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Guide...Protect...Preserve

Should You Fly Solo In Your Own 401(k) Plan?

Do you own and operate a small business? Although your equity in the company could help finance your retirement someday, it's also important to put money in a retirement account, just as you would if you worked for someone else. There are several kinds of tax-advantaged accounts for you to consider.

One plan that has been popular recently is the solo 401(k). In the past, high administrative fees often discouraged business owners from using these plans, but costs have come down. Plus, a solo 401(k) may offer distinct advantages.

The solo 401(k) also goes by various other names, including the solo-k, the uni-k, and the one-participant-k. It closely resembles a traditional 401(k) for larger businesses, but this one covers only a business owner with no employees (or just that person and his or her spouse). Solo 401(k)s generally have the same rules and requirements as other 401(k)s.

With a solo 401(k), a business owner wears two hats: one as employee and one as employer. Contributions can be made in both capacities.

1. As an employee, you can make elective deferrals equal to 100% of compensation (or "earned income" if you're self-employed), with an annual limit in 2017 of $18,000, or $24,000 if you're age 50 or older.

2. As an employer, you can contribute up to 25% of your compensation. (Special rules apply if you're self-employed.) For 2017, your total contributions—as employer and employee—to an account for you and your spouse can't exceed those specified limits and are capped at a maximum of $54,000.

To see how this might work, consider Ben, age 55, who earns $100,000 from his S corporation in 2017. As an employee, Ben chooses to defer the maximum $24,000 to his solo 401(k), and he adds an employer contribution of $25,000. That lets Ben make a total contribution of $49,000 for 2017. That's almost half his salary.

This unique one-two punch can enable a business owner to save a sizable amount for retirement even if contributions begin relatively late in life.

If a small business owner also is employed by a second company and participates in that company's 401(k) plan, the annual limit for that owner's deferrals is the total that goes to both plans. Thus, in our example above, Ben could defer a total of only $24,000 for the year, not $49,000.

What if you're self-employed? You'll have to make a special computation to figure the maximum

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Grandparents Can Become Big Spenders For Their Offspring

The cost of raising children is well known. Recent estimates put it at about $250,000 before a child even enters college. But it's not just parents who end up paying a hefty "price." It's grandparents, too.

According to a January 2017 article in the *Miami Herald*, grandparents spend an average of $2,383 a year just to benefit their children's children. They pay for toys, school supplies, college savings, and even extracurricular lessons.

This breakdown shows the percentage of grandparents who give money to grandkids for each purpose:

- College savings: 19%
- Clothing: 55%
- Toys: 58%
- Non-cash gifts: 39%
- Cash gifts: 42%
- School vacations: 27%
- Family vacations: 16%
- Meals out/entertainment: 38%
- Extracurricular activities: 14%
- Allowance/payment for chores: 10%

And it's not just money that grandparents give. More than half of millennial parents say their parents provide at least an hour of child care or household help each week. The average grandparent went all out, spending 48 hours a year on tasks including primary child care, babysitting, homework help, and transportation to after-school activities.

Some 40% of grandparents said they offered the help without being asked, and 43% said they did it because "it makes me happy." Just make sure you build this into your retirement budget.

Mary Jane Callaghan & Mitch Glicksman

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Why Turn Down An Inheritance?

Sometimes you just have to say no, even when it might benefit you financially. Suppose you're in line to receive an inheritance—shouldn't you welcome it with open arms? In some cases there can be good reasons to turn down the money, using a "qualified disclaimer."

Why would you ever *not* take an inheritance? The best reason is to save your family money on taxes. By using a qualified disclaimer, the assets bypass your estate and go to the next beneficiary or beneficiaries. This enables you to preserve your personal estate tax exemption to use in other ways. In addition, in many states a disclaimer may be used to avoid claims of creditors.

The combined personal exemption for estate and gift taxes is $5.49 million in 2017, an amount that is indexed to inflation and normally increases every year. That gives most people plenty of wiggle room. But for those whose wealth exceeds that amount or who have already used up part of the exemption, estate and gift taxes may still be a major concern. In addition, most money you might want to transfer to grandchildren will be subject to the generation-skipping transfer tax (GSTT). The GSTT exemption is the same as the estate and gift tax exemption.

If you were going to pass along assets you've inherited to the younger generation at some point anyway, the disclaimer expedites matters. The money ends up with the contingent beneficiaries named by the person who was leaving you the inheritance without ever touching your hands.

To qualify under the strict legal definition of a qualified disclaimer, the document must meet these requirements:

- It must be made in writing and signed by the disclaiming party.
- It must identify the property, or the disclaiming party's interest in the property, that is being disclaimed.
- It must be delivered, in writing, to the person or entity charged with the obligation to transfer the assets (i.e., the executor).
- It must be written less than nine months after the date the property was transferred or the transferor's date of death.

Note that you can't alter who will receive the property you're disclaiming. For instance, if the contingent beneficiaries are your nephews and nieces, you can't redirect the money to your own children. The designations made by the person who made the bequest control where the money goes.

Also, you can't disclaim property once you've accepted it. For example, if you receive money and use a small portion to pay for funeral arrangements for the decedent, you can't disclaim the inheritance afterwards.

Although future changes in the tax code might discourage the use of disclaimers, for now this is still a viable technique. Be sure to consult with your legal and financial advisors about any inheritance you may receive. ●

Tax Rules For Collectible Donations

Do you collect art, jewelry, coins, or stamps? Or maybe your passion is action figures or sports memorabilia. Whatever the focus, your collection could be valuable—and donating all or part of it to a museum or another nonprofit organization could earn you a substantial tax deduction. If you play your cards right, you may be able to write off the full value of your donation immediately.

The basic rule is that you can deduct the fair market value (FMV) of a collectible item you give to charity if selling it would have produced a long-term capital gain. Therefore, if you've owned the property for more than one year, the amount you deduct can include the item's appreciation in value since you acquired it. And you never will be taxed on that gain.

On the other hand, for a collectible you've owned for a year or less, your deduction is limited to your "basis" in the property (usually, your initial cost). These are essentially the same rules that apply to donations of securities.

Suppose you acquired a sculpture for $10,000 eleven months ago and it's now worth $15,000. If you donate it to a museum now, you can deduct $10,000 as a charitable contribution. However, if you wait just over a month longer, the full $15,000 is deductible.

Is there a catch? Yes, just one. When you donate "tangible personal property," such as collectibles, you can take a deduction based on FMV only if the property is used in a manner relating to the charity's tax-exempt function.

Let's go back to our example of the sculpture. If you give the artwork to a museum after you've owned it for more than a year and it is displayed for the public to see, you still can write off $15,000. However, if the

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Live Longer And Prosper In Your Golden Years

Are you part of the baby boomer generation that now is surging into retirement? Or are you a member of "Generation X," which isn't far behind? In either case, some traditional ideas about retirement no longer may apply.

For one thing, people now live longer than in the past, which means that their golden years will last longer, too. The average life expectancy for someone in the U.S. who now is age 65 is 84.3 years. And that number, which has grown steadily for many decades, is expected to go even higher.

Maybe the "new" 65 is 70 or even 75.

What is the main implication of this change? By living longer, it's likely you'll have to save more for retirement, or figure out ways to stretch your dollars further if you want to maintain a comfortable lifestyle. If you do nothing, you could run the risk of outliving your retirement savings. You'll also have a lot less, if anything at all, to pass on to your heirs.

Fortunately, there are several potential solutions to this dilemma. Consider these six options:

1. Invest for the longer term. You're already in it for the long haul. But some additional tinkering with your investment portfolio may allow your assets to last even longer. For example, you could minimize some risks of a market downturn by making sure you have a well-diversified portfolio. Of course, there are no guarantees against a loss of principal, especially in a declining market.

2. Bulk up your 401(k) and IRAs. Assuming you're still working full-time, do whatever you can to boost your annual contributions to your 401(k) plan and IRAs. For 2017, someone age 50 or over can contribute a maximum of $24,000 to a 401(k) and $6,500 to an IRA. (The 2017 figures are $18,000 and $5,500, respectively, for younger savers.) Your IRA contribution could be split between a traditional IRA and a Roth IRA.

3. Postpone Social Security benefits. Although you can receive your full Social Security retirement benefits at your "full retirement age" (FRA)—age 66 for most baby boomers—you're entitled to even higher monthly benefits if you postpone taking benefits until as late as age 70. This may be preferable if you expect to live a long time.

4. Slow down RMDs. After you reach age 70½, you normally have to take required minimum distributions (RMDs) from traditional retirement plans such as 401(k)s and IRAs. The minimum amount you must withdraw is based on your life expectancy and the account balance on December 31 of the prior year. If you can resist the temptation to take more than you're legally required to you'll preserve more of your assets for retirement.

5. Consider the tax implications. When you need to start withdrawing funds for retirement, where should you turn first? This is a complex decision that requires careful thought as far as taxes are concerned. For example, if you anticipate being in a higher tax bracket during retirement than you are now, you might withdraw funds from taxable accounts first and Roth IRAs last, so the Roth funds can keep growing tax-free. If you expect your tax bracket to plummet, you might do the opposite. Financial and tax advisors can help you devise a strategy that works for you.

6. Work for a longer time. If you still think your retirement is underfunded, you might postpone retirement by working full-time for an extra few years, or you could use the earnings from a part-time job to supplement your retirement income. Also, working longer may postpone RMDs. ●

nonprofit is your alma mater and school officials shove it into a storeroom, you can deduct only your basis, or $10,000.

In some cases, the higher deduction easily can be salvaged. For instance, if you give it to your college but insist the sculpture be displayed in a building where art majors can study it, you should qualify for the full deduction.

The other thing that's important is to have your item or collection appraised by an independent expert in the field to establish its value. This is an IRS requirement and will come in handy if the agency ever challenges the deduction amount. But here's a bonus—you may be able to deduct the cost of the appraisal as a miscellaneous expense, subject to the usual threshold for such write-offs.

Other tax rules, including limitations on itemized deductions, may come into play. But this is the way to get the most bang for your buck under current law. ●

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Sidestepping A Life Insurance Trap

Life insurance can be a lifesaver for a family whose main breadwinner unexpectedly passes away. But there may be steps you should consider that go beyond buying sufficient coverage to protect your family.

A primary goal is to keep life insurance proceeds from being included in your taxable estate, which could reduce their value. Normally, that will happen if the proceeds are payable to the estate or are received by someone else for the benefit of the estate. So the first step in avoiding this trap is to designate beneficiaries such as a spouse or a child who don't fall into those categories and to grant them full control over those assets. But that may not be the entire solution.

Even if proceeds aren't made payable to the estate, they count as assets of the insured person's taxable estate if he or she possessed "incidents of ownership" in the policy on the date of death. Furthermore, this rule applies to any incidents of ownership transferred during the final three years before death.

What is an "incident of ownership"? The definition goes beyond mere legal ownership and rights to the economic benefits of a policy. The list includes items such as the power to change beneficiaries; to revoke assignments of benefits; to obtain loans against the policy's cash value; to pledge the policy as collateral for a loan; and to surrender or cancel the policy. But the right to receive dividends and the right to veto the sale of an insurance policy by a trustee of an irrevocable life insurance trust aren't considered incidents of ownership.

If you buy life insurance and transfer all incidents of ownership in the policy more than three years before your death, all of the proceeds will be exempt from federal estate tax. Although the transfer is subject to gift tax, in most cases you can shield the transfer from tax through the annual gift tax exclusion and generous unified estate and gift tax exemption. Or you might create an irrevocable life insurance trust, which also can help shield proceeds from estate tax.

Big changes in the estate and gift tax laws could be coming, but now is an opportunity to protect your interests under current law without risking future harm. ●

Fly Solo In Your Own 401(k)

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amount of elective deferrals and nonelective contributions for yourself. When figuring the contributions, compensation is your "earned income," defined as net earnings from self-employment after deducting both:

- One-half of your self-employment tax and
- Contributions for yourself.

The IRS provides worksheets in Publication 560, Retirement Plans for Small Business, for figuring the allowable contribution rate and tax deduction for your 401(k) plan contributions.

But with a solo 401(k), you won't have to pass strict nondiscrimination testing requirements that can be the bane of existence for traditional 401(k) plans. A business owner with no other employees doesn't need to perform testing for the plan, because there are no other employees who could have received lesser benefits.

Finally, an owner with a solo 401(k) plan generally is required to file an annual report with the IRS if the plan has $250,000 or more in assets at the end of the year.

Of course, a solo 401(k) isn't the only tax-advantaged retirement plan option if you're self-employed or own a small business. Other types of plans—including the Simplified Employee Pension (SEP) and the Savings Incentive Match Plan for Employees (SIMPLE)—provide similar benefits within generous limits. But a solo 401(k) may offer extra flexibility by allowing both employee and employer contributions. ●

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