Using Income Tax Filing Season To Get Your Ducks in a Row

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"Certainty? In this world nothing is certain but death and taxes"- Benjamin Franklin.

The Internal Revenue Service has set the filing deadline to submit your 2016 personal income tax return for Tuesday, April 18, 2017—absent making an estimated payment and filing for an extension. By now, you have probably started receiving your 1099s and W-2s in the mail from the various financial institutions where you maintain accounts and your employer (if you are employed). While past articles in this newsletter have focused on certain tax credits, deductions and exclusions to keep in mind when filing your income tax return, this article reviews a few simple things you can do to get your ducks in row while you have your bank statements out. These include: planning your financial needs now, if you need long-term care in the future (statistically, most of us will need some form of long term care); and consideration for when you die (as unpleasant as that may be to consider, it must be dealt with).

I. Review Your Assets

What do you own? What are the values of those assets: (e.g. CDs, checking, savings, mutual funds, life insurance, stock, real estate, etc.)? How are your accounts titled? Create a list of your assets that includes account numbers, account owners, current value and contact sources and put it in a safe place for future reference. A list will help you identify if you are missing a 1099 and estimate your income tax liability. Further, a list will help your family in the event you become incapacitated and your agent under power of attorney (hopefully you have a power of attorney) needs to assist in paying your bills. For example, what accounts are available and who should your agent contact to liquidate account holdings if needed to for long-term care? Reviewing your account ownership records, which could include bank signature cards, and beneficiary designations could also help you minimize inheritance tax depending on if an account is jointly owned; or avoid paying inheritance tax on an account that you have a loved one listed as an owner just for "convenience purposes" if you need help paying your bills. This can be a problem if the account actually represents all of your money. Finally, an asset list will help the personal representative of your estate identify and collect assets upon death so that they can be distributed timely, properly and efficiently to your beneficiaries.

II. Review Your Income Sources and Expenses

Now is also a good time to review how much income you have coming in and where you are spending it. You may be able to eliminate unnecessary expenses. Further, if you (or a loved one) needs to go into a personal care home (average monthly cost is $4,000 to $6,000) or a nursing home (average monthly cost is $10,000 to $12,000) how will you be able to pay for it while maintaining your monthly expenses (e.g. food, utilities, real estate taxes, home and car insurance and home maintenance)? Most likely, your income will not be enough to cover your long-term care costs, but through proper long-term care planning, assets can be protected. Engaging in long-term planning before you need such care can save you and your family time, money and stress.

III. Review Your Estate Planning Documents

As a general rule, you should have the following documents as part of your estate plan: Will/Trust (to manage the distribution of your property upon your death), General Durable Power of Attorney (to appoint an agent to manage your finances if you are incapacitated or unavailable), and a Health Care Power of Attorney/Living Will (to appoint an agent to make medical decisions for you in the event you cannot communicate your treatment wishes). You should review your estate planning documents to make sure your named agents are the people you want to manage your finances and medical treatment decisions and to make sure your assets will be distributed to correct beneficiaries upon your death. In particular, does your General Durable Power of Attorney permit your agent to engage in long-term care planning in the event you need it? If it does not, your power of attorney cannot engage in such planning and could cause your life's savings to be spent down on your long-term care. Also, is any estate or account beneficiary disabled, in the process of obtaining a divorce or having creditor issues? If so, leaving an outright distribution could negatively affect a beneficiary's ability to obtain or maintain disability benefits, the amount of property the beneficiary will receive in a divorce action and subject the distribution to the beneficiary's creditors.

Taking a few moments now to review these items could save you and your beneficiaries from unintended consequences.