

from Chuck's Desk

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In This Issue

Questions I Am Asked Frequently

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Chuck Donovan

Questions I Am Asked Frequently

I seem to be asked the same questions over and over. *They are:*



- *How can I protect my assets financially and legally as I grow older,*
- *What happens to my estate when I die if I do not have a will,*
- *What is a life estate,*
- *Can I give more than \$11,000 to a single person in a year,*
- *Can I pay my children or grandchildren for work they do,*
- *Won't an attorney charge too much for estate planning services, and*
- *What should I look for in picking an investment advisor?*

So I have decided to discuss them in this edition of the newsletter.

How Can I Protect My Assets Financially And Legally As I Grow Older?

Whether you are young or old, planning for the future and the eventual disposition of your estate can be uncomfortable. The most common mistake made is simply not planning or failing to plan properly.

There are certain documents that you need for legal and health reasons. They become more important as you grow older and are:

- ***A Durable Power of Attorney*** - you appoint a person to make decisions if you are unable to do so. You can give him very limited or very broad powers over your financial and other affairs.
- ***A Healthcare Proxy*** - you designate a person to make medical decisions, authorize treatment, or withhold treatment in certain situations.
- ***A Living Will (also called an Advanced Care Directive)*** - you state your wishes regarding the use of life-prolonging procedures or your wishes to terminate your treatment. It passes on your wishes to your physician when you are unable to do so.



Even if you are young and do not have many assets, you will need someone to manage your financial affairs if you become incapacitated. That

Affordable Business Services, a full service accounting firm, offers innovative business solutions to small and medium size companies through specializing in the training, and consulting in the use of QuickBooks business management software.

Chuck Donovan MBA brings over 20 years of financial expertise to the business having worked as a senior financial executive with firms ranging in size from \$20 million to \$3 billion in sales.

His broad, hands-on accounting and finance experience has taught him that financial information must be more than just a series of numbers.

He shows and helps business owners to use their financial information to increase their cash flows, improve their profits, and build their companies, so they can plan for a secure future.

A QuickBooks Professional Advisor and experienced problem solver, Chuck is a graduate of Dartmouth College and received his MBA from American International College.

means having the durable power of attorney and a healthcare proxy.

Young couples should also have a will that names a guardian for their children. In addition, they should consider establishing a trust to manage their assets for their children if they die prematurely.

What Happens To My Estate When I Die If I Do Not Have A Will?

Most people assume their spouse will get everything when they die, but that is not necessarily true. When a person dies without a will, his estate will be distributed according to state Intestate Succession laws. The laws are different from state to state. Typically 50% will go to the spouse and the remaining 50% to the children.



In Florida, the surviving spouse is first in line to get any assets from the estate. However, the amount distributed will vary based on the following:

- If there are no surviving lineal descendants of the decedent, the spouse gets the entire estate.
- If there are surviving lineal descendants who are also the spouse's lineal descendants, the spouse is entitled to the first \$60,000 of the estate plus one-half of the estate's remaining balance. The surviving lineal descendants receive the remainder.
- If there are surviving lineal descendants who are not the spouse's lineal descendants, the spouse gets 50% of the estate. The surviving lineal descendants receive the remainder.

There are different rules if there is no surviving spouse or surviving lineal descendants.

What Is A Life Estate?

A life estate deeds property to another person while allowing the owner to use the property until he dies. The property such as a house that is held as a life estate is treated exactly the same way at death as any other item of real estate. **It is the decedent's property** - not the joint property of the decedent and the person who will take it over at time of death.

Since a life estate is an ownership arrangement for land, a deed is created in which the owner conveys partial ownership to the other person. The partial ownership is called a remainder interest; the owner keeps the life estate.

The main reason to set one up is the remainder interest. When the current owner dies, the life estate expires and the remainder interest becomes a fee simple title – full and unrestricted ownership to the other party. The change in ownership happens by operation of law and does not require any legal process like probate to do so.

It entitles the owner to several things. First, he continues to occupy and use the property. Second, he gets any rental income or sales proceeds that may come from the property. Third, the property is still legally his.

Setting up a life estate requires legal assistance. A deed with proper terminology is written, signed by the owner, and recorded. The transfer is a gift of a portion of the property's value. **The owner must be sure the documentation is done correctly to**



avoid becoming subject to the Internal Revenue Service's gift tax rules.

The property is valued at the fair market price at time of death. Because the property is a life estate, its value is reduced for estate tax purposes. The amount of the reduction depends on the age of the decedent and the interest rate that the Internal Revenue Service sets for the month in which the person dies.



Can I Give More Than \$11,000 To A Single Person In A Year?

Whenever the value of a gift exceeds \$11,000 to a single person in a year, a gift tax return must be filed with the Internal Revenue Service. Federal law allows a person to gift up to \$1,000,000 during his lifetime or upon his death without paying any gift or estate tax.

Can I Pay My Children Or Grandchildren For Work They Do?

The IRS has indicated that children as young as 7 years of age can be paid for work they do. Therefore, you could pay them about \$3,000 to do work around the house and they will not pay any taxes.

You could then set up a Roth IRA for them and put the money into it. Since it is a Roth, they can gain access to the money whenever they need it without any early withdrawal penalties in most cases.

Won't An Attorney Charge Too Much For Estate Planning Services?

There is nothing wrong with asking for a price quote to find out what the cost would be.

It would vary from attorney to attorney and could be few hundred to several thousand dollars depending on how complicated the work will be.

Most people fail to ask for an itemization of the bill. A significant amount of the bill may be related to tax advice and be tax deductible.



What Should I Look For In Picking An Investment Advisor?

This question comes up all the time. **You should check the following areas carefully when picking an investment advisor.**

- **Person:** get referrals from friends or colleagues on advisors they like. After you have created a list of choices, interview each asking about education, experience, credentials, and public or private complaints lodged against him.



invested with him and (2) commission-based advisor's pay is a percentage of each investment purchased for your account.

- **Price:** find out how the advisor is compensated. It will tell you whether he is likely to be interested in your investment performance or his own pockets. Advisors are generally paid: (1) fee-only advisor's pay is based on the amount of money

- **Philosophy:** get the advisor's thoughts on how social and political events

affect his investment selections. A critical consideration is how much time he will commit toward research on your behalf. You will need to check whether he does independent research or relies on others in making his selections and his commitment in amount and frequency toward any kind of research.

- **Return:** get historical returns from other accounts he has under management to use as a guide to see if he has been successful with other peoples' money. You should request the performances of all his accounts; otherwise you will get data on only the top performing ones. You can also ask if his personal investment money has done better or worse and find out the reason.
- **Other:** other things to look into are: (1) back-end fees and penalty charges that can affect your return, (2) the kind and frequency of the reports you will receive, and (3) the indices your returns will be compared against.

