YOUR Money AND Family Today

AMERICA's TAX SOLUTIONS™ NEWSLETTER

February 2015

WINTER NEWS

Got CD?

Today many Certificate of Deposit owners are sharing their disappointment about low CD rates. But how safe and secure are CDs really if they continually suffer a constant loss in their earning power? CDs simply are not keeping up with the increasing costs of living.

The good news is there are safe and secure CD alternatives available today. Before you put another dollar of your hard earned money into a CD, consider meeting with your personal advisor about CD alternatives and how they may benefit you. It's possible that you could get a higher interest rate while preserving the traditional benefits of a CD such as security, safety, liquidity and a guaranteed stream of income.

Many financial and tax professionals offer a FREE personal analysis and comparison of your current CDs against available alternatives that may be suitable for your individual situation. How much money can you save? Make an appointment with your personal advisor, retirement distribution expert or tax professional and find out!

Avoid This Common IRA Mistake

Did you know that there may be a downside to naming a charity, trust or other entity as an IRA beneficiary along with individual people? Charitable giving is always encouraged but make sure you know the potential pitfalls of naming a non-person as an IRA beneficiary along with individuals. Namely, a Multi-Generational IRA (MGIRA) strategy is eliminated.

Charities cannot be "designated" beneficiaries, period. They have no life expectancy and there is no way around this rule.

Like charities, trusts are not "designated" beneficiaries. The fact is, even assuming that you have a properly drafted "see through trust," the individual trust beneficiaries will be stuck using the life expectancy of the <u>oldest</u> trust beneficiary. Thus, the opportunity for an MGIRA strategy is destroyed.

Your retirement distribution specialist can help you determine whether your IRA distribution plan is in order and satisfies your personal planning goals. A Beneficiary Review is a FREE service that most retirement distribution specialists offer as well as certain tax professionals so take advantage of this complimentary review today to ensure the financial well-being of your loved ones tomorrow.

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2015 Estate and Inheritance Tax Update by State

Estate Taxes and inheritance taxes are two entirely different assessments. Estate taxes are calculated based on the value of a deceased's taxable estate. Inheritance taxes are imposed upon the individual *receiving* assets from a deceased's estate.

Only six states currently impose an inheritance tax: Iowa, Kentucky, Maryland, Nebraska, New Jersey and Pennsylvania. Maryland and New Jersey are currently the only two states that have both an estate and inheritance tax. Tennessee's estate tax is expected to be phased out by 2016.

INHERITANCE TAX COMPARISON CHART

State	Spousal Exemption?	Heir/Natural Descendant Exemption?	Domestic Partner Exemption?	State Tax Rate
Iowa	Yes	Yes	No	5 – 15%
Kentucky	Yes	Yes	No	4 – 16%
Maryland	Yes	Yes	Some Transfers	10%
Nebraska	Yes	No	No	1 – 18%
New Jersey	Yes	Yes	Yes	11 – 16%
Pennsylvania	Yes	No	No	4.5 – 15%

INDIVIDUAL STATE ESTATE TAX THRESHOLDS

State	2013 Taxable Estate Threshold	2014 Taxable Estate Threshold	2015 Taxable Estate Threshold
Connecticut	$2,000,000	$2,000,000	$2,000,000
Delaware	$5,250,000	$5,340,000	$5,430,000
District of Columbia	$1,000,000	$1,000,000	$1,000,000
Hawaii	$5,250,000	$5,340,000	$5,430,000
Illinois	$4,000,000	$4,000,000	$4,000,000
Maine	$2,000,000	$2,000,000	$2,000,000
Maryland	$1,000,000	$1,000,000	$1,500,000
Massachusetts	$1,000,000	$1,000,000	$1,000,000
Minnesota	$1,000,000	$1,200,000	$1,400,000
New Jersey	$675,000	$675,000	$675,000
New York	$1,000,000	$1,000,000 or $2,062,500	$1,000,000 or $3,125,000
Oregon	$1,000,000	$1,000,000	$1,000,000
Rhode Island	$910,725	$921,655	$1,500,000
Tennessee	$1,250,000	$2,000,000	$5,000,000
Vermont	$2,750,000	$2,750,000	$2,750,000
Washington	$2,000,000	$2,012,000	$2,054,000

Are Shared Lottery Winnings Considered Taxable Gifts?

They can be when the amount exceeds the annual exclusion amount! Many people have informal pacts with co-workers, friends or family members that they will share any winnings should they be lucky enough to end up with a winning lottery ticket. There is an interesting case out of Alabama where the Tax Court held that a waitress's lottery winnings, which she conveyed to her family owned corporation, were taxable gifts.

Background: A waitress received (what later turned out to be) a winning $10 million lottery ticket from a customer during her shift at a local restaurant. She and her family then formed a corporation for the sole purpose of claiming the lottery proceeds. The waitress personally held 49% of the stock while the remaining 51% belonged to her family members. The waitress signed the ticket as "President" of the corporation and the proceeds were transferred to the company as corporate assets.

When a gift tax deficiency was later assessed by the IRS, she claimed that the transfer was not a gift because she had an agreement with her family members regarding lottery winnings and the transfer was made pursuant to the terms of their agreement. She argued that the corporation was the true owner of the winnings, not her individual family members, claiming she did not make a taxable gift.

Unfortunately, the Tax Court disagreed. The Court found no valid or enforceable contract between the parties and held that indirect taxable gifts were made. The Court upheld a discounted gift tax deficiency on the 51% portion of the lottery winnings that, essentially, was gifted to her family members through their newly formed "family corporation."

WHAT'S NEW?

Many changes have been in the works over the past year and 2015 will see a lot of those changes implemented. These changes include things that can impact both your taxes and retirement distribution planning. Here is a brief recap of some changes that could affect you:

- The lifetime gift tax exemption has been indexed for inflation and is $5.43 million for 2015.
- Portability between married couples is permanent – in 2015 a married couple can pass on $10.86 million to their heirs free from federal estate taxes.
- The annual gift exclusion has not changed and will remain at $14,000 for 2015.
- IRA rollovers are limited to 1 per year regardless of the number of IRAs you have.
- Inherited IRAs are not protected in bankruptcy proceedings.
- Under the Affordable Healthcare Act, the penalty for not having health insurance in 2015 has significantly increased to $325 per adult (or 2% of income, if greater).
- The Social Security Administration announced a 1.7% increase for benefits in 2015 due to a cost-of-living (COLA) adjustment.
- Effective as of the 2015 tax year, the Tax Increase Prevention Act of 2014 allows Code Sec. 529 qualified tuition plans to permit investment direction by an account contributor or designated beneficiary up to two times per year.
- As of January 1, 2015, when qualified plan participants choose to direct their retirement plan distribution to go to multiple destinations, the amounts will be treated as a single distribution for allocating pre-tax and after-tax basis. Previously, if such a distribution were split, each destination of that retirement plan distribution was considered a separate distribution.

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Fun Fact: Award Season Taxes

Do you ever wonder how much those goodie bags are worth as Oscar hopefuls strut down the red carpet to claim their "gifts" (and hopefully that prestigious statuette!). Well, the IRS doesn't believe most of those goodie bags are really gifts at all, but rather taxable compensation. Why? Because those bags often include items worth hundreds, thousands and even tens of thousands of dollars and often come with strings attached.

The businesses that "donate" these items to celebrities at major, highly publicized events get a business deduction. The recipients are usually expected to carry, use or otherwise promote the items in public. They may be talking about them or simply (and conveniently) showing up in photo ops wearing one of the "gifts." Recipients are deemed to be earning the items so they are not considered true gifts under IRS rules – it's taxable income equal to the fair market value of the goodie bag.

Of course, many celebrities chose not to keep the luxury items and instead choose to donate their goodie bags to charitable organizations. And don't think just because you don't happen to be a celebrity that the rules don't apply to you…anyone receiving (or helping themselves to) a goodie bag will be subject to income tax on those expensive "gifts." This includes anyone from award show non-celeb guests to personal assistants to event volunteers.

About America's Tax Solutions™

Koshy P. George, CPA

With over 24 years of global professional acumen, Mr. George is a graduate of Delhi University who majored in accounting, finance and taxation. Prior to establishing his own firm in 2009, Mr. George worked with two of the "Big 4" accounting firms as well as Fortune 1000 entities in the United States and abroad. He holds several professional certifications and speaks over seven languages. He has also taught accounting and managerial economics at colleges abroad. Through his professional practice, Mr. George represents small business, non-profits and individuals. His firm offers services that include tax, business advisory and retirement distribution planning.

America's Tax Solutions™

America's Tax Solutions was created to effectively meet the complex needs of clients in the areas of asset management, retirement distribution planning and wealth protection. We can help you understand what you need to know to secure your future and the future of your loved ones. Key benefits offered by America's Tax Solutions include: retirement distribution planning, tax planning, estate tax analysis, wealth distribution analysis, qualified plan distribution analysis, annuity strategies and a comprehensive retirement roadmap. Let us help you create and grow wealth, protect and preserve your life savings and plan for a life legacy.

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