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Tax & Business Alert
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BOLSTER WEALTH MANAGEMENT WITH TRUSTS

Trusts can be a useful tool for affluent individuals and families when it comes to wealth management, protection and growth. But there are a wide variety to choose from, so it's important to clearly understand the benefits and limits of a trust before choosing any one type.

WHAT'S A TRUST?

A trust is a legal document that dictates how an individual's assets will be managed for another person's (or other people's) benefit(s). There are usually three parties to a trust: the grantor who creates the trust, the beneficiary (or beneficiaries) who'll benefit from the trust and the trustee(s) who'll manage the assets according to the trust's terms and in the beneficiary's best interests.

All trusts fall into one of two broad categories: living trusts and testamentary trusts. Living trusts are set up during an individual's lifetime to transfer property to the trust. Testamentary trusts are established as part of an individual's will and take effect after he or she dies.

Living trusts can be further categorized as revocable and irrevocable. With a revocable trust, the grantor retains control of the trust's assets and can revoke or change its terms at any time. With an irrevocable trust, the grantor no longer owns the assets and, thus, can't make changes to the trust without the beneficiary's consent.

HOW CAN ONE PROTECT YOU?

Individuals looking to manage their wealth in a patient and prudent manner can achieve various financial and estate planning goals from a trust, depending on its type. For example, many affluent individuals, professionals and business owners use a Delaware statutory trust to protect their assets from a loss resulting from a legal judgment, such as malpractice or personal injury liability. A Delaware trust also can be used instead of a prenuptial agreement by a spouse to preserve his or her assets in case of a divorce.

When establishing a Delaware trust, you transfer the assets you want to protect to an irrevocable trust — these assets can include cash, business ownership interests, real estate, and securities like stocks and bonds. These assets generally will be protected from future creditors. Although you must give up some control of the assets when

A TRUST WITH A FUNNY NAME

If one of your professional advisors suggests creating a trust that's "intentionally defective," you might consider hanging up the phone. However, despite its funny name, an intentionally defective grantor trust is a completely valid way to minimize gift and estate taxes when transferring certain assets, such as an ownership interest in a closely held business, to the next generation.

The key is that contributions of ownership interest to the trust must be considered gifts. This removes the assets and their future appreciation from your taxable estate. The trust's income is taxable to you, not your heirs. As a result, trust assets can grow unencumbered by income taxes, which increases the amount of wealth your heirs may receive upon your passing.

you place them in the trust, you can retain some powers, such as the right to direct the investment of trust assets and to receive income and principal distributions from the trust.

WHO CAN HELP?

There are many other trust types to consider. The rules for establishing and maintaining any trust can be complex, so please contact our firm for guidance. ■

3 THINGS TO KNOW AFTER FILING YOUR TAX RETURN

Most people feel a sense of relief after filing their tax returns. But even if you've successfully filed your 2020 return with the IRS, there may still be some issues to bear in mind. Here are three important things to know:

1. You can check on your refund. The IRS has an online tool that can tell you the status of your refund. Go to irs.gov and click on "Get Your Refund Status." You'll need your Social Security number, filing status and the exact refund amount.

2. You can file an amended return if you forgot to report something. In general, you can file an amended tax return and claim a refund within three years after the date you filed your original return or within two years of the date you paid the tax, whichever is later. So, if you filed your 2020 tax return on April 15, 2021, you would typically have until April 15, 2024, to file an amended return.

However, there are a few opportunities when you have longer to file an amended return. For example, the statute of limitations for bad debts is longer than the usual three-year time limit for most items on your tax return. In general, you can amend your tax return to claim a bad debt for seven years from the due date of the tax return for the year that the debt became worthless.

3. You can throw out some tax records. You should keep tax records related to your return for as long as the IRS can audit your return or assess additional taxes. The statute of limitations is generally three years after you file your return.

That means you can probably dispose of most tax-related records for the 2017 tax year and earlier years. (If you filed an extension for your 2017 return, hold on to your records until at least three years from when you filed the extended return.) However, the statute of limitations extends to six years for taxpayers who understate their gross income by more than 25%.

You'll need to hang on to certain tax-related records longer. For example, keep actual tax returns indefinitely so you can prove to the IRS that you filed legitimately. (There's no statute of limitations for an audit if you didn't file a return or you filed a fraudulent one.)

Keep records associated with retirement accounts until you've depleted the account and reported the last withdrawal on your tax return, plus three (or six) years. And retain records related to real estate or investments for as long as you own the asset, plus at least three years after you sell it and report the sale on your tax return. (You can keep these records for six years if you want to be extra safe.)

ALWAYS AVAILABLE

Contact us if you have further questions about your refund, filing an amended return or record retention. We're here all year! ■

THE TAX TREATMENT OF START-UP EXPENSES

With the economy expected to improve in the months or quarters ahead, many business owners and entrepreneurs may decide to launch new enterprises. If you're among them, be aware that the way you handle some of your initial expenses can make a large difference in your tax bill.

GENERAL RULES

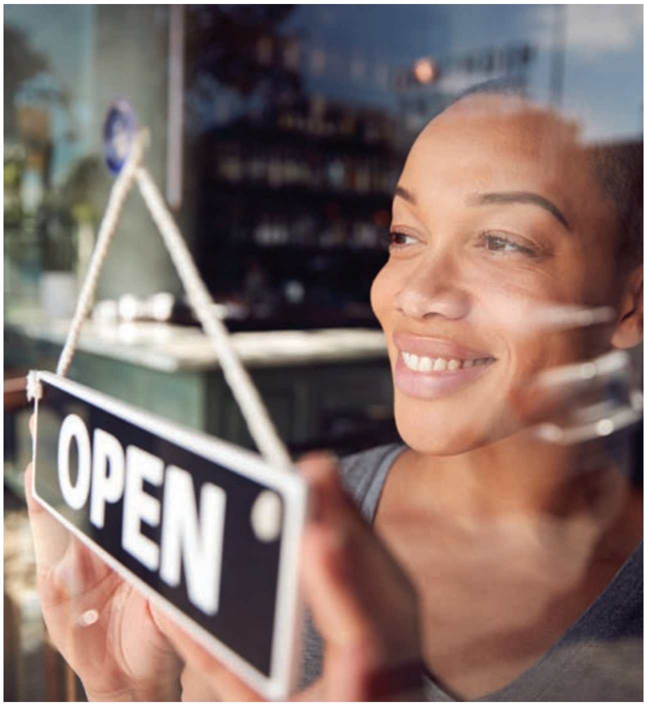
Start-up costs include those incurred or paid while creating an active trade or business — or investigating the creation or acquisition of one. Under the Internal Revenue Code, taxpayers can deduct up to $5,000 of business start-up and $5,000 of organizational costs in the year the business begins.

As you know, $5,000 doesn't get you very far today! And the $5,000 deduction is reduced dollar-for-dollar by the amount by which your total start-up or organizational costs exceed $50,000. Any remaining costs must be amortized over 180 months on a straight-line basis.

In addition, no deductions or amortization deductions are allowed until the year when "active conduct" of your new business begins. Generally, that means the year when the business has all the pieces in place to begin earning revenue. To determine whether a taxpayer meets this test, the IRS and courts generally ask questions such as: Did the taxpayer undertake the activity intending to earn a profit? Was the taxpayer regularly and actively involved? Did the activity actually begin?

APPLICABLE EXPENSES

In general, start-up expenses include all amounts you spend to investigate creating or acquiring a business, launching the enterprise, or engaging in a for-profit activity while anticipating the activity will become an active business.



To be eligible for the election, an expense also must be one that would be deductible if it were incurred after a business began. One example is money you spend analyzing potential markets for a new product or service.

To qualify as an "organization expense," the expenditure must be related to creating a corporation or partnership. Some examples of organization expenses are legal and accounting fees for services related to organizing a new business and filing fees paid to the state of incorporation.

THINKING AHEAD

If you have start-up expenses that you'd like to deduct this year, you need to decide whether to take the elections described above. Recordkeeping is critical. Contact us about your start-up plans. We can help with the tax and other aspects of your new business. ■

APPRECIATING THE HELPFUL BALANCE OF BONDS

Stock market swings may bring fortune or fear, so investors shouldn't forget about the helpful balance of bonds. Perhaps the most "user friendly" is a U.S. government savings bond. Buying one means you're essentially lending the federal government money at a certain interest rate in exchange for a future return. U.S. savings bonds don't offer as high a yield as other investment instruments, but they're highly stable. Interest on U.S. government bonds is taxable on federal income tax returns, but it's often exempt on state and local returns.

Another government investment option is a Treasury bill. These are short-term government securities with maturities ranging from a few days to 52 weeks. For a more long-term option, look into Treasury notes. These government securities are generally issued with maturities of two, three, five, seven and 10 years and pay interest every six months.

If you're looking to preserve capital while generating some tax-free income, consider a tax-exempt state or municipal bond. Here you lend money to a more localized government entity in exchange for regular payments. Keep in mind that interest may be taxable on state and local returns.

There are corporate bonds as well. These generally offer a higher yield than their federal or municipal counterparts, but there's greater risk in terms of price fluctuation because of market interest rate changes and even default by the issuer. Plus, you'll need to anticipate the tax implications. Interest from corporate bonds is subject to federal and state income tax. Plus, as with other types of bonds, you could incur capital gains if you sell the bond at a profit before it matures. ■