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Estate Planning: Consider the Tax Basis of Gifted or Inherited Property

FIRE: Four Things You Need to Know About This Hot Retirement Movement

Do gift cards expire?

What can I do with old or unwanted gift cards?



# Financial Update

## *Ideas and Action Steps for Achievers*

### What to Do After the Death of a Loved One



Losing a loved one can be a difficult experience. Despite the emotional trauma involved, you may also be responsible for handling a variety of financial, legal, and administrative tasks. You may find yourself unsure

of where to begin and what to do.

However, do not be hasty when settling your loved one's estate. Important decisions need to be made regarding distributions, which must be made in compliance with the will and applicable laws. Seek an experienced estate planning professional for advice. The following suggestions may provide a roadmap to help you navigate through the process.

#### Initial tasks

**Note:** Some of the following tasks may have to be completed by the estate's personal representative.

- Upon the death of your loved one, call close family members, friends, and clergy first because you'll need their emotional support.
- Arrange the funeral, burial or cremation, and memorial service. Hopefully, your loved one will have made arrangements ahead of time. Then notify family and friends of the final arrangements and place an obituary in the local paper (often the funeral home will handle this for you).
- Obtain certified copies of the death certificate (again, the funeral home should be able to get copies for you).
- Find and review your family member's finances, and look for relevant documents such as a will and trusts, deeds and titles to motor vehicles.
- Report the death to Social Security. If your loved one was receiving benefits via direct deposit, request that the bank return funds received for the month of death and thereafter to Social Security. Do not cash any Social Security checks received by mail. Return all checks to Social Security as soon as possible.

- Make a list of assets and debts. Be on the lookout for pension plans, IRA, 401(k), and other retirement plans owned by the deceased, as well as life insurance policies, bank accounts, and investments. Notify those named as beneficiaries of assets such as life insurance and retirement plans.
- Make sure mortgage and insurance payments continue to be made while the estate is being settled.
- Contact all credit card companies and let them know of the death. Cancel all cards unless you're named on the account and wish to retain the card.

#### Within 1 to 3 months of death

- File the will with the appropriate probate court. If real estate was owned out of state, file ancillary probate in that state. If there is no will, contact the probate court for instructions or contact a probate attorney for assistance.
- Notify creditors by mail and by placing a notice in the newspaper. Claims must be made within the statute of limitations, which varies from state to state (30 days from actual notice is common). Insist on proof of all claims. Notify heirs named in the will. Often, the probate process will require formal notification to heirs and others named in the will.

#### Within 6 to 9 months of death

- Federal and/or state estate tax return(s) may need to be filed, usually within nine months of death, although state laws may vary.
- Also, federal and state income taxes are due for the year of death on the normal filing date, unless an extension is requested. If there are trusts, separate income tax returns may be necessary.
- Update your own estate plan if your loved one was a beneficiary or appointed as an agent, trustee, or guardian.



**An asset's tax basis can be important when deciding whether to make gifts now or transfer property at your death. When you make a gift of property during your lifetime, the recipient generally receives your basis in the property. When you transfer property at your death, the recipient generally receives a basis equal to the fair market value of the property as of the date of your death. The difference can substantially affect the amount of taxable gain when the recipient sells the property.**

## Estate Planning: Consider the Tax Basis of Gifted or Inherited Property

Tax basis can be important when deciding whether to make gifts now or transfer property at your death. This is because the tax basis of the person receiving the property depends on whether the transfer is by gift or at death. This, in turn, affects the amount of taxable gain subject to income tax when the person sells the property.

### What is tax basis?

The tax basis of an asset is used when determining whether you have recognized a capital gain or loss on the sale of property for income tax purposes. (Gain or loss on the sale of property equals the difference between your adjusted tax basis and the amount you realize upon the sale of the property.) When you purchase property, your basis is generally equal to the purchase price. However, there may be some adjustments made to basis.

### What is the tax basis for property you receive as a gift?

When you receive a gift, you generally take the donor's basis in the property. (This is often referred to as a "carryover" or "transferred" basis.) The carryover basis is increased — but not above fair market value (FMV) — by any gift tax paid that is attributable to appreciation in value of the gift. (Appreciation is equal to the excess of FMV over the donor's basis in the gift immediately before the gift.) However, for the purpose of determining loss on a subsequent sale, the carryover basis cannot exceed the FMV of the property at the time of the gift.

**Example:** Say your father gives you stock worth \$1,000 and the gift incurs no gift tax. He purchased the stock for \$500. Your basis in the stock, for the purpose of determining gain on the sale of the stock, is \$500. If you sold the stock for \$1,000, you would have gain of \$500 (\$1,000 received minus \$500 basis).

Now assume that the stock is only worth \$200 at the time of the gift and you sell it for \$200. Your basis in the stock, for the purpose of determining gain on the sale of the stock, is still \$500, but your basis for determining loss is \$200. You do not pay tax on the sale of the stock. You do not recognize a loss either. In this case, it would have been better if your father had sold the stock (and recognized the loss of \$300 — his basis of \$500 minus \$200 received) and then transferred the sales proceeds to you as a gift.

### What is the tax basis for property you inherit?

When you inherit property, you generally receive an initial basis in property equal to the

property's FMV. The FMV is established on the date of death or on an alternate valuation date six months after death. This is often referred to as a "stepped-up" basis, since basis is typically stepped up to FMV. However, basis can also be "stepped down" to FMV.

**Example:** Say your mother leaves you stock worth \$1,000 at her death. She purchased the stock for \$500. Your basis in the stock is a stepped-up basis of \$1,000. If you sold the stock for \$1,000, you would have no gain (\$1,000 received minus \$1,000 basis).

Now assume that the stock is only worth \$200 at the time of your mother's death. Your basis in the stock is a stepped-down basis of \$200. If you sold the stock for more than \$200, you would have gain.

### Make gift now or transfer at death?

As the following example shows, tax basis can be important when deciding whether to make gifts now or transfer property at your death.

**Example:** You purchased land for \$25,000. It is now worth \$250,000. You give the property to your child (assume the gift incurs no gift tax), who then has a tax basis of \$25,000. If your child sells the land for \$250,000, your child would have taxable gain of \$225,000 (\$250,000 sales proceeds minus \$25,000 basis).

If instead you kept the land and transferred it to your child at your death when the land is worth \$250,000, your child would have a tax basis of \$250,000. If your child sells the land for \$250,000, your child would have no taxable gain (\$250,000 sales proceeds minus \$250,000 basis).

In addition to tax basis, you might consider the following questions:

- Will making gifts reduce your combined gift and estate taxes? For example, future appreciation on gifted property is removed from your gross estate for federal estate tax purposes.
- Does the recipient need a gift now or can it wait? How long would a recipient have to wait until your death?
- What are the marginal income tax rates of you and the recipient?
- Do you have other property or cash that you could give?
- Can you afford to make a gift now?



## FIRE: Four Things You Need to Know About This Hot Retirement Movement



*All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.*

*Although there is no assurance that working with a financial professional will improve investment results, doing so can help you focus on your overall financial objectives, identify sound strategies, and consider opportunities that could have a substantial effect on your long-term financial situation.*

Many workers look forward to the day they can finally retire, and for some, an early retirement would be a dream come true. Others are turning this dream into a reality by retiring in their 30s or 40s. But how are they able to do it?

A hot retirement trend called Financial Independence, Retire Early (FIRE) has gained momentum among younger workers who are taking steps to leave traditional career paths and enjoy an early retirement. While an early retirement sounds ideal, it requires careful planning, savvy saving and investing habits, and potentially big sacrifices.

### 1. FIRE means implementing an aggressive retirement plan

The goal of FIRE is to save and invest aggressively so that retirement is possible at a younger age — even decades earlier than the traditional retirement age. Individuals who pursue FIRE aim to increase their income as well as keep expenses extremely low. The higher an individual's income is and the lower his or her expenses are, the faster that person may be able to accomplish FIRE. Typically, the following steps are part of the process.

- **Calculating estimated retirement expenses.** A general guideline of FIRE is to save 25 times the annual amount the individual will spend in retirement. This number comes from the 4% rule, which suggests an annual withdrawal rate of 4% from an individual's savings. It sounds simple, but this formula doesn't account for a number of different factors, such as existing debt and inflation.
- **Cutting expenses.** This often means making major lifestyle changes. Some FIRE followers give up owning a car or move to an area with a lower cost of living. Others practice a number of frugal habits, such as cooking at home instead of dining out, shopping at discount stores, and cutting cable and mobile phone services.
- **Saving and investing wisely.** FIRE followers carefully monitor their portfolios and update them periodically. They might also increase savings by maximizing contributions to applicable retirement plans.
- **Boosting income.** Selling unneeded/unwanted items and pursuing a side hustle/additional part-time work are some ways FIRE followers might try to increase monthly income.

### 2. It has fervent supporters...

The main ideas behind the FIRE movement originated in the 1992 book *Your Money or Your Life* by Vicki Robin and Joe Dominguez, as well as the 2010 book *Early Retirement Extreme* by Jacob Lund Fisker. In the years since, many blogs, podcasts, and online forums have cropped up to share information about FIRE and popularize the concept as a whole.

Many FIRE supporters are attracted to the movement because they dislike their jobs or feel that they work too much. Those who follow FIRE believe that it encourages a more meaningful life because it provides freedom to pursue true passions. FIRE creates flexibility in retirement because people can still work and/or earn a passive income, but with the luxury of determining what type of work to do, when it's done, and for how long.

### 3. ...as well as outspoken critics

Many vocal critics have expressed doubts about the FIRE movement. Some believe it's an unrealistic approach to retirement because it's impossible to know how an individual's financial needs will change over time. Life (and the markets) can be unpredictable, and critics argue against embracing the unknown.

Other critics maintain that FIRE simply isn't attainable for the average worker. Those who don't earn a large enough income may struggle to save so aggressively, particularly if they are caring for one or multiple dependents.

### 4. There's more than one way to practice FIRE

There are multiple approaches to FIRE. Some may choose to abide by Fat FIRE rules, which means living a more traditional lifestyle but saving more than the average retirement investor. Conversely, others stick to minimalist living and extreme saving, resulting in a much more restricted lifestyle in a practice known as Lean FIRE. Other styles include Barista FIRE (quitting a traditional 9-to-5 job in favor of part-time work to help boost income as well as obtain health insurance or other benefits) and Coast FIRE (working part-time to cover expenses after having saved enough to fund retirement).

No matter how FIRE is practiced, it requires a long-term commitment that might not be suitable for everyone. A financial professional can help you review all your options for pursuing an early retirement.

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### Do gift cards expire?

Gift cards are popular and convenient gifts (to give and receive) for many occasions. But is it possible for gift cards to expire before they're used?

The short answer is yes: Gift cards can expire. But federal laws help protect consumers by regulating when gift certificates and cards expire. The Credit Card Accountability Responsibility and Disclosure Act of 2009 (CARD Act) established fair and transparent practices related to the issuance of credit, restricting what credit card companies can charge consumers. It also enacted regulations to limit fees, expiration dates, and unexpected costs from gift cards. The rules limit dormancy, inactivity, and service fees on gift cards.

1. Dormancy fees cannot be imposed unless the card has been unused for at least one year
2. Only one dormancy fee can be charged each month after the first year
3. The consumer must be given clear and prominent disclosures about fees

The CARD Act also states that gift cards cannot expire until five years after the date the card was purchased or the date money was last loaded onto the card.

While the CARD Act set consumer protections at the federal level regarding gift certificates and cards, it left room for regulation at the state level. Many states have their own gift card laws that can take precedence over federal gift card laws. Find out whether your state has passed any gift card laws by reviewing the [chart](#) located on the National Conference of State Legislatures website.

Even though you're now familiar with the basic rules and regulations associated with gift card expiration, you might still discover that a gift card you've given and/or received has expired because it was misplaced or forgotten. As a precaution, try to use any gift cards that you receive as soon as possible. This will help ensure that they retain their full value. Read the terms and conditions associated with your gift cards to find out whether they have any fees, and when those fees might be applied.



### What can I do with old or unwanted gift cards?

If you're holding on to old or unwanted gift cards, consider the many ways you can help ensure they don't go to waste.

**Sell them.** Search online for sites that allow you to exchange or sell your gift cards. You may wind up having to pay a small fee to complete the transaction, but at least you can trade in your unwanted gift card for one that you will actually use.

**Donate them.** Donating unused gift cards can be a great way to contribute to your favorite nonprofits. Plus, your donation may be tax deductible.

**Reuse them.** Before you throw away any gift cards you might have that carry a low or zero balance, check to see whether it's possible for you to add value back on to them. Many retailers offer customers the ability to reload store-issued gift cards in exchange for rewards and/or discounts.

**Gift them to someone else.** Did you receive a gift card for a store you dislike or where you never shop? Simply regift it to someone else who may actually shop there. You'll please the

gift card recipient as well as save yourself from having to spend money on a future gift for that individual.

**Return them.** Have realistic expectations before initiating a return: Some retailers might not exchange the full value of the card for cash. You may be refunded only a percentage of the face value of the card, or you could end up receiving an in-store credit (which won't do you much good if you don't shop at the store in the first place). Other retailers might even refuse to accept a gift card return unless you have the purchase receipt. As a result, check the return policy of a gift card's issuer before attempting to return it.

**Upcycle them.** Most gift cards are made of a plastic called polyvinyl chloride (PVC). This particular type of material is recyclable, but few curbside programs are able to accept this form of plastic because it may contaminate other recyclables in a given batch. You can still do your part to reduce waste, though, by upcycling your empty gift cards. Find creative project ideas online that can help you transform your old gift cards into something useful.