000).

**Annual compensation** – The maximum amount of compensation that can be taken into account for most employer retirement plan calculations increases to \$270,000 (up from \$265,000).

**Deductible IRA contributions** – Phase-outs in 2017 for deductible IRA contributions will reflect the following changes:

- For single filers participating in an employer plan, the phase-out range increases to between \$62,000 and \$72,000 for 2017 (up from \$61,000 and \$71,000).

- For an IRA contributor filing jointly who participates in an employer plan, the phase-out range increases to between \$99,000 and \$119,000 (up from \$98,000 through \$118,000).

- For an IRA contributor filing jointly whose spouse participates in an employer plan, the phase-out range increases to between \$186,000 and \$196,000 for 2017 (up from a range of \$184,000 to \$194,000).

**Roth IRA contributions** – For single filers, phase-outs for the ability to make contributions increase to a range of from \$118,000 to \$133,000 for 2017 (up from \$117,000 to \$132,000). For joint filers, the phase-out range increases to between \$186,000 and \$196,000 for 2017 (up from \$184,000 to \$194,000 for 2016).

## Limits that won't change in 2017

**Elective deferrals** – The deferral limit for those who participate in a 401(k), 403(b), most 457 plans, and the government's thrift savings plan remains at \$18,000 for 2017. The limit for catch-up contributions to these plans for participants age 50 or over remains at \$6,000.

**SIMPLE plan deferrals** – The limit on earnings deferrals to a SIMPLE plan remains at \$12,500 for 2017. The limit for catch-up contributions for participants age 50 or over holds steady at \$3,000.

**Highly compensated employees** – The dollar limit used to define highly compensated employees (HCEs) for employer plans stays at \$120,000 for 2017.

**IRA and Roth contributions** – The maximum amount you can contribute to traditional and Roth IRAs stays at \$5,500 for 2017. The \$1,000 limit on catch-up contributions for participants 50 or over isn't subject to inflation indexing. ●



## Ways To Transfer Your Wealth

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**4. GRATs.** With a grantor-retained annuity trust (GRAT), you transfer assets into the trust while retaining the right to receive annual annuity payments for a specified number of years. When the GRAT term ends, the remaining assets are distributed to the beneficiaries you named. The annuity payments you receive during the term of the GRAT and resulting gift tax value is calculated using a government rate for this purpose, which is currently relatively low. So while you continue to receive annuity payments based on that low rate during the GRAT term, if trust assets grow at a faster rate, the beneficiaries will benefit when they receive the balance remaining at the

end of the trust term.

**5. IDGTs.** Often you might transfer assets to a trust and name loved ones as “income beneficiaries” who get the investment income the trust generates. That way, you’ll avoid income tax on those future earnings. However, the trust will be taxed on that income, and the top 39.6% rate for trusts kicks in when income exceeds \$12,400 in 2016. To avoid that result, the trust could be structured to be intentionally “defective,” so that income is taxable to you instead of to the intentionally

defective grantor trust (IDGT). The gift tax liability for transferring assets into the trust may be sheltered by the estate and gift tax exemption.

Other concepts, such as naming a trust as an IRA beneficiary, also can be helpful in certain situations. But the five listed here may help you achieve your goals. Keep in mind, though, that trusts are



complex, and you’ll need professional assistance in structuring and implementing these estate planning ideas. ●