



Why Estate Planning is Important....

Incorporate money management goals by building a relationship between assets, income and cash • Distinguish how investments are taxed • Learn ways to amplify investments • Budget income into cash by containing expenditures and developing discretionary income • Take advantage of tax investments by acceleration, postponements and leveraging

Table of Contents

Step 1: Four Basic Types of Income

Step 2: Budgeting to Suit Your Lifestyle

Step 3: Guidelines for Acquisitions

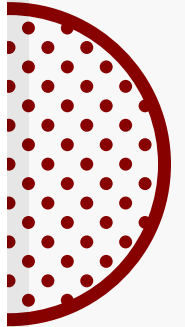
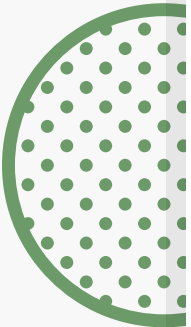
Step 4: Managing Your Assets

Step 5: Making Decisions to Preserve the Estate

Step 6: Basic Estate Planning Goals

Step 7: Distribution of the Estate Upon Death

Step 8: Primary Depository Plans



Step 1: Four Basic Types of Income

- Taxable earned income is what we earn after various expenses
- Tax free income is the most desirable but will have exceptions based on type and disbursement method or timing
- Tax deferred income should always be deferred if possible. This works like a tax-free loan giving enough time to earn money against future taxes
- Tax sheltered income is derived by using tax laws under various codes



Step 2: Budgeting Rules to Suit Your Lifestyle

Allocate 60%

Expenses should not exceed more than 60% of your gross income lenders prefer 40% but don't incorporate everything you spend.

Budgeting not only helps manage your money; it also assists you in making decisions based on logic rather than intuition.

Allocate 20%

Taxes are targeted to be 20% or less of your gross income when managed properly.

Use other people's money to invest. From a tax standpoint, leveraging allows the investor to generate deductions that can substantially exceed his equity in the investment.

Allocate 10%

Savings 10% to keep pace with taxes and inflation, thereby accumulating investment funds. It is also used as a reserve for an emergency or as security for loans

Education 10% and is a process. Continuing education keeps us on top of our investments

Step 3: Guidelines for an Acquisition

- Stay liquid and able to get your money back by managing the when, how, and what form you receive the investment back
- Grow and earn money on top of your existing money that becomes your rate of return
- Shelter dollars by getting tax benefits or a form of a government loan
- Build on those benefits, don't spend it, ideally put 50% of what you earn back into the investment
- Avoid linking the investments. Each investment must stand on its own
- Analyze and investigate the investment just as you would if you were buying a car



Step 4: Managing Your Assets

- Develop a cash flow from the very date they are required or at the maximum 18 to 24 months
- Learn to negotiate and ask for concessions
- Manage risk, the higher the risk the greater the return. The four basic types are investment are a loss, liability, poor health, and premature death
- Diversify to achieve not only in the relationship of each investment but in relationship to the rest of the assets and the source of income
- Monitor the assets at least every six months. The return is more important than principle
- Use systems to reinforce and reduce constructive action to habit; a system of reward and punishment must be employed.



Step 5: Making Decisions to Preserve the Estate

Delegation – no one else is compelled to live up to your goals and should not substitute their own life experiences to do so. If you are spending 10% of your education cost and continued learning that you don't have to pay others, or a fee to manage investments.

Asset Allocation: risk and return – is positioning your money between stocks, bonds, cash equivalents, real estate, and other investments to maximize your return based on your income, expenses, and retirement needs. This allocation should be done before selecting individual investments.

A risk is important and is made up of many factors unique to each investor. **Assessing risk tolerance** tends to be more of an art than a science. Projecting rate of return for an investment is not the primary consideration when choosing where to put your money. Balancing risk, yield, security, growth, and liquidity in your opportunities is difficult.

Step 6: Basic Estate Planning Goals

An estate plan should be designed not only to achieve the desired distribution of the decedent's assets but also to provide for the accomplishment of the following five basic goals:

- 1) Elimination of the federal death tax on the death of the first spouse and minimization of the death tax on the death of the surviving spouse
- 2) Elimination of the state inheritance tax where applicable
- 3) Avoidance of often unnecessary and costly probate administration in the state in which the taxpayer lives and, in any state, where he may own property
- 4) Creation of a system for the continued orderly management of one's assets in the event either or both spouses should become disabled
- 5) Continued efficient management of the estate after the death of both spouses for the benefit of children and of their heirs.

Step 7: Estate Distribution Upon Death

Starting in 2013 the American Tax Relief Act (ATRA) permanently increased the top estate, gift, and **Generation Skipping Tax** rate from 35% to 40% for transfers over the applicable exemption amount. ATRA also has the exemption at \$11.2 million as indexed for inflation since 2018-2023.

Despite legislative developments, the most important elements of estate planning remain:

Unlimited Marital Deduction: is a deduction from the gross estate of the value of a property that is included in the gross estate but that passes or has passed to the surviving spouse.

Outright to Spouse- transfers to the spouse qualifying under a marital deduction are passed tax-free.

Marital Deduction Trust- This trust eliminates the tax on the first spouse's death but causes the asset to be taxed on the second spouse's death. **Qualified Terminable Interest Property Trust-** With this trust the surviving spouse can receive qualifying income interest for life or the right to use the property during life, plus, no person has the power to appoint any part of the property to any person other than the surviving spouse.

Step 8: Primary Depository Plans

There are three primary ways to wisely dispose of one's assets: 1) a simple will, 2) a living "A-B" formal trust, and 3) a living "A-B-C" or "QTIP" formal trust. This is not an all-inclusive list but does reflect the best of the simplified planning results from the most recent tax changes.

Probate

Although joint tenancy will normally avoid probate, a simple will may not, this could end up costly to the heirs. Probate is the process to which the assets of a deceased person are distributed.

Tax Tip: Form 8971, If your tax preparer doesn't handle the entire families returns, they will not know you have received this document... be sure to bring it to their attention as soon as possible. It is a valuable document for tax planning. **Tax Tip:** Protective 706 filings for estates whose value appears to be just below the filing threshold look better than ever, they may slice against you, however, if you file, but omit an asset and the statute or limitation expires on you.

Balcomb Financial Associates

Susan is a Licensed Tax Strategist at Balcomb Financial Associates where she manages financial strategies for different clients. Susan is an active business entrepreneur and Director for Denver Entrepreneur Education Network. She is also recognized for her contribution to B2B education.



Info@SBalcomb.com