DICKINSON
Investment Advisors

www.dickinsoninvestments.com 712.256.4856

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Take These 7 Steps After A Spouse's Sudden Death

The funeral is over, the mourners are gone, and now you're left with the rest of your life after the unexpected death of your beloved spouse. What's a devastated widow or widower to do? For starters, DON'T do anything rash, such as selling the homestead or cashing in all of your stock holdings right away. It may be difficult, especially from an emotional standpoint, but you can pick up the pieces slowly and get your finances in order. Here are seven steps for moving forward:

1. Meet with your professional advisors. One of the first steps – if not the absolute first – should be to contact your attorney, accountant, and financial advisor. These professionals can provide guidance for handling all of the legal, tax, and financial matters relating to you and your deceased spouse. Their counsel will be valuable as you work your way through the remaining six steps on this list.

2. Get the will probated. Assuming your spouse had a valid will and you're the executor—typically the case with married couples—you must begin to probate the will by filing a petition with the appropriate county office. Depending on the particulars, it can take as little as a few weeks or as long as a few years for the process to be completed. Keep your attorney in the loop the entire way.

3. Apply for benefits. Normally, you'll be entitled to Social Security benefits, including a one-time death benefit, plus Veteran's Administration (VA) benefits if your spouse was a military veteran. A surviving spouse over age 60 at the time of the other spouse's death may claim survivor benefits from Social Security. But don't continue to cash Social Security checks for a deceased spouse; you'll likely have to pay those back. It may be necessary to visit the local Social Security office and to contact the VA when appropriate. Also, don't forget to inquire about benefits from your spouse's employer if your spouse was still working.

4. Collect life insurance proceeds. Once reality sets in, you have to go about the regular business of making payments on the mortgage, the car loan, and other debts. Life insurance proceeds could be needed sooner rather than later. Examine your records to determine what you're entitled to receive through any private and employment-based policies. Your insurance agent can help, and your financial advisor can consult with you on how best to deploy any insurance benefit.

5. Review the books. Once you've had a chance to catch your breath, make a comprehensive review of your financial affairs. Go over your checkbooks, files, and online ledgers covering living expenses, loans, and other financial obligations. Separate accounts according to whether they're

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We Will Walk Side By Side With Survivors

It's just a fact of life that the risk of living increases as we get older. The older I get the younger the pictures in the obituaries look to me. Unfortunately, this year has been one of friends and neighbors getting sick with serious conditions. Those of us with strong faith understand that dying is part of the process of living; however, the more difficult task is left to the survivors.

Our process of financial planning is not just about living a successful retirement, we also take the time to walk side by side with survivors through a process and provide as much help as may be needed. We have hosted special seminars for widows to understand their unique needs. As a result, we have compiled a checklist that can be used to assist with the many important decisions and actions that need to be made in such circumstances.

One big take-away from the process that we have developed is that widows are more capable and more resourceful than they thought they were, especially if they have a trusted advisor to lean on.

If you know of someone who needs help, please ask for our free checklist. We are more than happy to provide it and will do whatever we can to be of assistance.

Ron Dickinson

What's The Step-Up In Basis Worth?

When you're developing an estate plan for your family, several elements factor into the equation, including a lot of tax ramifications—which may include both estate taxes *and* income taxes. They're not mutually exclusive and, in fact, they're often intertwined.

A case in point is the so-called "step-up in basis" on inherited assets. That can be a reason to keep some assets in your estate rather than trying to reduce the estate's value.

Slimming down an estate, particularly by making gifts to family members during your lifetime, is often a good idea. However, there's a marital deduction that normally allows you to leave unlimited assets to your spouse free of estate tax, while transfers to other heirs are sheltered by a generous individual estate tax exemption that's inflation-indexed. Each person can shield $5.43 million from estate and gift taxes in 2015, up from $5.34 million in 2014.

Meanwhile, if you sell real estate or other assets before you die, you'll owe capital gains tax on your profits. The maximum tax rate on a long-term gain (on assets you've held longer than a year) is 15%, or 20% for investors in the top ordinary income tax bracket. In addition, you may be liable for a 3.8% surtax on net investment income (NII), including capital gains, that exceeds an annual threshold. That adds up to a possible effective tax rate of 23.8% on capital gains at the federal level.

But if you bequeath appreciated assets to your heirs, they can largely avoid capital gains taxes. Those taxes are calculated according to how much the price has gone up from your "basis" in the asset—basically what you paid for it, subject to adjustment. When you die, the basis of the assets your heirs receive is "stepped up"—increased to their value on the date of your death. That eliminates tax liability on the appreciation of the assets during the time you owned them. Of course, those assets have to be in your estate to qualify for that benefit, but the generous exemptions for estates will help your heirs avoid estate taxes, too.

Consider this example. Tom, a resident of Florida, bought an apartment building for $900,000 that is currently worth $2.2 million. If Tom sells the building now, he must pay an effective tax rate of 23.8% on a $1.3 million capital gain, or $309,400 (23.8% of $1.3 million). But what if he keeps the property and leaves it to his heirs? The basis of the property is stepped up to the full $2.2 million, and they'll owe capital gains taxes only if it appreciates further before they sell it. What's more, the estate tax exemption means they won't owe estate taxes on their inheritance.

Note that Florida doesn't have a state income tax. If Tom resided in a high tax state, such as California or New York, the savings would be even more pronounced. ●

Can You Avoid Estate And Gift Tax?

Are you hoping to pass investment assets to your heirs without any tax damage? Under the current rules, you have plenty of leeway to avoid estate and gift taxes on the federal level, although state taxes may be another story. However, keep in mind that your investment returns may outpace the inflation adjustments to the personal gift and estate tax exemption—and this could mean that your wealth will grow enough to be subject to taxes when you die.

There are two main estate and gift tax breaks: the annual gift tax exclusion and the unified estate and gift tax credit.

1. Annual gift tax exclusion. You can give each recipient, such as a younger family member, assets valued up to $14,000 a year without paying any gift tax (or even having to file a gift tax return). The exclusion is doubled to $28,000 for joint gifts made by a married couple. So, if you and your spouse each give the maximum $14,000 to five other family members, you can reduce your taxable estate by $140,000. And you can do this year after year.

The annual gift tax exclusion is indexed for inflation but rises only when the cost of living increases enough to result in a $1,000 bump to the exempt amount. With inflation very low in recent years, increases have slowed to a crawl. The last adjustment was made in 2013, from $13,000 to the current $14,000.

2. Unified estate and gift tax credit. This generous credit can wipe out either estate taxes, gift taxes, or a combination of the two.

After a decade of gradual increases, Congress permanently locked in the exemption amount at an inflation-adjusted $5 million. For 2015, the exemption is $5.43 million (up from $5.34 million in 2014). That means a couple easily can shelter more than $10 million in assets from estate tax, although any lifetime gifts exceeding the annual gift tax exclusion will reduce the amount available to help an estate avoid estate taxes.

But you can't simply take this tax shelter for granted. Remember that your assets may appreciate in value

Why Give Securities To Charity Instead Of Cash?

Want to make a sizable donation to your favorite charity? Of course, you could write out a big, fat check to the organization and claim a current tax deduction for your generosity. But you might fare even better, when taking taxes into account, by donating securities that have appreciated in value. As a bonus, you won't have to sell anything or dip into your cash to pay for the gift.

There's a simple tax incentive for donating stock rather than cash. If you write a check, you generally can write off the exact amount on your federal income tax return, subject to an overall charitable limit of 50% of your adjusted gross income (AGI) for the year. However, if you donate securities, you can deduct the fair market value (FMV) of the investments on the date of the contribution and avoid being taxed on the profit you would have made if you'd sold that holding.

In other words, you (and your charity) would benefit from the stock's appreciation without being taxed on it. It's as if your gains never occurred—except for the tax break you would get to enjoy.

But this works only if you've held an investment for more than a year. That's the definition of "long term" for calculating taxes on capital gains. With donations of stock that would have produced a short-term gain if you had sold it, your deduction is limited to your basis in the stock, which is usually what you paid for your shares. So there's no tax reward for giving away stock you've acquired within the year, no matter how much its price may have increased.

Let's take a look at two hypothetical examples to see the tax difference.

Example 1: Suppose you acquired ABC Co. stock nine months ago for $10,000. The stock is now worth $15,000. If you donate the ABC stock to a charity, your deduction is limited to your basis, or $10,000. There's no tax benefit from the $5,000 of appreciation in value. In fact, you would be giving that away for nothing.

Example 2: Suppose you acquired XYZ Co. stock two years ago for $5,000 that is now worth $15,000. In this case, if you donate your XYZ shares to charity, your deduction is based on its FMV, or $15,000. You would get to deduct the entire $15,000 even though you only paid $5,000 for the stock.

These rules lead to guidelines that can help you decide which investments to donate. For tax purposes, it's generally best to give the long-term holdings that have gained the most in value. But it makes little tax sense to donate stock that has moved up only a small amount, especially if you've owned it for a year or less. These differences may be especially important to donors in high tax brackets.

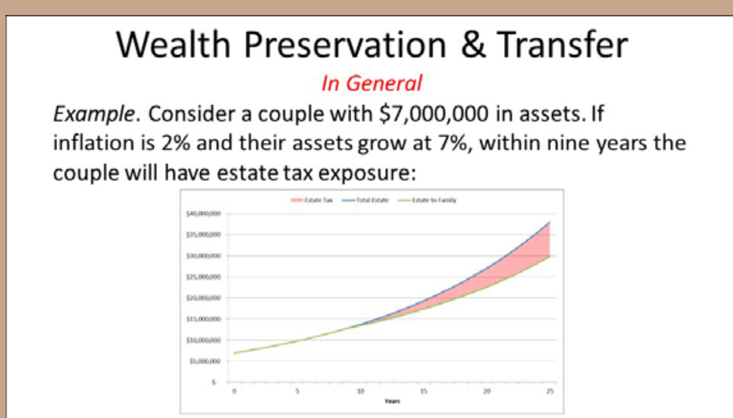
If you donate stock that has lost value, your deduction will be based on the stock's FMV. In this case, it usually makes sense tax-wise to sell the stock first and then donate the proceeds to charity. This way, you can claim a capital loss that you could use to offset capital gains from other securities sales.

There are a few other tax wrinkles to consider when you're thinking about giving securities to charity. That 50%-of-AGI limit applies to all gifts during the year, whereas charitable gifts of property are limited to 30% of your AGI for the year—though you can carry over any excess to subsequent tax years. In addition, some itemized deductions for high-income tax-payers, including those for charitable contributions, may be reduced by the "Pease rule." Generally, this reduction is equal to 3% of deductions exceeding an annual threshold amount (indexed for inflation), but the reduction is capped at 80% of your total deduction. For 2014, the threshold for the Pease rule is $254,200 of AGI for single filers and $305,050 for those who file jointly.

Finally, there's more at stake here than just taxes. Investment factors, too, come into play, and it's usually better to choose stocks that you feel may have reached peak value than those that may continue to rise. You also may want to keep stocks that pay solid dividends. And there could be consequences relating to your estate plan and assets you might want to leave to your heirs instead of donating to charity.

The best approach is to consider all the significant factors before giving securities to a charity. We can help you coordinate your decisions with other aspects of your investment and estate plans. ●

at a rate greater the annual inflation adjustments for the estate tax exemption. (Of course, assets also might decline in value.) This is especially true if the recent trend in low inflation persists. For example, suppose a couple has $7 million in assets and earns an annual average return of 7%. If the inflation rate remains at 2%, it will only take nine years for the couple to face federal estate tax exposure.



For those in the danger zone, tax-sheltered trusts and other techniques could help safeguard assets from estate tax. In addition, making annual tax-exempt gifts for several years can help reduce the eventual size of the estate. ●

View All Tax Angles On Dividends

What's the tax deal with dividends? At first glance, it looks to be cut and dried. You receive dividends during the year and you pay tax on the amount reported to you on your Form 1099s. End of story, right?

Not exactly. First, many dividends are eligible for preferential tax treatment, much like long-term capital gains. Second, some astute timing on your part can minimize the tax you owe on dividends. Third, you need to be aware of a common tax mishap that befalls investors.

Here's a quick overview:

1. Qualified dividends. Generally, dividends issued by domestic companies are "qualified" when paid to stockholders and mutual fund owners, and that normally means special tax treatment. In some cases, qualified dividends also may be paid by foreign corporations, including shares represented by publicly traded American Depositary Receipts (ADRs) and shares that are otherwise readily tradable on an established U.S. securities market.

As for long-term capital gains, the maximum tax rate on qualified dividends is 15%, or 20% for investors in the top ordinary income tax bracket of 39.6%. Investors in the two lowest brackets of 10% and 15% may benefit from a 0% rate on qualified dividends.

To qualify for the reduced tax rates, shareholders of common stock and mutual funds must own the stock for more than 60 days, including the "ex-dividend" date (when dividends are paid). The holding period is 90 days for preferred stock. Being sure to meet these requirements could affect the timing of your transactions.

2. Tax timing. Although investors usually aren't concerned with corporate mechanisms, it's important to know the ex-dividend date. After this date, buyers of the securities no longer are entitled to receive dividends. However, as long as you buy a stock before its ex-dividend date, you then can sell the stock at any time, even after the ex-dividend date, and still receive the dividends.

One common tax planning strategy is to arrange to sell mutual fund shares before the ex-dividend date and buy shares after the date dividends are declared. If instead you buy shares just before the ex-dividend date, you will have additional tax liability for the current tax year, even if the value of your shares declines.

3. Reinvested dividends. Most investors choose to have dividends in an investment automatically reinvested. That way, your money keeps earning more money for you. Just be aware that you're paying tax on dividends each year and your tax basis for the investment should be adjusted upward. Otherwise, if you're not careful, you could end up paying tax again when you sell the shares – in effect, a double tax.

As you can see, there are more tax angles to dividends than first meets the eye. Makes sure you understand all of the rules, and act accordingly. ●

Spouse's Sudden Death

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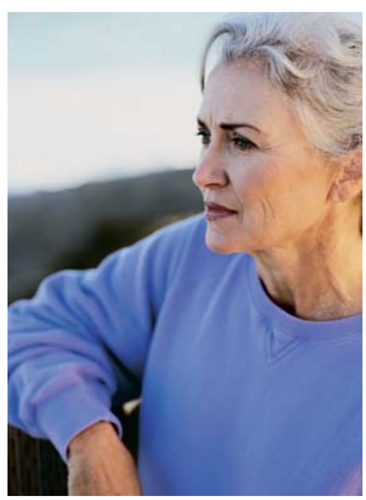
in your spouse's name, your name, or were held jointly. Then let banks, insurance companies, and other entities know about your spouse's death. And keep copies of these communications and verifications.

6. Change account titles. Begin the tedious process of re-titling accounts at banks, brokerage houses, and the like. Generally, you automatically will be granted a change on accounts owned as joint tenants with rights of survivorship (JTWROS), but the financial institution may require documentation. Contact each institution and comply with its procedures. Make sure you have enough death certificates to meet all of the obligations.

7. Start planning for the long term. Last, but not least, after you've addressed all of the issues requiring prompt attention, look to the future. It's time to circle back to the advisors who helped you at the outset. Reevaluate your investment portfolio, taking your evolving circumstances into account. Update your estate plan with an emphasis on passing wealth to your heirs, such as children and grandchildren, with minimum tax erosion. An estate tax return generally has to be filed within nine months of death.



Finally, make those lifestyle choices – perhaps selling a home, heading off on extended travel, or both – that suit your changing needs.

Also make cancellation notices. Your review may reveal gym and club memberships and magazine and journal subscriptions that you can cancel right away. Re-titling your financial accounts will take precedence over this type of bookkeeping, but try not to let this linger, either. Usually, a phone call or a quick note will be enough to take care of things. ●