May 2023 Newsletter

Korbitz Financial Planning Newsletter

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An
AICPA Personal Financial Planning Section
member benefit

This newsletter is a mix of topics.

The first article compares IRS audit rates by income level for the years of 2010 and 2019. The short version, they went down. The second article is a mix of current topics, including the banking crisis, the debt ceiling, estate planning, and the status of my fax number . The third article discusses how you could create a post-death plan for your relatives. It does NOT need to be as elaborate as the plan for the late Queen Elizabeth. Finally, the fourth article discusses ways to protect your parents, or any older relative.

I hope you find these articles informative. Please let me know if you have any questions.

Have a great summer!

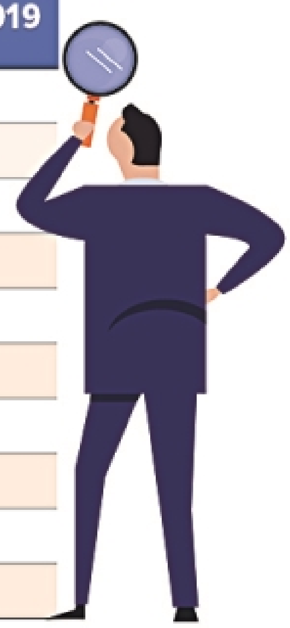
Eric

IRS Audit Rates Over Time

IRS audit rates for individual income tax returns have fallen since 2010, but this pattern could reverse as the agency ramps up enforcement. The Inflation Reduction Act of 2022 provided the IRS with an influx of about $80 billion to modernize outdated technology and rebuild a depleted workforce.

Total positive income ranges*	Tax year 2010	Tax year 2019
No total positive income	20.6%	1.1%
$1 – $25,000	1.0%	0.4%
$25,000 – $50,000	0.6%	0.2%
$50,000 – $100,000	0.7%	0.2%
$100,000 – $200,000	0.8%	0.2%
$200,000 – $500,000	2.3%	0.2%
$500,000 – $1 million	3.6%	0.6%
$1 million – $5 million	8.2%	1.3%
$5 million – $10 million	13.5%	2.0%
$10 million or more	21.5%	8.7%

*Total positive income excludes losses



Source: Internal Revenue Service, 2022

May 2023 Potpourri

The Banking Crisis: The forced sales of Silicon Valley Bank (SVB), First Republic and Signature Bank received the attention of the FDIC, the Federal Reserve and the American public. I believe that these cases represent some unique circumstances, rather than a larger trend. I think that the FDIC and Federal Reserve have done a good job managing these bank failures. SVB in particular had a huge proportion of its deposits in the “uninsured” category as it has many very large accounts. The social media “run on the bank” caused them to fail. Keep in mind that NO bank has all its deposits sitting around in a bank vault, ready to be paid out. As George Bailey said in “It’s a Wonderful Life” your money is in your neighbor's house, and your neighbor's car, and the business down the street. That is how banking works: deposits are made, loans are made with those deposits, and some reserves are held to account for day to day withdrawals. That all works fine until EVERYONE wants their money at the same time. Unless you want JPMorgan Chase to be the only bank in America, leave your deposits where they are, and keep them under the current $250,000 FDIC limit.

The Debt Ceiling: Well, here we go again. Congress has again decided to play “chicken” with the creditworthiness of the US Treasury. This has happened before, and unfortunately will happen again. My prediction is that Congress will approve an increase in the debt limit. They have to. A default of the US Government would cost millions of jobs, and likely trillions of dollars. Congress should focus on the debt limit when they are passing spending bills and cutting taxes, not when the debt limit is about to be hit. That is a jab at BOTH parties, not just one.

Fax Number: After several years of not having received a fax from a client, I have elected to terminate my fax number. If you have a fax number in your contacts for me, please delete it. The vast majority of materials I receive from clients are uploaded electronically.

Estate Planning: Whether we want to admit it, we will all eventually die. And given that we will die, and if we have assets, somebody is going to have to distribute those assets.

Money does not automatically transfer from your estate to your heirs. There needs to be a process to make that happen. In the case of retirement accounts, life insurance policies, and annuities, that will usually happen by beneficiary designation. For non-retirement accounts, which would include individually owned Vanguard, Fidelity, Schwab accounts and bank accounts, this will transfer either via your will or trust, or by a Transfer on Death (TOD) designation. The TOD is offered by some financial institutions and acts in a manner similar to the beneficiary designation.

Who you select as your personal representative or successor trustee can have a huge impact on whether the process is relatively straight forward, or a drawn out mess. I have seen some cases recently where the person who was designated to take care of these tasks for a decedent was the wrong person to have been chosen. The personal representative or successor trustee does not have to be an MBA, but they need to have a basic understanding of finances, and they need to have some organizational skills. If you do not have someone in your life who meets those basic requirements, you should consider naming a Trust Company to be your personal representative or successor trustee. It will cost some money to hire a Trust Company, but this can save your heirs time, money and frustration.

We should all review our estate planning documents every few years. When looking at your documents think about whether the person or people you have named to do these various tasks have the skills and time to be able to help settle your estate. If not, perhaps a change is in order. And always ASK the person you plan to name if they are willing to take on this task BEFORE you have your attorney list them in your documents!

Creating Your Own Operation London Bridge

"London Bridge is down." On September 8, 2022, those words were reportedly used to launch what were arguably the most complex end-of-life proceedings the world had ever witnessed: the funeral arrangements for Queen Elizabeth II. The plan, known as Operation London Bridge, laid out in exacting detail how the ensuing days would unfold. Although most families don't need a playbook as intricate as the royals, a comprehensive end-of-life plan can significantly ease the burden on family members during a highly emotional period.

Guidance in a Medical Crisis

What would happen if you became incapacitated and could not make financial or medical decisions for yourself? To help ensure that your affairs continue to be managed by someone you trust and according to your wishes, you might consider creating a durable power of attorney (DPOA) and an advance medical directive.

A DPOA authorizes someone to manage your finances on your behalf, while a medical directive documents your wishes for medical care, such as whether you want extraordinary measures to prolong life if there is no chance of recovery. There are several types of DPOAs and advance medical directives; each has its own purpose, benefits, and drawbacks and may not be effective in some states.

Funeral Instructions

Planning your funeral or similar commemoration can relieve significant stress on your family members. Decisions would typically cover whether you want a burial or cremation, a wake with or without viewing, a religious ceremony or secular event, and could include details such as music, readings, speakers/clergy, flowers, venues, and an obituary. You might discuss thoughts with family members, taking their ideas into consideration. You might also consult a trusted funeral director who can help you navigate the various options, decide whether to prepay for arrangements, and become a valuable resource to your family when the time comes.

Estate Management

The most fundamental components of an estate plan are also among the most important: a will and a letter of instruction.

A will states how you wish to disburse your assets, names an executor to act as your legal representative, provides guidance for the management of your financial affairs, and (if appropriate) identifies who you want to be guardian of your minor children and their assets. A letter of instruction has no legal status but provides vital details that complement your will *(see graphic).*

You might also familiarize yourself with the death-related tax rules at both the federal and state levels. The 2023 federal estate tax exemption is $12.92 million. Although that sounds like a lot, 17 states impose their own estate and/or inheritance tax — most at much lower thresholds. When you consider that an estate includes the value of your home, insurance policies, retirement plans, and other assets, it may be easier than you'd expect to trigger a taxable situation. (Estate tax is imposed on the estate of the deceased, while an inheritance tax is imposed on the beneficiary.)

Seek Assistance

For more information on how to create your own Operation London Bridge, contact an estate planning attorney. Once your plan is established, store all documents in a safe place and communicate its location to your executor.

What Might a Letter of Instruction Include?

- Funeral instructions or how to find them
- The location of your will and other estate planning documents, as well as other legal documents (e.g., Social Security cards, birth and marriage certificates, titles, deeds)
- Contact information for attorneys and financial professionals
- Financial institution names, account numbers, usernames, passwords, and PINs, with beneficiaries and account balances (as of a given date)
- Bills, credit, and loan account information
- Life insurance policy information, including beneficiaries
- A list of all tangible assets (e.g., jewelry, antiques, art), their location, and related inheritance instructions not included in your will
- Location of keys to safes or safe-deposit boxes
- Social media usernames and passwords
- Care instructions for your pets
- Preferred charities

As Your Parents Age, Help Them Protect Their Finances

It's heartbreaking to hear stories of people losing money (even their life savings) as a result of fraud or financial exploitation, especially if they are older and financially vulnerable. In fact, it's quite common. People age 70 and older reported losses of $567 million in 2022.[1] You know your parents could be at risk, and you want to protect them, but how?

One place to start is by looking for warning signs that your parents have been victimized, or are at risk of being influenced, manipulated, or coerced by a stranger or someone they know.

- Unusual bank account activity, including large or unexplained withdrawals, and nonsufficient fund notices
- Missing checks, credit cards, or financial statements
- Unpaid bills
- Lost money or valuables that can't be located after a thorough search
- Relationships with people who seem to have undue influence
- Unexplained changes to legal documents
- Declining memory and decision-making skills

Regularly checking in with your parents may help you spot issues that need to be addressed. If your parents have fallen victim to a financial scam or are being pressured for money from someone they know, they may be embarrassed or reluctant to tell you, even if you ask. Do your best to remain objective and nonjudgmental, and patiently listen to their views while expressing your own concern for their well-being.

Laying some groundwork to help prevent future incidents is also important. For example, talk to your parents about how they might handle common scams. Let them know it's a good idea to get a second opinion from you before acting on any request for information or money, even if it seems to come from their financial institution, a well-known company, law enforcement, a government agency such as the IRS or Social Security Administration, or even a grandchild in trouble.

Encourage them to set up appointments with their elder law attorney or financial professional to talk about concerns and legal and financial safeguards. They might also want to add layers of protection to their financial accounts, such as naming a trusted contact or setting up account alerts.

People are often reluctant to report financial fraud or exploitation, either out of embarrassment or fear of being wrong. But if you suspect your parents have been victimized, you can get help from many sources, including the National Elder Fraud Hotline, sponsored by the U.S. Department of Justice. You can call (833) 372-8311 to be connected with case managers who will assist you and direct you to additional resources.

1) Federal Trade Commission, 2022

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